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Policies Affecting Rural People

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AGRICULTURE--MIDWAY THE 1960's

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Since World War I, U. S. farm production has tended to exceed demand at prices which both farmers and Congress felt were satisfactory, except for war dominated periods. Dissatisfaction created by the low price levels has resulted in a myriad of farm programs. They include marketing quotas, acreage controls, conservation and diversion payments, price supports, government storage programs, marketing agreements and orders, subsidized domestic consumption programs and subsidized foreign export programs.

Today, we still find ourselves with an agricultural plant geared to annually produce substantially more than the market will take at what society, as expressed through Congress, considers reasonable prices. To control this surplus capacity several million acres of crop land have been annually held out of production since 1956 by various land retirement programs. This has occurred in spite of the fact overall demand for farm products has increased approximately two percent per year due to expanding population numbers and foreign exports.

Therefore, at this mid-point in the 1960's, we should like to direct your thinking to the agricultural policies of the United States from four viewpoints: (1) efficiency and growth in agriculture; (2) resource adjustment problems growing out of efficiency and growth; (3) areas of growing policy agreement; and (4) areas of continuing policy disagreements.

Efficiency and Growth

From 1954 to 1964 gross output per hour of labor in agriculture increased 90 percent or nearly doubled.[1] A percentage of this increase was made possible by transferal of certain tasks from farm and by substitution of more capital production inputs. Net increase in output per agricultural worker is much higher than the net increase per worker for all industries.

Crop production per acre increased 32 percent during the same period, and although total acres of crops harvested was reduced 13 percent, total agricultural output increased 20 percent.

Total inputs used in the industry during this period increased less than one percent. Productivity--the ratio of total inputs to total outputs--increased 19 percent. This should be more than ample evidence to establish the fact which is already recognized by nearly all familiar with agriculture, that it is one of the most progressive and dynamic sectors of our economy from the standpoint of increasing efficiency.

What about the future relationship of agricultural output to future needs? This depends upon the ratio between annual growth rates of utilization of farm products to total output of farm products. Farm products utilization for both domestic and foreign purposes increased approximately 20 percent during the past decade. Output increased 19 percent while 13 percent of our crop land remained idle. This acreage reduction may have decreased output by something approaching one-half of the 13 percent reduction in acreage. Unless we decide upon a national policy of stepped up foreign exports at an even faster rate than the past decade or some calamity befalls us, it would appear with the new technology still on the drawing boards, output could more than equal our utilization in the decade ahead with the present reduced acreage of harvested crops.

Heady and Skold in a recent study[2] estimate by 1975, with projected technology, surplus capacity will increase to 66 million acres assuming

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[1] Data on changes in production and efficiency are from: USDA, Changes in Farm Production and Efficiency 1965, Statistical Bulletin No. 233, Revised July 1965. Washington, D. C.

[2] Earl O. Heady and Melvin Skold. Projections of U. S. Agricultural Capacity and Interregional Adjustments in Production and Land Use with Spatial Programming Models. Research Bulletin 539, Aug. 1965, Iowa State University of Science and Technology.

efficient production patterns. Under a second assumption that adoption of technology in the southeastern United States would be more rapid, they estimate a 73 million acre figure. This would be an increase of 10 to 20 percent over the acreage retired the past five years. A doubling of exports of feed grains, wheat and oilmeals under the first set of assumptions would reduce surplus capacity to 42 million acres. Exports in 1975 would have to at least triple or quadruple 1955-61 levels to completely remove our excess capacity.

Our projections at Purdue would give us a figure of the same general magnitude. At some more distant date this ratio between utilization and production no doubt will change. In this paper we shall not venture beyond the decade.

Resource Adjustment Problems Growing Out of Efficiency and Growth

At the First Annual Farm Policy Review Conference at Iowa State University in November 1960, we made the following statement:

"Technological advances in agriculture have created agricultural surpluses because of the failure of the human and land resources to adjust rapidly enough to offset the supply increasing effects of these advances. The government has spent vast sums for programs to protect farm incomes from the effects of these excessive supplies. It appears likely such programs will be continued. If they are, they should be directed toward the twin goals of not only protecting farm incomes but also bringing about the land and human resource adjustments that are necessary to bring the size of the agricultural plant into better equilibrium with the agricultural needs of society." Let us first look at the magnitude of crop land adjustment needed now and in the future.

The Land Resource

At the 1960 conference we stated the problem in the following terms. "The United States has a total land area of approximately 1 billion 904 million acres. Of this, 450 million acres are in plow land, and approximately 965 million acres are in permanent hay and pasture. The remaining acreage is in non-pasture forest land, waste and nonagricultural uses. Our present agricultural needs could be met with something like 60 million acres of the 450 million acres in plow land shifted to other uses. This indicates the magnitude of land use adjustment needed. Of course, how many acres to be shifted would depend on the type of program adopted."

Today the basic problem is the same. From 1961 to 1965 under the feed grain, wheat and Conservation Reserve programs, we retired an average of 57 million acres of crop land per year (Table 1). Part of this acreage reduction was offset by addition of new areas of irrigated land. Ruttan has suggested the 7.2 million acres of irrigated land brought into production between 1949 and 1959 offset a significant part of the acres taken out of agricultural production during the same period for nonfarm use and by the acreage allotment and soil bank programs.[3]

Total storage stocks were reduced over one billion dollars from June 1960 to June 1965 (Table 2). Farm prices were at an index of 238 in 1960 compared to 236 in 1964. Thus, farm output was brought in line with utilization at the support price levels and then-prevailing free price levels by substantially reducing acres planted.

A Purdue University unpublished study indicates it cost 75 cents to take out a bushel of corn or its equivalent on the farms participating in the feed grain program during the four years, 1961 to 1964.[4] If all farms are included and if the increases in acreage on the non-participating farms are included, the cost was 91 cents per bushel. This cost includes both the land retirement payment and the supplemental commodity payment. It does not include either administrative costs or gains or losses from Commodity Credit Corporation operations. Commodity Credit Corporation feed grains stocks were reduced one billion dollars from June 1960 to June 1965.

The 1965 Food and Agricultural Act continues the land retirement program for the next four years at a magnitude similar to that of the past five years. It has also been enlarged to include cotton and possibly rice. Thus land retirement has become the basic solution to the farm problem for the 1960's. Now the issue changes from the question of which broad approach we are going to take to the solution of the problem to the more specific issues of under what conditions should the land be retired and where.

Research at Iowa State University has indicated the cost of retiring land to balance supply and demand of feed grains, soybeans, wheat and cotton might be reduced by roughly a billion dollars per year if marginal land were retired and payment rates approximated net returns above

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[3]Vernon W. Ruttan. The Economic Demand for Irrigated Acreage, the Johns Hopkins Press, Baltimore, Maryland, 1965, p. 9.

[4]Richard J. Edwards and J. Carroll Bottum, Purdue Experiment Station Project No. 881.

variable costs of production.[5] For example, a simulated feed grain program which would have balanced supply and demand of the above crops in 1965 but not reduced stocks as the present program has, would have retired 47 million acres of the above named crops at a cost of $1.3 billion. This compares with an estimated cost of $1.4 billion for the 1965 feed grain program alone which retired 36.7 million acres.[6] An additional 20 million acres was retired under the wheat and soil bank programs. The Iowa analysis concluded "the dominant theme repeated in the program cost analysis is that program costs and the pattern of land use are directly related. As acres of land in all regions are diverted, the average quality is higher, hence diversion costs are higher. If only acres in marginal areas are diverted, the average quality is lower and diversion costs are lower. There is a definite cost advantage in controlling supply by diverting only land in marginal areas of production."

The provisions in the 1965 Food and Agricultural Act for a Cropland Adjustment Program again makes it possible for producers to retire whole farms under 5- and 10-year contracts. The provision allowing for contracts totaling $900 million for the four-year period might allow for the retirement of as much as 40 million acres of land depending on the rate of payments per acre. If properly administered, it also offers the opportunity to bring about the long-time shifts in land use necessary to bring production more in line with society's current needs.

It should also lower the cost per unit of crops reduced. Past studies indicate a given quantity of production can be bought out for less on a whole farm basis than on a partial farm basis.

It makes it possible for elderly producers on small units to retire their land and for younger producers to shift to other occupations. This allows for some of the needed long-run adjustment in resources and for the human factor and capital to be retired from agriculture as well as land.

The feed-grain, wheat, cotton and rice programs allow for the additional land retirement necessary to keep supplies in balance with demand. With these programs on an annual basis, it can be argued

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[5]Leo V. Mayer, Earl O. Heady and Dean H. Holst, Cost of Marginal Land Retirement Programs - costs of simulated land rental, present supply control, and land purchase programs, Center for Agricultural and Economic Development Report No. 23, May 1965.

[6]USDA. Feed Situation, August 1965, p. 28.

flexibility is injected into the program. If greater or less production appears to be needed, adjustments can be made in next year's programs.

In continuing a land retirement program, there are certain issues raised. The answers may be provided by the Secretary of Agriculture in administration of the program or by modifications of the law.

Are we going to make the combined direct payments for the retirement of land and the level of payment for the support of the commodity so high that it continues to result in higher land prices? This can become an increasing problem over time as technology in agriculture lowers production cost. If higher payments went to producers, well and good, but most evidence indicates they end in higher land prices.

Scofield observes "that while total net income per acre in 1964 was only seven percent higher than in 1954, land income (before management charge) was about 50 percent higher."[7] Thus it is evident a large share of the gains from advancing technology accrued to land which increased 74 percent in value during the decade.

Will the loan support be lowered for feed grains and the direct payments raised to the point that the program takes on compulsory characteristics, thus making it necessary for nearly every farmer to participate in order to survive economically? This over a period of time would reduce the adjustments allowed in crops between farms and regions.

Will Cropland Adjustment Program payments be set at a level that will allow it to operate in competition with the relatively high payment commodity programs for feed grains, wheat and cotton?

Will the Cropland Adjustment Program be directed as far as the public will allow to retiring marginal crop land where there is the most hope of getting permanent land adjustments?

These issues become more important the longer the program runs and the more extensive the participation. The longer a program runs, the more unfavorable are impacts from any of its weaknesses.

The growing importance of the foreign market has emphasized the desirability of letting prices fall to world levels. This has made it necessary that such payments to agriculture as seem desirable from the

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[7] William H. Scofield, Land Return and Farm Income, in USDA's Farm Real Estate Market Development, August 1965, p. 45.

standpoint of equity be made as supplementary payments to the income from commodities or payments for the adjustment of land resource. But as the previous issues indicate, it is important how the payments are administered.

The Human Resource

The magnitude of the human resource adjustment is indicated by two facts: (1) that in 1959, 26 percent of the farmers who worked off the farm less than 100 days during the year had an average family farm income of $1,938 and in total produced only 8.9 percent of total farm sales;[8] and (2) that only one commercial farm will be available for each 10 farm-reared boys reaching maturity in the decade ahead. This situation has resulted in the rapid movement of people out of agriculture into other occupations,[9] facilitated by high levels of business activity and low levels of unemployment. Nevertheless, excess agricultural resources continues to raise two issues.

Do we need to step up our efforts in occupational training and retraining and in guidance programs so rural youth and younger farmers may move into other occupations with a skill at higher paying levels?

Do we need to redirect some of the funds going into agricultural programs to earlier retirement for older farmers on small farms who may retire their farm under the Cropland Adjustment Program? They have been automated out of their income in nearly the same way as have those who receive severance pay in industry. Butz of Purdue has made a specific proposal "to aid farmers who need it most."[10]

In developing long range policy to raise farmers' income, it should be recognized that bringing the human resources into balance with other agricultural resources is the basic solution. Quotas and land retirement programs can keep per capita farm incomes from falling below competitive levels, but such programs are self-defeating in the long run unless human resources are adjusted. If quotas are used to increase income,

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[8] Farm Policy in the Years Ahead, Report of the National Agricultural Advisory Commission, published through the facilities of the USDA, November, 1964, p. 7.

[9] Calvin L. Beale and Carl J. Shoemaker, Adjustment in Human Rural Resources, published in Adjustments in Agriculture - A National Base Book, Iowa State University Press, 1961, pp. 260-84.

[10] Earl L. Butz, "Let's Help Farmers Retire Early," Farm Journal, March 1965, p. 20.

then the gain is capitalized into the rights to produce. If sufficient land is retired to raise prices above competitive levels, then the income is capitalized into land. Only if human resource is reduced can gains to human resources be retained in the final analysis. Raising the educational levels, the skills and the mobility of agricultural people is the fundamental solution to raising their incomes.

Areas of Growing Policy Agreements and Disagreements

Farm policy discussion has given rise to broad areas of agreement as well as to sharp differences of opinion. Too often the areas of disagreement are emphasized rather than the general agreement areas. Economists are in general agreement that:

1. Agriculture's big problem is that it has more resources than can be employed profitably.

2. Excess agricultural resources include both land and labor. This is true even though increased amounts of capital and management are simultaneously flowing into agriculture.

3. Putting commodities into storage or making direct payments will not bring farm incomes to satisfactory levels for any length of time without limitations on output. Storage and direct payments may be justified at times, like a narcotic, but they alone are not a solution to the farm problem.

4. We should attempt to expand outlets for farm products by all reasonable means. This includes policies which will increase exports, increase the use of farm products for industrial uses and increase home consumption. Coupled with this agreement is also the general agreement that sufficient expansion of outlets cannot be found to entirely solve the farm problem in the immediate future ahead. As others have pointed out, "A crash program of exports is likely to lead to food spoilage, food use without any noticeable foreign policy effects, and even the situation where food no longer is considered a positive asset in the receiving country. Here, too, the path is narrow between too much and too little with the errors of too much more costly to American prestige and goodwill."[11]

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[11] Elmer L. Menzie, Lawrence W. Witt, Carl K. Eicher, and Jimmye S. Hillman, Policy for the United States Agricultural Export Surplus Disposal, Interregional Publication for the State Agricultural Experiment Stations published by the University of Arizona, Technical Bulletin 150, August 1962, p. 102.

5. Agricultural production can be reduced by voluntary programs. Feed grain and wheat have been reduced in the past five years--this is no longer speculation, it is a fact. The debate is whether this approach is too costly.

6. The nation should maintain the adequate reserve of food and fiber to meet emergencies.

7. The foreign market is growing in importance and we must adjust our agricultural price structure to it.

8. Increased importance is being attached to the place of agriculture in a fully employed economy and the flow of youth from agriculture to other areas of employment.

9. Two types of agricultural income problems exist: (a) that of the small farmer who lacks resources and has such limited output an improvement in price has little effect on his income; and (b) the commercial farmer whose income problem is largely one of price relationships between inputs and outputs. We acknowledge the two problems are interrelated, but solving the small farmer's inadequate resource problem will not solve the commercial family farmer's problem, and solving the price problem of the commercial family farmer won't solve the small farmer's problem.

10. We have a welfare problem as well as a price problem in agriculture.

11. It is increasingly necessary to facilitate occupational and geographic mobility as a means of obtaining more justifiable incomes for persons now living on farms.

12. Since the soil bank of the 1950's, nonfarm effects of farm programs are important. This is illustrated by the authorization given the Secretary of Agriculture in the 1965 Food and Agricultural Act to limit the proportion of land retired in any one county under the Crop Adjustment Act.

There will continue to be much discussion and disagreement over the following issues:

1. What shall be the distribution of income between farm and nonfarm sectors of the economy? How large will the transfer payments to agriculture be allowed to go in an attempt to raise farm incomes and to help agriculture retain some of the gains from its productivity?

2. What shall be the distribution of incomes within agriculture between commodities and between the commercial farmer and the small farmer, with inadequate resources?

3. What shall be the degree of control over agriculture? How much freedom shall the farmer have in the decision-making area and how many decisions are going to be transferred to government? Shall government programs be geared towards eventual withdrawal or toward greater involvement?

4. Shall land shifted from grain and cotton production be continuously idled or shifted into pasture and used? As the demand for beef grows and the pressure to import low quality beef grows, this will become more of an issue.

5. As greater coordination is required between farm suppliers, producers and marketing organizations, who will call the shots? Will the farmer or the supplier or marketing organization be the decision-maker or will each remain independent and coordination be gained through a better knowledge of each other's needs?

6. How shall a transformation in the educational system for rural youth be brought about so they receive occupational training necessary to meet the requirements of our modern society?

7. What is to be done about the supply of hired agricultural labor? In the far West, the problem is one of the Bracero programs; but of coming importance is the question of minimum wage legislation for all hired labor in agriculture.

8. How far shall we go in attempting to close the world food gap? Much discussion is assured; greater information is needed.

SUMMARY

We have developed the most magnificent set of institutions in the world for agricultural progress, but we still face the twin problems of excess labor and land resources in agriculture. During the first half of this decade we have developed workable programs of land retirement from the standpoint of protecting commercial farmers' incomes and we have started developing plans for training and retraining programs for farm youth who find their greatest opportunity in other occupations.

Our problem ahead is to develop and refine these programs so as to bring about needed long-run adjustments of these resources and to do this within the framework of the individual's and society's value system.

If we are to have a dynamic and viable economy, our government programs in every area must have as its goal not only redressing the iniquities, but also the bringing about of fundamental corrective changes.

Table 1. Acreages of land retired in United States, 1961-65

Year	Feed Grains	Wheat	Conservation Reserve	Total
		(million acres)		
1961	25.2	--	28.5	53.7
1962	28.2	10.7	25.8	64.7
1963	24.5	7.2	24.3	56.0
1964	32.4	5.1	17.5	55.0
1965	36.7	7.5	14.1	58.3

Table 2. Stocks held by the Commodity Credit Corporation, 1960-65

Item	Feed Grains (Corn, soybeans, barley, oats)	Wheat	Cotton	Other[a]	Total
	(millions of dollars)				
June 30, 1960					
Loans outstanding	698	163	9	432	1302
Inventory (cost)	2423	2452	880	267	6022
Total	3121	2615	889	699	7324
June 30, 1961					
Loans outstanding	849	223	12	391	1475
Inventory (cost)	2511	2484	340	230	5565
Total	3360	2707	352	621	7040
June 30, 1962					
Loans outstanding	1077	149	591	366	2183
Inventory (cost)	1518	2143	249	565	4475
Total	2595	2292	840	931	6658
June 30, 1963					
Loans outstanding	1099	161	751	520	2531
Inventory (cost)	1351	2168	719	488	4726
Total	2450	2329	1470	1008	7257
June 30, 1964					
Loans outstanding	829	115	1012	826	2760
Inventory (cost)	1660	1683	738	235	4338
Total	2489	1798	1750	1061	7098
June 30, 1965					
Loans outstanding	684	136	775	899	2494
Inventory (cost)	1285	1297	1123	187	3892
Total	1969	1433	1898	1086	6386

[a]Other primarily tobacco loans and dairy products inventory (also soybeans in 1962). Totals of rounded data.

Source: Report of Financial Condition and Operations, C. C. C.