PROCEEDINGS

of the

WESTERN FARM ECONOMICS ASSOCIATION

Thirty-Third Annual Meeting

August 23-26, 1960

Stanford University
Stanford, California

GUIDELINES FOR A CONSTRUCTIVE REVISION OF AGRICULTURAL POLICY IN THE COMING DECADE

By

Karl Brandt

Council of Economic Advisers

When I accepted President Working's invitation to contribute personal observations to the professional discussion of our agricultural policy, I had the desire to put the subject into the broadest long-run perspective of American national and foreign affairs. This is about as far as one can go in detachment from the partisan discussion of these days and what propriety requires of me.

I believe it to be one of the legitimate functions of economists that they make their contribution to the development and performance of our political economy by putting before the American people, their legislators and administrators alternative courses of policies and to evaluate comparative costs, major results and expectable side effects. It is for the body politic to choose and decide. It is the economists' duty to keep the body politic well informed, first of all on the range of alternative means to arrive at certain ends. It is in this sense that I put an additional alternative set of guidelines on the docket of our profession for preliminary discussion and for later testing and weighing against a number of other alternative packages of farm policy measures. These guidelines are not presented as a recommendation for political consideration.

Studies of agricultural policy issues on both sides of the Atlantic stretching over 35 years have taught me that the "agricultural problem" is in all countries a perennial part and parcel of the dynamic process of economic development and of the dislocations and adjustments which are integral elements in it. Under any democratic form of government, farm policy tends to become an increasingly hot political and social issue as the accelerated rise in productivity of manpower in agriculture requires people to shift from rural to urban employment. The ever-changing symptoms of the farm problem can be tackled by an unlimited variety of public policy programs. But the hard core of the farm problem, namely, the structural change involved in a nation's economic growth can never be "solved" in the same sense as one can solve problems of a temporary emergency nature. Being concerned chiefly with the social impact and pains of economic growth, the legislative treatment of the farm problem can diminish the political friction and heat it causes. However, it is well to realize that farm legislation reaches in all countries to the very life of liberty and the core of the values that orient an economic system, the more so the smaller the farm population gets. Farm legislation calls for warm hearts and cool heads.

I.

In the coming decade foreign affairs will outweigh domestic issues far more than in the past because our military security will depend heavily on closest cooperation with our allies. This in turn presupposes more and more economic cooperation with the Atlantic Community, with Latin America and the free parts of Asia. These vital relations reduce the leeway for potential domestic adjustments by any measures of restriction of imports and of foreign exchange controls.

Compelling evidence makes it abundantly clear that in this turbulent and deeply divided world our country will face in the years ahead a most crucial test of its leadership among the free nations. To meet the challenge in all its interlocked diplomatic, military, political, and economic aspects requires that we develop, expand, and utilize our productive resources with drive, imagination, and wisdom. With an assured vigorous growth of our population, appropriate efforts at improving health, education, and research, and continued thrift and capital formation of our citizens, the foundations for greater national security and welfare appear excellent. Provided the nation and its statesmen are alert and act with prudence that is given appropriate public policy, prospects are good that with growing productivity and a rising real output of goods and services per capita, the economy will offer ample opportunities to our people for employment and for the improvement of income while we simultaneously discharge our heavy responsibilities in foreign trade and investment in less developed foreign countries.

However, it must be realized that such growth and performance of the national economy is bound to face a much harder competition in coming years than in the period since the end of World War II.

To assure a continued stable and prosperous development of the Western countries requires that the stability of convertible currencies, recently achieved, be extended, and that foreign trade be liberalized further. This puts a high priority on the maintenance of the integrity of the U. S. dollar as the world's foremost reserve currency. Only if we succeed in containing inflation in the domestic economy will it be possible to hold the balance of trade and the balance of payments in such conditions that the dollar remains a hard, freely convertible currency and that a liberal foreign trade policy prevails.

Due to the strong revival and vigorous expansion of the industrial exports of Western Europe and Japan, there will be less latitude for price increases of U. S. products than during the postwar years in which U. S. industries had a practical monopoly of supply. Increasing competition from Soviet Bloc countries in world trade and in financing of underdeveloped countries will make domestic price stability even more mandatory lest unemployment hit industries that have priced themselves out of their foreign markets.

If these assumptions about the changed impact of the international situation on our national economic policy should be basically correct, it would demand even more than in the past that productive resources be allocated to the uses where they contribute the optimal yield to the social product. In a dynamic economy this calls for a high mobility of resources. Most of all, it calls for the geographic and vocational mobility of the greatest of all resources: manpower.

Within the American economy a universally unique feature of our dynamic progress is the structural improvement and the unprecedented rise in productivity in agriculture. These have yielded a steady flow of labor to the urban economy, and assured for it an abundant and dependable supply of food and fibers at reasonable prices. In its utilization of land and capital resources and its output agriculture is today an extremely well integrated part of the national economy, which performs in accord with economic principles as any other part of it. Originally, nearly all other economic activities were integrated into agriculture, as is best illustrated by the fact that in Jefferson's time 90 percent of the American population was gainfully employed in agriculture. Sixty years ago 50 percent were in agriculture, and today less than 10 percent.

The farm problem is commonly said to be the result of a sudden revolution or explosion of technology. There is, indeed, a great deal of improvement in machines, tools, plants, animals, feed, and fertilizer. But the essence of the change lies in improved input-output ratios and cost-revenue ratios. The persistence of very powerful price relations between factors and products has forced cumulative shifts in the operations of the firm in agriculture. The much steeper rise of farm wages than of total operating costs of labor-saving machinery has induced the continued substitution of capital for labor. The heavy capital investment in farm machinery and the economies of scale possible in its full utilization have led to acreage enlargement of operational units. The high excess of marginal revenues over marginal costs, still attainable anywhere in the U. S. in the application of more fertilizer and water to crops and pastures, has led to the boosting of yields per acre, or the substitution of purchased inputs for land. In fact, the main increase in the output of crops during the last two decades can be explained by increased input in seed, pesticides, fertilizer (chiefly nitrogen), and water. This increase has contributed a considerable share to the increase of output per man-hour which was otherwise due to a reduction in input of labor.

As a result of these cost-price relations, which promote intensification and which governmental price supports have accentuated, the aggregate output has exceeded total utilization. This is the part of the farm poblem that concerns the 2 million commercial farms and even more the U. S. Treasury.

Despite a large transfer of manpower out of agriculture, there is still a considerable excess of manpower left in agriculture. This is chiefly the problem of low-incomes of many of the people on the other 2 million farms.

II.

Major economic defects of the methods chosen in agricultural legislation are the following:

A price guarantee for a few commodities interferes with the relations between prices of all farm products and all factors, and thereby interferes unintentionally with all supply responses of our agricultural economy.

Price support as the chief method of farm income support, sets each support level above equilibrium and gives powerful incentive to excess production.

The raising of a commodity price above a competitive market level subsidizes non-agricultural producers of substitute products such as man-made fibers and competing farmers abroad e. g., producers of cotton. ' Both effects shrink the potential demand in domestic and foreign markets.

Due to excess production, support prices are actually fixed prices.

The guarantee against price changes for a select few commodities puts a premium on the risk-free expansion of their output.

Fixed grain prices vis-a-vis free livestock prices induce farmers to feed less and to sell more to the CCC as livestock prices fall.

Restrictive acreage allotments establish a premium on intensification and therefore are ineffective as output controls, while they tend to freeze the location of production.

Marketing quotas are more effective in controlling market supply of a commodity, but they shift the use of resources and thereby the surplus to other commodities. They are applicable and enforceable only for the part of the commodity stocks which are exchanged in the market.

The price-fixing legislation has resulted in truly gigantic stockpiles of unwanted grain and other farm commodities held by the Government, at enormous costs in interest, storage, losses, and transportation. This in itself is a perpetual serious misallocation and waste of scarce resources. It is a waste of a part of the taxpayers' income.

Despite being sealed off from the current market the excess stocks exert a depressive influence on the markets in the U. S. and the world, particularly in view of the prospect of continued excess production.

So long as this stockpile exists there is no possibility of restoring a free market for the commodities concerned.

The price supports, acreage allotments, and marketing quotas have raised land values and land rents and thereby created rigidities in land utilization and vested interests in the perpetuation of such policies. While increased equities benefit operating farmers, the higher land values increase costs for future farmers.1/

1/ Cf. Frank H. Maier, James L. Hedrick, and W. L. Gibson, Jr., "The Sale Value of Flue-Cured Tobacco Allotments." USDA ARS Technical Bulletin No. 148, April 1960. This study lists for three North Carolina counties estimates of the sale value of an acre of flue-cured tobacco allotment separate from land and buildings as $1, 290 for 1954 and as $2, 500 for

The capitalization of revenues flowing from price support via acreage allotments increases the marginal physical and value productivity of land assets at the expense of returns to labor and capital assets.

The vast expenditures for price stabilization do not correct the regional maladjustment, such as the overproduction of wheat in the Great Plains, or the underemployment of manpower on the low-income farms of the Appalachian and Piedmont area.

As a device for redistributing income to agriculture from within the economy, price supports are an inappropriate and wasteful means.

As a device to redistribute income within agriculture, price supports are even much less effective, because they prorate the increase in income according to the scale of operation.

Beyond outright donation, the disposal of surplus stocks can be achieved only by heavily subsidized exports a policy which is counter to the national interest in a maximum liberalization of international trade.

The use of the surpluses under Public Law 480 as aid to underdeveloped countries is a costly *ex-post* method of assistance in which the recipient countries receive less than one-half of the costs to the U. S. Government, and in which it may perhaps recover no more than 10-15 percent of the costs after 10 to 20 years. 2/

Price support by the CCC by means of nonrecourse loans and purchases amounts to an open-end commitment of the Treasury, which renders control over the government expenditures ineffective.

1957. The same study found for 203 farm sales in one Virginia county a value for an acre of tobacco allotment in 1957 about 73 times as high as the value of an acre of cropland without the allotment.

Cf. also: Walter E. Chryst and John F. Timmons, "The Economic Role of Land Resource Institutions in Agricultural Adjustment." Seminar on dynamics of land use: needed adjustment, May 3-5, 1960, Iowa State University, Ames, Iowa.

2/ Theodore W. Schultz, "Value of U. S. Farm Surpluses to Underdeveloped Countries." The University of Chicago Office of Agricultural Economics Research Paper No. 6005, May 4, 1960. Also paper on the same subject presented at the Annual Meeting of the American Farm Economic Association held at Ames, Iowa, August 10-13, 1960.

Cf. Edward S. Mason, "Foreign Money We Can't Spend," *Atlantic Monthly,* May 1960, pp. 7-8.

"Problem: How to Use U. S.-Owned Local Currencies," *Congressional Quarterly,* Weekly Report No. 25, June 17, 1960, pp. 1041-1045.

III.

In order to have some foundations on which to erect guideposts for a change, I offer a few observations on the essential features of the dynamics of agriculture.

There is no more than a minute grain of truth, if any, in such fundamentalistic assertions by some members of the profession as that due to physical, biological, and organizational circumstances, agriculture is unable to adjust supply to demand, and that it reacts perversely to prices.

The assertion that agriculture is denied a "just income" by being forced to operate in atomistic competition against monopolistic market power of industry, commerce, and labor is not supported by any conclusive evidence. To prove such causational relation calls for far more than demonstration of rigidities in "administered" prices or in certain wage rates of 17 million labor union members among a labor force of over 70 million people.

It must not be overlooked that corporate income is an extremely unstable item in our economy and that unions have no control over the volume of employment or the payroll of industries and hence no control over the income of even a fully unionized vocational group. That unions have considerable power in collective bargaining over working conditions for their members is another matter.

The income and financial situation of the commercial farm operators, particularly when due consideration is given to the continual increase in their equity, give no cause for national alarm about an emergency or the urgency of sharply expanding public income support, but a great deal of cause for pondering a review of the means of policy.

Our agriculture is far from being left to hopeless isolation of millions of atomistically competing farmers who increase production when prices make production unprofitable. On the contrary, it is excellently organized with a farmer-owned and operated up-to-date long-, medium-, and short-term farm credit system, a tax privileged, well-organized vast cooperative system of nearly 10, 000 marketing, farm-supply, and service enterprises with $13. 5 billion annual turnover and extraordinary bargaining power. Our agriculture is serviced by a government-supported land grant college system with agricultural research stations in every State of the Union and by a Federal-State financed farm advisory system available free of charge to every farmer in every county of the U. S. All farm people, though mostly self-employed, have the same benefits as urban employees under social security legislation.

Agriculture is a system of private overwhelmingly family operated enterprises which in its 2 million commercial units behaves so remarkably businesslike that it gears production in accordance with the effective demand--a demand which for price supported commodities includes the

U. S. Government's unlimited commitment to buy any amount offered. The trouble is chiefly one of a lag in effective mobility of resources, particularly manpower, and of adjustments in land values.

Government price-income support policies have reduced the mobility of resources. Allotments and quotas have enhanced the land value. Rational economic adjustment may require use of some land at lower intensity (i. e., less manpower and purchased inputs per acre) in larger operational units. But this involves a certain relative reduction in land value and land taxes. The greatest rigidities that interfere with the mobility of resources are the result of price fixing in combination with allotments.

Arguments on behalf of the gradual restoration of a market economy for agriculture and a less costly, more effective system of farm policy are usually countered with the accusation that this implies laissez-faire and an unfair denial of equal political subsidy treatment of agriculture, and with the absurd assertion that subsidies "built" the railroads, the airlines, and the maritime merchant fleets. Therefore, I want to stress that I do not believe in laissez-faire but a strong government enforcing the rules of competition in a market economy and effectively promoting conditions favorable to economic growth and stability. The question cannot be whether the government should or should not use subsidies in dealing with the farm problem. The question is whether subsidies are being misused to make an economically untenable status quo socially bearable, or whether subsidies and intervention are self-liquidating and serve the purpose of keeping the farm economy basically free, self-adjusting, and capable of operating eventually without such aid. Subsidies are justifiable if they assist people in making adjustments and mitigate the hardships involved. The fast tax write-offs on farm equipment and storage facilities, freedom of all farmers from Federal tax on farm used gasoline and initially subsidized credit for rural electrification are also non-objectionable forms of subsidies.

However, to have the gross returns from all major farm products fixed and rationed among all farmers in a manner that is just or "fair to both consumers and producers" by the Congress, as some economists propose, 3/ appears to me neither compatible with the institutional and legal frame of our economic system, nor feasible.

While it is theoretically not impossible to control the output of 4 million farms by comprehensive control of land and capital inputs, I hold it politically inconceivable that the American people, particularly the farmers, would ever accept the degree of regimentation and law enforcement

3/ Cf. Willard W. Cochrane, "Farm Technology, Foreign Surplus Disposal and Domestic Supply Control." Jour. of Farm Economics, Dec. 1959, pp. 885-899; Idem, "Some further reflections on supply control." Ibidem, Nov. 1959, pp. 697-717; Idem, "The case for production control restated" in Joint Economic Committee, Policy for Commercial Agriculture, its relation to economic growth and stability, Nov. 22, 1957, pp. 712-724.

that would be necessary to execute such control. It is moreover questionable whether the total cost involved for the nation would not by far exceed the exorbitant ones of the present price stabilization. Compulsory supply controls create by definition immediately illegal units of supply, i.e., a black market. To make it effective such control would have to ration all purchased inputs, such as fuel, fertilizer, machinery. It makes no difference whether the "comprehensive supply control" would be exercised by the Government, or by compulsory farmer-operated commodity cartels, or whether quotas would be made negotiable. The assignment to all farmer cartels would be to restrain competition, administer shares in the market, and reduce the mobility of resources. This would lay waste in the realm of food and fiber production the main source of wealth in the American economy.

If supply control should approach effectiveness, it would require extension to the industries which compete with farm production. Beyond that it seems fantastic to believe that in an integrated dynamic economy the conversion of a primary industry like agriculture into a politically directed state monopoly could stop there. Total cartelization of agriculture is only the beginning of total cartelization of the industries. The historical precedent of this inescapable sequence under the Weimar Republic in Germany from 1928 to 1933 and its ominous finale under the Nazi regime 1933-1945 should be sufficient deterrent to any repetition by contemporary eclecticists.4/

Insofar as the results of a decade of extensive research by many of our most competent analysts on the supply function in agriculture are concerned, they have not gone beyond preliminary exploration and in my judgment do not provide any reliable quantitative knowledge with which a supply control system could be operated with any accuracy.5/

The assumptions by some economists about the possibility of reducing aggregate output to market equilibrium by withdrawing enough crop acreage by expansion of the conservation reserve up to 60 or 80 million acres impress me as unwarranted and extremely expensive illusions. At best the conservation reserve provides additional opportunities for the retirement of elderly farm people chiefly on marginal units.

4/ Cf. Karl Brandt, "The German Fat Plan and its Economic Setting," Food Research Institute, Stanford University, 1938.

5/ Cf. the studies by William Addison, R. H. Allen, Louis H. Bean, Rex F. Daly, Karl A. Fox, Zvi Griliches, D. Gale Johnson, R. L. Kohls, George M. Kuznets, George W. Ladd, R. L. Mighell, Marc Nerlove, Don Paarlberg, T. W. Schultz, John R. Tedford, E. J. Working, and others.

Cf. particularly: Marc Nerlove and Kenneth L. Bachman, "The Analysis of Changes in Agricultural Supply: Problems and Approaches," Journal of Farm Economics, August 1960, pp. 531-554, and the appended bibliography of 80 items.

The unsatisfactory results of the present farm policy are exclusively the result of maladjusted legislation, not of administrative failure in its execution.

The overruling economic argument against a policy change toward effective lifting of farm income beyond the present level by supply restriction lies in the implied substantial jacking up of food and fiber prices to the consumer and the inevitable escalator effect on wages and prices. The cost-push inflation involved in it would tend to cause serious unemployment in export industries and deterioration of the balance of trade. Hence such policy would tend to imperil the exchange rate of the U. S. dollar. The savings in the Federal Budget by reduced CCC stocks would largely be lost in higher export subsidies.

IV.

The foregoing assumptions about the needs of economic policy in general and of agricultural legislation in particular lead me to suggest for discussion and getting them tested within the economic profession for their economic validity as well as their practicability, guidelines for a possible alternative course in legislation for agricultural adjustment aid that go in a different direction from those of fascism or the corporate state. There are quite a few proposals. Professor Hendrik S. Houthakker's "Transitional Acreage Payments" plan, which he abbreviates as TAP, would bridge the gap between "artificially high" support prices and presumably lower prices riding in a free market over a transition period of five years. Payment per acre would be the same for all farmers, giving low yield farmers proportionately more than under the present system. Professor Houthakker calls it a subsidy for past, but not for future inefficiency. He anticipates that acreage controls, government purchases, and export subsidies will become unnecessary and that the danger of increasing surpluses will disappear.

Professor Houthakker assumes that the "farm bloc's power" may vanish overnight. I do not believe that the assumed power of the farm bloc is what has kept legislation in the same tracks for 27 years. I believe the causes lie much deeper, namely, in what has so aptly been analyzed by J. S. Davis as agricultural fundamentalism. I would add to it that as an indestructible strand of ontological memory all urban people have a fond affection for the farm, from which they or their forebears all came. It is the paradise lost complex of modern metropolitan electorates that creates the phenomenon of increasing will to grant farm aid as the proportion of farm votes diminishes, a phenomenon typical of all industrial societies under representative forms of government.

Professor Boris C. Swerling has for several years worked out in great detail a Contributory Income-Insurance Plan for agriculture with initial Government contributions to the insurance fund. The insurance would be tied to the individual, not to the farm. It would be social insurance with an upper limit of something like $5,000 per individual, based on income tax records. The plan dissassociates farm legislation from commodity stabilization altogether, is compulsory, lets prices settle at a free market level.

As a substitute for the price support policy the plan would, in my judgment, be unacceptable to the commercial farmers and their organizations and does not touch the question of what happens to the business of commercial agriculture and its gigantic investment within 4, 5, or 6 years.

I have already mentioned still another plan which envisages the correction of excess aggregate output by laying still 60 to 80 million acres of cropland by an increase of the conservation reserve. I consider this approach as a dead alley, unless productive acres, not whole farms, were fallowed under tight annual leases.

In view of the crucial need of a constructive alternative I put on the docket of our profession a course of legislation along the following lines:

A. Since the greatest maladjustment lies in the chronic underemployment of manpower in low-income farms, maximum assistance would be given by all competent Federal and State Government service agencies with particular emphasis on expansion of nonfarm employment.

B. The excess stock of grain would be effectively eliminated from the U. S. and world grain market by transferring title to a Grain Conversion Board under the statutory requirement that it cannot dispose of any of its stocks as grain but must convert all of them over a period of 6 to 7 years to staple livestock products and sell them exclusively in newly to be developed foreign markets and exclusively on the basis of long term delivery contracts with food dispensing agencies abroad, particularly in underdeveloped countries. These transactions would be carried out by existing private enterprises and business firms. The Board would also be entitled to donate certain quantities to foreign charity.

C. The Government would gradually (over a period of say four years) and progressively disengage itself from intervention in the commodity markets, thereby assist in the recuperation of their natural buoyancy in the absence of depressive surpluses, and it would simultaneously reprivatize the carrying of all visible stocks in first and second hand.

D. During this transitional period of disengagement the Government would financially assist producers of chronic surplus commodities in specified regions by buying from farmers, under specified contractual conditions, their allotments and marketing quotas, tapering the installment payments over the four years. One of the conditions would involve the farmer's commitments to fallow a specified percentage of his allotment acreage, with a tapering scale during the four years. Such massive financial aid would amount to indemnification for the abolition of unworkable means of farm policy adopted basically for war purposes.

E. In order to get the Federal Budget expenditure for the farm program under control, the Congress would make a total appropriation for each fiscal year covering the expenditures involved in the indemnification, i.e., the purchase of the allotments.

F. The Government would give maximum support to agricultural exports by diplomatic efforts at removing discriminatory import restrictions abroad and by keeping U. S. markets open to foreign industrial products.

G. The Food-for Peace Program would be continued.

This is a set of guidelines for a revision of agricultural legislation which I consider as one of several possible alternatives and which appears to me as an economically, socially, and politically constructive and feasible one. Legislation following these guidelines properly administered would adjust aggregate output via the market mechanism without fettering farm enterprises or cartelization of industries while protecting the economy against more inflation and shield the farmers against decline in their income and equity. Chiefly, such program would create within a period of four years a situation in which the U. S. Treasury would no longer be mortgaged by, and the U. S. Government no longer be tied to, a continuation of anachronistic methods of farm policy.

DISCUSSION: GUIDELINES FOR REVISION OF AGRICULTURAL POLICY

By

Earl O. Heady

Iowa State University

While my assignment called for discussion of two papers, I have received only one. Accordingly, I have had to restrict my comments to it.

Karl Brandt has reviewed the important national and international framework within which agriculture must be adapted over the next two decades. Certainly, as he indicates, the dominant problems of American society will be in the sphere of foreign affairs and we must examine economic structure accordingly. But I believe it is important that equal focus be placed on all sectors of the economy, and not concentrated on agriculture alone. Along with Karl, I believe that agriculture, shrinking as it is against the total, must become adapted to non-farm growth ahead of us, as well as to become caught up with that which is behind us but as yet is undigested. He is entirely correct, as practically all economists would agree, that an essential need is reorientation of education and counseling services of farm youth, so that they can better contribute to the nation's goals and have better opportunity for the relatively more favorable employment opportunities which will continue to develop in non-farm sectors as economic growth continues.

He mentions other points on which I find myself in agreement. I wish to compliment him for his ability to place them in precise and sharp focus. However, it is not likely that I was asked to serve as a discussant for these purposes. Program chairmen invite discussions in order that alternative hypotheses will be explored, additional data will be presented and the "other side of the question in general" will be reviewed. I propose to do so.

As Karl suggests agricultural policy is a function of politics and public acceptability. We need to find policies which are both acceptable and better mesh agriculture to national economic growth. Karl indicates that marketing quotas are not publicly acceptable at the present. I believe similarly and also that they would be difficult to "police," unless someone can add "improved wrinkles" in them for the feed-livestock sector. But Karl evidently believes that free market prices without any type of production or supply controls, even a land withdrawal or soil bank program, is publicly acceptable. This theme exists in his paper.

I believe free markets and absence of any type of production controls currently may be just as unacceptable to farmers as marketing quotas. I believe that wide acceptance exists for land withdrawal on a scale which will cut supply and annual output back far enough that prices can "be left free in the market," but with some improvement in level, or certainly without drastic reductions in prices. True, the two million commercial farmers are similar to other businesses in the sense that they are generally profit motivated and respond to prices and adapt inputs and outputs accordingly. But they are dissimilar in the industry sense that they are unable to manage their surplus capacity and supply to a given set of market prices. Witness other major industries: The steel industry ran at only about half of capacity during the past summer. Prices were well maintained. The petroleum industry has been faced with surplus capacity and inventories over the past several years. But output going to the market has been adjusted generally to a given set of prices. Other examples could be cited where prices are "determined in the market" but the industry has managed its output so that prices were maintained. This same arrangement would be highly acceptable to farmers. They would like this type of "free market operation," in contrast to the type which they have. With this ability to adjust industry output to price and still remain competitive with each other in this frame work, they would get their return more clearly "through the market." They would have to depend less on price support subsidies and would prefer it this way. But we all know that even if we consider the relevant number to be as small as two million, the number is too great for the individual to have any power over the market.

Because of its extreme competitive structure, is it "morally wrong" for agriculture to ask for power to manage its output relative to a "given" price, such as is accomplished in certain other industries? Or, alternatively, we might ask: Is it necessary for all of the "efficiency guns" to be turned on agriculture? Must it provide the resource savings for meeting all the world challenges which face the nation over the next decades? One would think so when he views the empirical scrutiny to which agriculture is subjected, without similar or parallel analysis and prescription for other industries. The major "fat" in the economy, which might be used to meet the nation's basic world and internal challenges, is not to be found in agriculture. The industry uses only a small fraction of the nation's resources, if we exclude land which has little alternative use; and its income is even a smaller proportion of national product. Either the "empirical efficiency guns" ought to be turned equally on other industries, or we should try to give agriculture the same ability to manage its capacity relative to price as exists elsewhere.

From the standpoint of national goals and purposes and general welfare, I do believe that we need to better adapt agriculture to economic growth. In this sense, our farm programs might best be looked upon as attempts to "buy time" and keep the rate of change in line with (a) the values of farm and other people and (b) the speed at which our social system can digest it. The transfer of labor and population out of agriculture has been remarkable. I doubt that any one can prove that it should have been faster considering: (1) older persons with relatively fixed skills and values who are gradually retiring out of agriculture; (2) our ability to provide housing, schools and other services; and (3) the rate of orderly economic growth in particular localities. I doubt that it would have been much faster had we not had price supports over the past decade.

In this sense, our programs have thrown no great restraint in the path of economic growth or in meeting our world challenges over the next two decades. The restraints or hindrances for better using our human resources for these future purposes rests much more in our retarded educational, counseling and employment services for farm youth. But the programs have had severe limitations in the sense that they absorbed large public investments which have not solved the immediate problem of surpluses. Recently, a group of us had occasion to meet in seminar with managing editors of urban newspapers. We asked them if they believed the city consumer and tax payer looked critically on public expenditures for farm programs. In general their answer was "no, they don't resent the expenditure itself but they do criticize the fact that the problem is not being solved with the outlay."

Thus, I believe that we should look ahead to 1970 and decide where we need to be in agriculture. Then we should use the next 10 years in adjusting the structure of agriculture in this direction. The major task is that of adapting the land resource. We have already made great progress with the labor resource and this trend will certainly continue as national economic growth and favorable employment opportunities draw people from farms. So our task is to withdraw land particularly from its present mix of products and to get more of it shifted to products of recreation, forestry and grazing. Even Karl's free market system would be a land withdrawal program. While little land might be shifted in the first 2 or 3 years, this would eventually happen. Withdrawal would be concentrated mainly in particular regions. But this major social cost of adjustment would fall then on the farm and non-farm sectors of our population which now reside in these regions. I believe the issue here to be one of equity and social justice. Should specific regional groups of our population be required to pay the great brunt of the cost of adjustment, particularly when our general public has made the decisions and investments calling for this adjustment and is the direct recipient of benefits from it.

Personally, I believe that the regional structure of agriculture does need to be changed over the long-run to conform to differential rates of economic growth and changes in comparative advantage between regions. But in terms of equity and social justice, I would be willing to settle for a gradual movement in this direction. I would be particularly anxious to do so if this were the publicly acceptable method. And I believe it is more nearly acceptable than an abrupt return to free prices without any output management, even if existing stocks were held from the market and worked off over a period of 10 years. A program to accomplish this would be land withdrawal on a sufficient scale and with payment rates high enough to obtain voluntary participation on a scale to "hold the price line" with prices thus determined in the market and with some upper limit to proportion of farms to be included in any one region. Then, these limits could be relaxed year-by-year, with a target of complete regional adaptation in 10 years.