WHAT TO DO ABOUT THE OUTLOOK*

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It isn't very often that I get the opportunity to talk about the road ahead for agriculture with so many professional colleagues having such a great influence with farmers. After a long week of listening to speeches, I know you'll want me to be brief. But we are now at the heart of the issue--What to do about the Outlook. It is a terribly important subject and each of you may play a very important role in deciding it since so many farmers look to you for guidance. The issues which are involved go to the roots of our philosophy of how our economic system should work, and about which there is much dogma that often acts as a wet blanket to smother discussion of new or different ways of doing things. But Extension is the business of bringing farmers new ideas, and this implies keeping an open mind. A healthy skepticism is important, but certainly it is not too much to ask that it be constructive and not dogmatic.

So in these few minutes I want to do my best to convince you of the correctness of three points:

1. Growth of technology in agriculture is giving this country such an imbalance in food supply in relation to demand that unless positive steps are taken to deal with the problem, the prospect for reasonable and long run farm price improvement during this decade is very dim.

2. The idea that lower prices are a healthy thing since they lead to fairly rapid adjustment of farm resources and will soon be followed by a period of reasonable prices and incomes has not worked out and there are good reasons why it will not work out in the next 5 or so years.

3. While we must work much harder on the long run adjustment problem, it's equally important that we deal positively and constructively with the important problem immediately ahead; and the most sensible approach to this is to give major emphasis to programs for direct management of market supplies, commodity by commodity, wherever they are needed, and where producers are willing to subject themselves to the market discipline necessary to achieve the price improvement they say they want and for which a reasonable case can be made. Programs which focus directly on resource adjustments should play a supplementary role, but probably will be an essential part of the broad program of adjustment which is needed.

Now to begin with, let's be clear that we are talking about market prospects and the people whose problems are importantly market oriented. To define out of our discussion the so-called low-income, small-farm problem is not to deny its importance. I'm simply saying that under almost any possible realistic set of prices, there will be many farmers still experiencing low incomes. Higher prices will help them, but not very much. Their problem represents a tragic waste of

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human resources which I hope a greater effort is made to deal with. But our primary concern at this session, I believe, is with the unhappy market prospects which most commercial farmers have to look forward to during this decade. True, there will be short periods, as now, when some producers will take hope from modest price increases. But in the main, it appears that unless something is done about it, farmers will continue to adopt new technology and production will continue to be stepped up at a rate faster than markets are growing. This will act as a long run drag on prices.

We take it for granted that farmers will make their individual adjustments to prospects as they see them and as their resources and inclinations permit. In fact, most of us would say that this is the primary way most problems should be handled, if possible. But for a long time now, we have also recognized that there are many things which the private enterprise system and individual producers acting alone cannot do very well. The market mechanism simply is somewhat less than perfect in directing resources in ways which will satisfy social needs for everything. I suppose education, highways and conservation are among the best illustrations of this although there are many others. We use public funds to achieve desirable public goals and some refer to these expenditures as subsidies. But regardless of their name, they must continue to the test that a public purpose is being served which is sufficiently important to warrant this use. Tests appropriate to the market mechanism are often not relevant in making judgements about spending public funds.

Now in the case of agriculture there seems to be increasing concern and doubt about the wisdom of continued expenditures for the type of price support program we have known. There seems to be no end in sight, and consequently some doubt that money spent has been doing as effective a job as it might. In fact, it now appears that while our price support programs have done a reasonably good job of placing a floor under some farm prices, we have perhaps been lulled into a false sense of security and were not until recently made fully aware of the ominous developments which foreshadowed the supply problems of the 1960's. So we find ourselves now in a situation where a public is becomingly jaded with continued discussion of agriculture's problems while at the same time the prospective magnitude of these problems is on the increase.

Agriculture's market problems are important both on the selling and the buying side. But perhaps we shrug our shoulders at the prices farmers pay since there seems to be so little we can do about them. Agriculture's production expenses increased more during the fifties due to price increases than due to increases in the amounts of production items used. Inflation in the nonfarm economy is terribly important to farmers. It used to be that farmers would gain with inflation, but this doesn't seem to be true any more. So long as agriculture's supply potential is not checked, this divergent tendency of prices and costs probably will continue.

An integral part of the growth of farm technology is the increased reliance by farmers on nonfarm supplies of raw materials to make this revolution a reality. Machinery, fertilizer, antibiotics and all the rest are key elements in keeping our agricultural plant going at its increasingly rapid rate. But while this nonfarm economy of ours is subject to many of the same kinds of economic forces as agriculture, it has been able to achieve a form of economic organization which, in the aggregate, does a pretty good job of setting its prices at levels which will adequately cover costs and of gearing its production to levels which will clear markets at the prices which have been set. Businessmen think this is a sensible way to do business. But it also means that when farmers act in just the opposite way, that is produce about all they can without gearing their production to the size of the market a prices they want, we have the cost-price squeeze continuing. Businessmen just can't understand why farmers continue to turn out these immense volumes of food and fiber and sell them at prices which farmers say won't cover their costs. This is just one of the reasons why there is less and less sympathy for farmers and the farm problem.

The fact is simply that in this country most people are eating as much as they want--and many of them perhaps more than they should. The demand for food in the United States is highly inelastic and getting more so every year. Higher consumer incomes will expand the demand for food in the ratio of about one or two in ten, in the aggregate. So what we end up with is that food demand in total is growing slowly, roughly in proportion to population growth and slightly as consumer incomes rise, but not much more than the combined effect of the two. Some factors may and are shifting demands among the several foods, but without much change in the total.

I think most economists agree that in this decade domestic demand expansion measures will not solve the farm problem--that we can't eat our way out of our farm problem at reasonable farm prices. Foreign aid programs like P. L. 480 can play an important role for certain key commodities, but most people would not regard this activity as being a permanent solution.

Now before these remarks on expanding markets are misunderstood, let me say that I have not suggested here that some demand expansion effort and work on industrial uses for farm products should not be made. Anything which these measures can do will be helpful, of course. But I believe that the probable benefits from this effort will be too little and too late to more than make a tiny dent in the overall supply and price problem which exists because of agriculture's potential to produce.

Where do we stand on this supply potential? The Department has spelled out in several publications what the best judgement of its technicians is on food production potentials during the next 5 to 15 years. In some of these reports they have also tried to project how food markets could be expected to grow. You have probably heard repeated reference to these in this series of meetings so I won't try to summarize them. In general they have concluded that farmers will continue to expand output too rapidly for quite a few years regardless of price prospects (see Senate Document 77). Lower prices may slow down the overall rate at which output expands, but it will take a long time for this economic wringer to have much effect on output.

In the face of these prospects what can a farmer do acting alone. For those who elect to stay in farming, or who have no effective means of getting out, their only way of contending with low price and income prospects is to try to produce and sell more. And this leads to precisely the wrong result. But farmers follow this course of action because they are price takers; because each one assumes he can sell all he producers at the going price. And until farmers get together and become more market conscious they'll probably continue this way.

So farmers have a long tradition of ignoring the price consequences of their actions. But in addition, many farmers believe that to produce all you can is the good thing to do. There's a certain mystic quality about high-level production. But the manager of a nonfarm business who produces without regard to the size of hig market and what can be sold at the price he has set is soon in trouble. It's about time this idea was applied to agriculture in dealing with the farm problem.

So the question we really face is this: Can we organize the way our agriculture works so that new technology can be introduced in it in an orderly way, but at the same time not lead to such a great increase in output that the market for all farmers is destroyed? I think it can be done and done in a democratic way. But only if farmers themselves are made fully aware of what it takes to do it and what the consequences are likely to be if they don't. And this, to me, is the big job the Extension Service must face up to in their role with commercial farmers. You people don't have to take sides, but you must know the facts and issues and be prepared to help farmers make an intelligent decision.

But it's at this point that some people start to gag. The philosophical implications of democratic group action in the market place seem to run counter to some of the traditions and values we have been taught were good. It's strange that group action to achieve social goals in the fields of conservation, education, and many other fields is widely accepted. But there seems to be some mystic notion that market prices are sacred, and should never be tampered with. This, of course, is nonsense. Prices are set by people like you and I, with all our faults, and manipulated as best they can to serve the self-interest of those who set them. Farmers have as much right as anyone else to set the prices at which they will sell the things they produce. But there are laws designed to protect the public interest which restrict collusive action in price setting. So any group action by farmers, of course, cannot occur without the concurrence of Congress in the form of enabling legislation, and inevitably such group action will be circumscribed by rules of conduct to protect the public interest.

So now how do we proceed to manage supplies of farm products reaching markets, to improve farm prices and incomes, and permit adoption of technology in agriculture without a perennial surplus hanging over our heads. There are two general approaches to the supply management problem. The one that we are most familiar with focuses directly on farm resources. Acreage allotments, the soil bank and acreage reserve, and land retirement are all names for supply management programs which focus directly on a farm input. These programs try to manage supplies by controlling one resource only. No one seems to have pushed the idea of limiting farmers use of fertilizer, new machinery, antibiotics or any of the other important production resources. In fact, some of these devices might be more effective than trying to retire land.

Currently the notion seems to be that an effective supply management job might be done by retiring 60 to 90 million acres, depending on who you listen to. Programs to do this might be voluntary or compulsory, and of course there seems to be more public appeal in the voluntary approach. But what has to be done to achieve land retirement in a voluntary way is to create a new farm enterprise called idle land. This idleness must be paid for at competitive rates. Such a program to increase the demand for land, of course, will help to maintain and even increase its value. But I have much doubt of the wisdom and continued public acceptability of this kind of purchased idleness. The compulsory land programs possibly would cost fewer dollars, but since some land retirement probably would have to be allocated to most farms in a democratically organized program, this would interfere with on-the-farm resource management decisions and lead to widespread reduction in production efficiency. It should also be noted that both the voluntary and compulsory land retirement approaches are probably quite crude devices, for there is little certainty that 60 million retired acres will be properly distributed among the several farm products and result in the right level of total output and the right product mix. I would call this the haphazard road to supply management. The treasury costs will be large with no end in sight. In a couple of years now, soil bank acres are coming back to haunt us unless this program is continued. So I'm less than enthusiastic about the land retirement approach as the major peg to hang a program on. But I'll be frank and say that there are some problem areas which pose such difficult problems that activate land retirement programs, in spite of their disadvantages, will have to play an important role.

Since I've now discarded most of the important alternatives, we should be able to see the virtues in the approach which makes most sense to me. This is the use of programs for direct management of market supplies.

I suppose Willard Cochrane of Minnesota and George Brandow of Pennsylvania have studied the implications and ramifications of this approach to the problem more than anyone else in the colleges. My study of it has been primarily in terms of its possible application to milk. There is no single blueprint which everyone refers to in describing this approach, and everyone who has given it any thought will have some pet idea to push.

What are the essentials of this approach? To paraphrase Cochrane, it is the conscious adjustment of supply to demand, commodity by commodity, year after year to yield prices in the market that have been determined as fair by some responsible agency. This implies an institutional framework of controls to limit marketings, with approved national supply levels translated to individual producers. And it further implies that such supply management programs which are started will proceed only after a sufficient majority of producers have approved the proposal, and conversely, that a sufficient majority of producers can dissolve a program, once started, if they choose.

How this basic set of ideas will be implemented in formulating a program for specific commodities will depend of course on such things as the nature of the commodity, arrangements under which it is marketed, the desires of producers and perhaps many other factors. But to get it started, established producers would probably be assigned bases which would reflect their recent history of production. Through a process of hearings and presentation of evidence during which views of producers and others would be presented, some designated agency would announce a tentative decision on next year's price goal and the approved market supply consistent with this goal. Producers probably would vote to approve or disapprove this tentative decision before it could finally be adopted. If the approved market supply amounted to a 5 per cent reduction below the total of the national base, each regular producer would be entitled to market 5 per cent less than his individual base and would be issued marketing certificates in this amount. These marketing certificates would be surrendered to handlers when farmers market their product.

The program mechanics thus far might be even simpler than those involved in acreage allotments. Furthermore the base and marketing certificate constitute a formal limitation on market supply and not the indefinite limitation implied by an acreage allotment where a producer can market everything he can squeeze out of his allotment.

How would the price goals be achieved? Since handlers would now be bidding for supplies which were below what they would be without the program, the enhanced bargaining position of most farmers should bring higher prices. But producers and their cooperatives would still have to bargain for what they get. But now they would be bargaining from a position of strength, not weakness. It would be desirable for the price goals to be backed up by firm price guarantees which were, say, no less than 95 per cent of the price goal. The agency should be prepared to purchase the commodity at this guaranteed price if necessary, or if more convenient, to make direct payments to producers representing the difference between the average price received and the guarantee.

Suppose a milk producer had real good pastures. What would he do with the extra milk? This would depend on what kind of program producers had approved for themselves. The program might prohibit marketings without certificates. In the case of excess wheat, Canadians do not permit it to leave the farm. But it would be possible to devise arrangements which would permit marketing of excess production subject to specified penalties or fees. This latter course makes some sense to me, but it should be emphasized that if the penalty on excess marketings is not severe enough, this feature could greatly weaken the program. The money collected through such fees on excess marketings could be used to finance purchases made by the agency in support of prices, or in making direct payments to producers of non-storable commodities whose prices were below the guaranteed level. This penalty on surplus would bring home to each farmer the full price consequence of supplying the market with more than is needed.

If marketing certificates could be transferred among producers, those farmers having a poor crop could sell unused certificates to those with excess production. Thus there would be an element of insurance in the program.

Any program involving producer bases, if it operates very long, soon runs into the base transfer problem. This has been true of the acreage allotment program and it would be true of a program involving market bases. In the allotment programs it has been solved by tying the base to the land and permitting bases to transfer when title to land is transferred. Certain inefficiencies have developed where bases have been tied to the land and these should be avoided if possible.

Under the direct market supply management programs, producer bases probably would be issued only once and that would be the end of it. A producer wishing to acquire new or additional market rights would have to purchase them from base holders who retire, shift to other production or from estates. If the fees on marketing excess production were used, there would be no prohibition on marketings, so a farmer could produce and sell at the surplus price. But there is no need to weaken the program by issuing new bases. As population and national demand grows, the expanded market would be allocated pro-rata among existing base holders by issuing more marketing certificates.

Since there are sound reasons for believing efficiency in agriculture would be promoted if rather easy base transfers among producers were permitted, most economists suggest that if a base holder wished to sell his base to someone else, he be permitted to do so. Ordinarily a farmer would sell his base when he sells his farm. A dairy farm without a base would not be worth much. But when a farmer transferred a base separately from his farm, this would generally mean he was shifting into some other line of production or perhaps going out of farming. Permitting such base transfers allows some of those who wish to expand to do so and thus tend to promote efficiency in production. As population shifts, the geographic distribution of production can respond to this movement through the use of transferrable bases. This approach leaves farmers free to manage their own resources subject only to the marketing limitations.

The cost of a series of programs for direct management of market supplies is quite uncertain unless one is able to specify many of the program details. If you wish to make your own assumptions, you can make good ones or select some which will show this proposal in the worst possible light. I am convinced this latter course was followed in the report released by the Department in the heat of the recent campaign. Probably only the uninformed put much stock in it.

But in spite of the cost uncertainties, several points are worth noting. So far as administrative costs are concerned, it is doubtful that such costs would be much more--if any more--than present program administrative costs, especially when high costs of large volume storage are considered.

Now for the most important part of the cost, the non-administrative costs to the general public, the analysis is rather complex. One must consider several kinds of costs when comparing programs. These include (a) the flow of money payments from consumers through the marketing system to farmers which result from higher prices, (b) the flow on money payments from consumer through government to farmers for price support or direct payments, and (c) the costs to farmers and the public generally of wasted or inefficiently used resources which are the direct result of the program in question. Measuring the first and third of these is a very difficult matter. And in comparing the first and second, there probably will be important differences in how the burden is distributed.

There should be no question that the objective of the direct market supply management approach is to concentrate the costs in the first one of these by bringing about higher consumer prices for food, and to reduce to very low levels the costs of (b) and (c). Under this type of program, the price support program as we have known it would probably be reduced to negligible proportions after a few years, except for wheat. And instead of reducing efficiency in production as many of the alternatives do, this approach would promote it.

If producers could be satisfied with a program which offered them some hope for price improvement in the face of the difficult and prolonged supply problems which lie ahead, I can't think of any major food except wheat where it would be necessary to cut back production in getting such a program started. Programs in which marketings were held to this year's level for a couple of years or so would result in gradual price improvement for most commodities.

It probably would take enabling legislation to start such programs. Perhaps the simplest procedure would be to amend the Agricultural Marketing Agreements Act of 1937 by expanding coverage of commodities and permitting limitations on marketings.

But if legislation were adopted to permit this approach, it doesn't seem likely to me that there will be a mad rush among producer groups to develop programs for every commodity. If this approach is tried, it may very well start slowly. In the first place, this approach represents a departure from programs which farmers are familiar with. There is an educational job to be done before farmers would even be in position to make an intelligent decision about this or some other alternative. Secondly, there are alternatives to be considered. The present price support programs, where they are in force, do give some price protection and many farmers would rather not rock the boat in hopes this will continue. Unless farmers really feel they will be confronted with reduced price supports and see little or no hope for price improvement without positive action, my guess is that there will be few who would choose this route. At the same time, if farmers are led to believe the public will be willing to pay for enough land retirement to raise hopes for the future, I suspect they will choose this as the easy way. But if farmers fail to choose this direct market supply management route through ignorance of this as an alternative or through lack of knowledge of their probable supply problems in the next few years, then you must feel some responsibility in the matter. I'm confident that your feeling of responsibility to farmers will lead many of you to inform yourselves of the merits and shortcomings of the several alternatives and make this information available to farmers.