SPECIAL BULLETIN

GRADUATE SCHOOL - U S DEPARTMENT OF AGRICULTURE

LECTURES ON FARM POLICY

October 6.....STIMULATING FOREIGN TRADE
Homer Brinkley, Executive Vice President
National Council of Farmer Cooperatives

October 20.....ADJUSTING FARM PRODUCTION
Frank Welch, Dean and Director
University of Kentucky

November 3.....DEVELOPING DOMESTIC MARKETS
A. C. Hoffman, Vice President
Kraft Foods Company

November 17.....PROVIDING RESEARCH AND EDUCATION
Clifford M. Hardin, Chancellor
University of Nebraska

November 24.....ASSISTING LOW-INCOME FARMERS
Erven Long, Department of Agricultural Economics and
Rural Sociology, University of Tennessee

December 1.....FARM POLICY IN RELATION TO GENERAL ECONOMIC POLICY
J. Kenneth Galbraith, Department of Economics
Littauer School, Harvard University

December 8.....A POLITICAL SCIENTIST'S ANALYSIS OF ISSUES IN AGRICULTURE
Charles M. Hardin, Department of Political Science
University of Chicago

PLACE: Thomas Jefferson Auditorium, South Agriculture Building
TIME: The lectures will begin at 4:00 p.m.
ADMISSION IS FREE OF CHARGE

LECTURE COMMITTEE

Frederick V. Waugh, AMS, Chairman
Philip F. Aylesworth, Office of Sec'y
Karl A. Fox, Council Economic Adv.
Sherman Johnson, ARS
Richard H. Roberts, FAS
Murray Thompson, CSS
Walter Wilcox, Library of Congress
Don Paarlberg, Assistant to Sec'y

NATIONAL COUNCIL OF FARMER COOPERATIVES
744 Jackson Place, N.W.
Washington 6, D.C.

(10-4-54)

STIMULATING FOREIGN TRADES*

By
Homer L. Brinkley
Executive Vice-President
National Council of Farmer Cooperatives
Washington, D.C.

It is heartening to see a body such as yours show sufficient interest in some of the problems of our international trade in agriculture to include the subject in your program. We have been greatly in need of increased interest on the part of such people, active as you are in research and the part of science in the solution of our many problems in this complex industry of agriculture.

It has been particularly true that in foreign commerce we have long needed the searching skill of the researcher. Those trained to examine, reject or accept on the basis of facts and facts alone, can add much strength in an area too long susceptible to influences more related to international politics and balances of power rather than balances of trade.

It is no longer good enough to say that since the problem is difficult, only the political experts can be expected to cope with it. Few subjects exceed in apparent complexity that of international trade, yet it is a subject in which every person in America has an interest, even though it may be indirect. It is related to the problem of sound balance within agriculture, and thus sound balance between the various segments of our economy. It is bound up in our relations with other countries, and with their economic and political well-being. The prosperity of farmers in this country is directly involved, and in that prosperity all the rest of the nation has a sizable stake.

The situation in which we find ourselves today, characterized in part by heavy surpluses of some commodities, various types of government control and support programs, and declining purchasing power on the part of farmers, all may be related in

* Address before the Graduate School, U.S. Department of Agriculture - Lecture Series, October 6, 1954

a greater or lesser degree to the impact of what is happening in other parts of the world now, what has happened in the recent past, and what may happen in the future.

It is a matter of record that the farmers of America performed unbelievable feats of production during the past war. The end of hostilities was quickly followed by the Korean war which again resulted in the necessity of maintaining an expanded production. With the post-war period there developed a set of world-wide circumstances which are still having, and will continue to have, repercussions on the farms of America. Among these situations was an expression of the war-time fears of famine and starvation. This took form in efforts throughout the world to expand the production of farm commodities. Much of this production was uneconomic and foreign to the experiences of farmers in the nations concerned but there was a widespread determination to take no chances with continuation of the great scarcities so recently experienced. We have, therefore, a world-wide trend toward self-sufficiency in production of food and fiber. As production expanded, many countries found themselves with stocks of commodities in excess of their effective domestic demand and thus became immediately interested in finding export markets whenever and wherever they could. This kind of expansion can be attributed in no small degree to high war-time price levels, the umbrella-like effect of our American price support programs, and the public policy we have assume of acting as a residual supplier. Thus there developed cut-rate competition in many parts of the world to our own agricultural products which we continued to produce in surplus and which we still produce in surplus; and which were isolated from world markets by a foreign policy that protected foreign production until their stocks were disposed of.

It is not only difficult but impossible for farmers to expand or contract production by pushing buttons and pulling levers. The crop and animal cycle is a slow one, and, added to the physical difficulties, there are the economic difficulties of reduced gross income when agricultural production is curtailed, and farm capital and operating costs remain high.

This then has given rise to the developing of various types of agricultural legislation, and the controversies in connection therewith have provided a never failing

source of sharp discussion not only for our commentators but also our politicians, our economists, farm organizations and farmers themselves.

It would appear that we have two basic but different problems in agriculture. The first relates to the short-term aspects of "what do we do to bring production more nearly in line with demand in the immediate future?", and second "what do we need to do in order to permanently expand our agricultural markets, develop potential markets, and keep agriculture as an equitable factor in the kind of dynamic and expanding economy on which the future of this country and the rest of the world rests?".

That is not to say that in tackling the short-term problem we are to be concerned only with production controls and the adjustments that are to be made within agriculture as between the various commodities. In that testing ground we should be concerned with laying the foundation for grappling with the second and more difficult problem. Adjustments should be made not only in production as we are attempting to do, but in the development of markets in a highly competitive field, and in working out the kind of program, based on competitive pricing, that will stand us in good stead as we reach into the more important area encompassed in problem No. 2.

It should be said that important steps have been and will be taken toward the short-range adjustments in production and market expansion. In the marketing field, for example, we have new domestic legislation which will greatly strengthen our Foreign Agricultural Service in the Department of Agriculture. Market experts are being brought in, and our agricultural attaches in foreign countries are being reoriented to the problems of marketing and distribution rather than production and the accumulation of statistics, except as they may have an impact on distribution. This will help pave the way for concentrated efforts of private industry in the marketing field.

It is heartening to see that those national and international agencies which have been devoting much of their time and effort toward the simple expansion of production, without regard to its economic utilization, are taking a new look at the problem and are apparently coming to the realization that ill-directed expansion of

production can be worse than none at all in certain fields. We apparently have concluded in this country that if we are to compete in a competitive market, we must start with competitive pricing, and a significant policy change along these lines has been recently established in our government with respect to certain of our commodity holdings.

Under the Agricultural Trade and Development Act, we are able now to sell our surplus commodities to other countries for their own currency, with that currency then to be used largely for foreign economic development, which, it is believed, may well result in tremendously expanding outlets for our production as it contributes to the economic growth and development of those countries, increasing as it will their purchasing and consumption potential.

Other legislation permits our surpluses to be used to aid the people of friendly countries and to relieve famine and distress in many parts of the world.

We can now exchange our surpluses for strategic raw materials to be added to our defense stock-pile. With growing needs for such materials - especially in periods of political stress, matched against growing shortages in this country - such a program acquires increasing realism.

We are taking a constructive approach in re-examining our tariff classifications and regulations with the objective that they may eventually be modernized and adjusted to market realities and thus facilitate our importation of needed commodities in this country and, at the same time, add to foreign purchasing power.

We are becoming more alert to the problems which confront foreign producers in getting their products into our market on a competitive basis, and, increasingly we are urging that they must adopt the same kind of selling methods and quality standards which our own people must meet, if they expect to find markets in this country. We should urge too, that their own best interests will be served by competing on grounds other than at the expense of their labor force.

These are given only as illustrations of the increasing attention and constructive efforts being exerted in the international trade field and which we believe will be of increasing usefulness in the solution of our short-term problem and provide

valuable blue-prints for the long pull.

As we move into some of the problems involved in expanding our international trade, we are confronted by an almost incomprehensible maze of foreign restrictive policies of every kind and description. These have had their growth in many directions and for many reasons. We mentioned earlier the urge for expanded production throughout the world, and this, in turn, has contributed in considerable degree to widespread policies of protectionism and nationalism. These policies have been expressed in bilateral trade preferences, quotas, multiple exchange regulations, taxes and various other aspects of protection. Before criticising some of these devices too severely, we need to recognize that the reasons given in many instances are precisely those we gave in this country back in our early days as a nation and often much later. The need for protecting infant industry, for example, is one about which we will hear a great deal as country after country moves to expand its industrial complex.

Inconvertibility of currency is another major road-block to the kind of multilateral trade we knew in the past, both in agriculture and in manufactured goods. One of the side-lights to the problems of inconvertibility of currency has been the desperate effort to establish "convertibility" of commodities, which has given rise to various complicated types of "switch" transactions - barter, bilateralism, etc.

Dollar shortages, too often resulting from an unbalanced internal production economy, and from unwise monetary and fiscal policies, have been also a major obstacle to the exportation of goods from America.

Of no smallconcern to the exporter of United States agricultural products is the almost universal desire on the part of people of other countries to obtain our highly advertised and attractive processed consumer goods, and one of the contributing factors to the dollar shortage in many countries has been the use of available dollar exchange for articles such as these rather than for raw agricultural commodities or for capital goods which might well have been used to expand and diversify productivity of country after country all over the globe. Dollar shortages actually are a lack of balance between demand for goods and the earning power to pay for them.

One of the greatest problems in the entire field is that of the so-called "one-crop" or "one-industry" country, where for generations its economy has been grounded in a single commodity, or a relatively small group of raw materials. Many of its commodities found their primary market in this country, and, during the war and post-war periods, we developed an insatiable demand for them. Rubber and tin can be cited as examples which have since found declining use, and also prices, in this country as we moved from a war-time to a peace-time economy, with consequent decrease in the foreign supply of dollars to buy back our products.

One very disturbing and perplexing element in international trade has been the expansion of state-trading, which, if carried to its ultimate extreme, would result in some very unfortunate aspects, so far as even our own country is concerned. We hold the conviction that trading, both domestic and foreign, can most effectively be done by private industry, which has only one purpose in mind which is the maximum exchange of the world's goods on an incentive basis, and that incentive is profit. State monopolies, on the other hand, are used for carrying out programs of government aid, controlling consumption, providing public revenue, and in keeping with the political purposes of the state generally rather than of the individual.

Most of the illustrations used above are the evidences of, rather than the reasons behind, declining or static international commerce. From a long-time point of view, maximum foreign trade in all types of products, depends in great measure on productivity and greater per capita production. This is the foundation for greater purchasing power on the part of the individual, for increased savings and capital formation, and for placing the products of the world into the markets of the world on a competitive price basis. Any restrictions growing out of limited general productivity must affect adversely the volume, the price, the source, and the exchange basis of both agricultural and industrial products which can be sold in world markets.

One of the most disturbing situations until recently has been the narrow approach which our national foreign policy has taken with respect to the solution of many of our difficulties in foreign trade. Far too much has been said and done about

various aspects of tariffs, tariff regulations, and the level of tariff when, as a matter of fact, under modern conditions in most countries, the tariff may be one of the least of the difficulties involved. Even in tariff negotiations, we have invariably been so concerned with our own guilt as charged by other countries, of having led in establishing high tariff walls in years past, that we have been more concerned with reducing our own tariffs than in establishing a sound quid pro quo for general tariff adjustments. This guilt complex has extended in other directions and it is one which can do our nation great disservice if long continued. Guilt complexes lead to defensive attitudes, but in the field of international trade, no less than in the field of war, the situation calls for an aggressive attitude, and one in which we seek to play our part in full measure in correcting, not only such of our own general deficiencies which really need adjustment, but in insisting that other nations correct their own. For example, in the important field of convertibility of currencies, it would appear that up to fairly recently, we have spent far more time in thinking about superficial programs designed to furnish unilateral guarantees of currency convertibility than we have in trying to point the way to other countries as to how they might bolster their own economy, establish sound fiscal policies, and assume their own share of responsibility in establishing an economic basis for currency convertibility and thus facilitate the interchange of goods.

We take a defensive attitude with respect to our own import quotas under Section 22 of the Agricultural Adjustment Act, which enables us to establish regulations against the importation of certain farm commodities with which we are well supplied domestically, in order to protect domestic price and income of farmers in this country. As a matter of fact, when we have failed to render such protection, the U.S., under its program of price supports, has found itself in a situation of drawing off supplies badly needed in other parts of the world to augment supplies which we could not possibly use ourselves. Cynical sabotage of the principles of Section 22 could well result in our becoming the store-house for many of the surplus agricultural commodities of the world along with our own. Our policies in this connection should be explained and the reasonableness of them justified.

We have taken a non-aggressive attitude with respect to the protection of private risk capital and investment funds in foreign countries, and have attempted to develop, to a considerable degree, domestic methods of protection and guarantees rather than selling foreign countries on the benefits to them of investment capital, and instilling a desire to provide such protection as would attract and hold capital. We have failed to move decisively in advancing a program for private investment, and only recently have we begun to make aggressive motions in that direction. It is recently estimated that American business needs to invest about $2 billion abroad every year to keep our exports at current levels. Such investment now comes to about $750 million in new capital. To make up the difference the Government, through various agencies, is supplying $1.3 billion - mostly in loans - to the western world.

We would urge, therefore, that in those areas where our approach has been negative that we become positive and aggressive - not only in our own self interest but in the interest of helping where we can to promote and expand the general world economy. Such a policy would cost less, rather than more, of the taxpayers' money which we have dissipated in so many countries of the world. Public money alone is not the answer and never will be the answer.

There is room, however, for much optimism as we view some of the long-term aspects of international trade. Significant progress and marked improvement have been made in many directions. In mid-year of 1954, taken as a whole, foreign countries had $8 billion more in gold and dollar resources than they did in 1949. Unfortunately much of these resources is sterilized in foreign treasuries and transactions exclusive of America to bulwark their reserve operations, and trade with other countries rather than entering the stream of United States commerce.

There has been some degree of liberalization in trading on some agricultural products with non-dollar areas. A recent resolution of the Council of Ministers of the OEEC countries urged the removal, as soon as possible, of restrictions imposed upon member countries on dollar imports. These countries are also substantially liberalizing trade with one another. Budgets are more nearly balanced in these countries than in recent years and there has been an improvement in the soundness of their

currencies. Basis for free convertibility of currency has been laid in important trading countries. Rationing of goods has been almost completely eliminated, and steps have been taken in many countries to return trade in agricultural products to private traders.

A world-wide movement is gathering momentum toward greater industrialization and diversification, particularly in under-developed areas. Latin America is on the march. Substantial economic progress and industrial recovery has taken place in the more advanced countries. A steady increase in the population of the world is taking place, and there has been a marked growth in the desire for a higher plane of living everywhere. Based upon this broad foundation of improvement, it would seem that the time is ripe for aggressive movement in many directions to capitalize on the progress already made and to extend it still further.

We are convinced that now is the time for the adoption of greater export sales and promotion programs by agriculture. Food, feed and fiber products must be as aggressively marketed as automobiles, electrical equipment and other consumer goods.

We must use the facilities of commercial credit, and, where trading through governments is involved, the facilities of the Export-Import Bank to extend longer credits in order to meet trade competition.

We must, it seems, be thinking seriously about more competitive pricing, and be guided in our production, to a greater extent, by market signals and incentives rather than by government edict.

There is evidence of serious deficiency in our methods of insuring the quality of our goods on arrival at foreign ports. To build trade, exporters in agricultural commodities must lean over backward to be sure that foreign importers get as good or better than they specify.

We must maximize the use and opportunities of private industry in foreign trade even though for some time we must lean on the various aids established by our government.

It is apparent that in many of the under-developed areas of the world their principal reliance for the time being must be on the exportation of raw materials. It

would certainly seem to be logical to exchange many of our farm commodities that are perishable and involve high storage costs for strategic materials which are non-perishable and can be cheaply stored.

Many countries could make more productive use of our agricultural commodities than they could of our dollars in foreign aid programs of various types, and possibilities in this direction should be closely examined.

We need to intensify research on foreign market development and consumer preference in foreign countries, and our own farmers and agricultural traders must see that these preferences are respected and satisfied, and particularly what improved preferences and expanded demands can be developed.

Instead of promising more and more tariff reductions we should, in turn, urge on prospective sellers of goods from other countries to us, that similar research be done in our market preferences and ways and means of meeting legitimate competition in this country. We have done many countries a grave disservice in constantly harping officially on tariff adjustments as the key to our markets, rather than concentrating on the necessity for exploring and meeting market needs by modern methods of production and marketing. As a result, too many have relaxed and waited to see what we were going to do to put their products on our markets.

In certain countries of the world, industry is characterized, and has been for generations, by a philosophy geared to low wages, protected markets and high per unit profits. In contrast, our own economy has been built upon the foundation principle that the best market for the products we make is the people who make them, and we have developed over the years low per unit costs, low per unit profits, high wages, maximum competition and maximum consumption. By no stretch of the imagination can a foreign competitor using antiquated methods of production and distribution, hope to match modern competitive methods developed in mass-production enterprises of this country, by tariff tinkering and preferences. More than that, we can not afford to allow our economy to be reduced to the lowest common denominator of all the countries which trade with us. Rather, we must help raise the level of their economy closer to ours.

At the very top of the list of the kind of aid we might extend, in our own enlightened self interest, to foreign countries, is that of private capital investment - particularly in the under-developed areas of the world. In these areas, characterized by low productivity and low individual consumer power based on a "one-industry economy," usually confined to primary or raw materials, there has been little or no opportunity to develop the great ameliorating middle-class, such as we have in this country, having the capacity to accumulate savings and thus establish a broad diversified economy able to develop the economic potential of the country and of its people and resources and extend its benefits. As a result, there has been little or no comprehension of the benefits to be accrued from private capital investment, and this, in turn, has led to increasing reliance on government when capital is required. This then tends to create the socialistic chain of government capital, government marketing and distribution, government control, and even government production in some degree, and the liquidation of the middle economic classes. We would suggest, therefore, that those seriously and deeply concerned with the problems of international economic development and trade, examine ever more closely the various politico-economic aspects of private investment and its proper use. Programs of self-help based on sound incentives and geared to proper national interests and potentials would go far to belie the charge of economic colonialism which many countries fear may replace the political colonialism from which they have so recently emerged.

Coupled with private investment of necessity will be the export of management and production know-how, and training of workers and supervisors in technical skills and marketing.

This will involve far more activity on the part of our own appropriate government departments and industry itself, in promoting the kind of indigenous management knowledge and understanding conducive to the use of risk capital, both domestic and foreign, and in explaining the kind of economic climate that will be necessary both to attract and expand its use. Particular emphasis should be laid on the necessity for internal protection by the importing country of capital invested rather than too

much dependence on insurance or guarantees by our own country. Exchange of information and the necessary research into various incentives which might be attractive to risk capital, should be explored jointly. Programs of such nature should be sharply defined as to their non-military character and objectives.

Our own internal tax structure should be adjusted so as to provide proper and sound tax benefits and incentives to investors from this country to meet the needs for investment in foreign development. While these should not be so attractive as to drain our own country of needed capital funds, the situation in the receiving country should be such as to encourage and promote retention of earnings to induce and promote the orderly expansion of investment by the plow-back system which has characterized the expanding economy of this country.

It would seem also that, rather than relying on the General Agreement on Trade and Tariff (GATT), there might well be established a different approach. GATT appears to be more concerned with haggling over the vehicles of trade restriction than in attempting to promote more trade and a sound balance by methods other than tariff tinkering. Its further usefulness is in grave doubt, to say the least, except as it might serve as an international forum for the exchange of views and opinions as a more fundamental approach to the solution of trade problems.

The regulation and control of United States foreign trade is vested in the Congress by the Constitution and should remain there. As a proper vehicle for a sound and broadly comprehensive approach to our foreign economic problems, we suggest the formation of a Foreign Economic Board. After establishing policies governing foreign economc relations, (and parenthetically we think, sound economic relations would quickly lead to sound political relations), the routine administration of our foreign economic policy should then be delegated to such a Board. This organization should be made up of the Secretaries of State, Treasury, Commerce, Agriculture, and Labor, and the Chairmen of the U.S. Tariff Commission and the Federal Reserve Board, the President of the Export-Import Bank, and the American director of the International Bank for Reconstruction and Development. Representatives of private finance, manufacturing, distribution, agriculture, and labor, chosen for their interest and

knowledge of foreign trade and investment, should also be included. Instead of haggling over the barter of economic for political favors, the sound approach for such a board would be to negotiate and direct treaties of investment, commerce, navigation, and friendship, country by country on a quid pro quo basis, including various phases of fundamental economic policy such as investment, currency convertibility, internal monetary policy, and inter-related aspects. The multilateral aspects, which are important, should then be extended likewise on the basis of quid pro quo concessions of equitable and substantial nature, not merely on paper. Its objectives should be to foster and promote equilibrium in the economic development of friendly nations as a basis for balanced trade relations with the U.S. and among themselves. The result would be to promote economic exchange and trade of products as a factor therein, and the importance of such factors as quotas, escape procedures, exchange regulations, fees and duties, and preferential treatment would fade as progress is made in establishing a sound economic base for world-wide production and trade. Foreign trade always flourishes among prosperous nations, else they would not be prosperous.

Among the more pressing needs of our country is a scientific approach on a research basis into the problems, and the reasons why they are problems, of international trade. Upon such finding we can then begin to build solid solutions.

Among other pressing needs we should find some method by which we can put to a painful death the rash of slogans recently so prominent in trade discussions. Slogans such as "trade not aid" - "we have to buy if we expect to sell" - "trade is a two-way street" - are all meaningless except as by-products of a healthy world economy and they well may obscure the need for the kind of hard and painful methods by which they may be achieved, and also the inescapable fact which must eventually become obvious - namely, that the job is not ours alone.

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That is not to say that in tackling the short-term problem we are to be concerned only with production controls and the adjustments that are to be made within agriculture as between the various commodities. In that testing ground we should be concerned with laying the foundation for grappling with the second and more difficult problem. Adjustments should be made not only in production as we are attempting to do, but in the development of markets in a highly competitive field, and in working out the kind of program, based on competitive pricing, that will stand us in good stead as we reach into the more important area encompassed in problem No. 2.

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Inconvertibility of currency is another major road-block to the kind of multilateral trade we knew in the past, both in agriculture and in manufactured goods. One of the side-lights to the problems of inconvertibility of currency has been the desperate effort to establish "convertibility" of commodities, which has given rise to various complicated types of "switch" transactions - barter, bilateralism, etc.

Dollar shortages, too often resulting from an unbalanced internal production economy, and from unwise monetary and fiscal policies, have been also a major obstacle to the exportation of goods from America.

Of no smallconcern to the exporter of United States agricultural products is the almost universal desire on the part of people of other countries to obtain our highly advertised and attractive processed consumer goods, and one of the contributing factors to the dollar shortage in many countries has been the use of available dollar exchange for articles such as these rather than for raw agricultural commodities or for capital goods which might well have been used to expand and diversify productivity of country after country all over the globe. Dollar shortages actually are a lack of balance between demand for goods and the earning power to pay for them.

One of the greatest problems in the entire field is that of the so-called "one-crop" or "one-industry" country, where for generations its economy has been grounded in a single commodity, or a relatively small group of raw materials. Many of its commodities found their primary market in this country, and, during the war and post-war periods, we developed an insatiable demand for them. Rubber and tin can be cited as examples which have since found declining use, and also prices, in this country as we moved from a war-time to a peace-time economy, with consequent decrease in the foreign supply of dollars to buy back our products.

One very disturbing and perplexing element in international trade has been the expansion of state-trading, which, if carried to its ultimate extreme, would result in some very unfortunate aspects, so far as even our own country is concerned. We hold the conviction that trading, both domestic and foreign, can most effectively be done by private industry, which has only one purpose in mind which is the maximum exchange of the world's goods on an incentive basis, and that incentive is profit. State monopolies, on the other hand, are used for carrying out programs of government aid, controlling consumption, providing public revenue, and in keeping with the political purposes of the state generally rather than of the individual.

Most of the illustrations used above are the evidences of, rather than the reasons behind, declining or static international commerce. From a long-time point of view, maximum foreign trade in all types of products, depends in great measure on productivity and greater per capita production. This is the foundation for greater purchasing power on the part of the individual, for increased savings and capital formation, and for placing the products of the world into the markets of the world on a competitive price basis. Any restrictions growing out of limited general productivity must affect adversely the volume, the price, the source, and the exchange basis of both agricultural and industrial products which can be sold in world markets.

One of the most disturbing situations until recently has been the narrow approach which our national foreign policy has taken with respect to the solution of many of our difficulties in foreign trade. Far too much has been said and done about

various aspects of tariffs, tariff regulations, and the level of tariff when, as a matter of fact, under modern conditions in most countries, the tariff may be one of the least of the difficulties involved. Even in tariff negotiations, we have invariably been so concerned with our own guilt as charged by other countries, of having led in establishing high tariff walls in years past, that we have been more concerned with reducing our own tariffs than in establishing a sound quid pro quo for general tariff adjustments. This guilt complex has extended in other directions and it is one which can do our nation great disservice if long continued. Guilt complexes lead to defensive attitudes, but in the field of international trade, no less than in the field of war, the situation calls for an aggressive attitude, and one in which we seek to play our part in full measure in correcting, not only such of our own general deficiencies which really need adjustment, but in insisting that other nations correct their own. For example, in the important field of convertibility of currencies, it would appear that up to fairly recently, we have spent far more time in thinking about superficial programs designed to furnish unilateral guarantees of currency convertibility than we have in trying to point the way to other countries as to how they might bolster their own economy, establish sound fiscal policies, and assume their own share of responsibility in establishing an economic basis for currency convertibility and thus facilitate the interchange of goods.

We take a defensive attitude with respect to our own import quotas under Section 22 of the Agricultural Adjustment Act, which enables us to establish regulations against the importation of certain farm commodities with which we are well supplied domestically, in order to protect domestic price and income of farmers in this country. As a matter of fact, when we have failed to render such protection, the U.S., under its program of price supports, has found itself in a situation of drawing off supplies badly needed in other parts of the world to augment supplies which we could not possibly use ourselves. Cynical sabotage of the principles of Section 22 could well result in our becoming the store-house for many of the surplus agricultural commodities of the world along with our own. Our policies in this connection should be explained and the reasonableness of them justified.

We have taken a non-aggressive attitude with respect to the protection of private risk capital and investment funds in foreign countries, and have attempted to develop, to a considerable degree, domestic methods of protection and guarantees rather than selling foreign countries on the benefits to them of investment capital, and instilling a desire to provide such protection as would attract and hold capital. We have failed to move decisively in advancing a program for private investment, and only recently have we begun to make aggressive motions in that direction. It is recently estimated that American business needs to invest about $2 billion abroad every year to keep our exports at current levels. Such investment now comes to about $750 million in new capital. To make up the difference the Government, through various agencies, is supplying $1.3 billion - mostly in loans - to the western world.

We would urge, therefore, that in those areas where our approach has been negative that we become positive and aggressive - not only in our own self interest but in the interest of helping where we can to promote and expand the general world economy. Such a policy would cost less, rather than more, of the taxpayers' money which we have dissipated in so many countries of the world. Public money alone is not the answer and never will be the answer.

There is room, however, for much optimism as we view some of the long-term aspects of international trade. Significant progress and marked improvement have been made in many directions. In mid-year of 1954, taken as a whole, foreign countries had $8 billion more in gold and dollar resources than they did in 1949. Unfortunately much of these resources is sterilized in foreign treasuries and transactions exclusive of America to bulwark their reserve operations, and trade with other countries rather than entering the stream of United States commerce.

There has been some degree of liberalization in trading on some agricultural products with non-dollar areas. A recent resolution of the Council of Ministers of the OEEC countries urged the removal, as soon as possible, of restrictions imposed upon member countries on dollar imports. These countries are also substantially liberalizing trade with one another. Budgets are more nearly balanced in these countries than in recent years and there has been an improvement in the soundness of their

currencies. Basis for free convertibility of currency has been laid in important trading countries. Rationing of goods has been almost completely eliminated, and steps have been taken in many countries to return trade in agricultural products to private traders.

A world-wide movement is gathering momentum toward greater industrialization and diversification, particularly in under-developed areas. Latin America is on the march. Substantial economic progress and industrial recovery has taken place in the more advanced countries. A steady increase in the population of the world is taking place, and there has been a marked growth in the desire for a higher plane of living everywhere. Based upon this broad foundation of improvement, it would seem that the time is ripe for aggressive movement in many directions to capitalize on the progress already made and to extend it still further.

We are convinced that now is the time for the adoption of greater export sales and promotion programs by agriculture. Food, feed and fiber products must be as aggressively marketed as automobiles, electrical equipment and other consumer goods.

We must use the facilities of commercial credit, and, where trading through governments is involved, the facilities of the Export-Import Bank to extend longer credits in order to meet trade competition.

We must, it seems, be thinking seriously about more competitive pricing, and be guided in our production, to a greater extent, by market signals and incentives rather than by government edict.

There is evidence of serious deficiency in our methods of insuring the quality of our goods on arrival at foreign ports. To build trade, exporters in agricultural commodities must lean over backward to be sure that foreign importers get as good or better than they specify.

We must maximize the use and opportunities of private industry in foreign trade even though for some time we must lean on the various aids established by our government.

It is apparent that in many of the under-developed areas of the world their principal reliance for the time being must be on the exportation of raw materials. It

would certainly seem to be logical to exchange many of our farm commodities that are perishable and involve high storage costs for strategic materials which are non-perishable and can be cheaply stored.

Many countries could make more productive use of our agricultural commodities than they could of our dollars in foreign aid programs of various types, and possibilities in this direction should be closely examined.

We need to intensify research on foreign market development and consumer preference in foreign countries, and our own farmers and agricultural traders must see that these preferences are respected and satisfied, and particularly what improved preferences and expanded demands can be developed.

Instead of promising more and more tariff reductions we should, in turn, urge on prospective sellers of goods from other countries to us, that similar research be done in our market preferences and ways and means of meeting legitimate competition in this country. We have done many countries a grave disservice in constantly harping officially on tariff adjustments as the key to our markets, rather than concentrating on the necessity for exploring and meeting market needs by modern methods of production and marketing. As a result, too many have relaxed and waited to see what we were going to do to put their products on our markets.

In certain countries of the world, industry is characterized, and has been for generations, by a philosophy geared to low wages, protected markets and high per unit profits. In contrast, our own economy has been built upon the foundation principle that the best market for the products we make is the people who make them, and we have developed over the years low per unit costs, low per unit profits, high wages, maximum competition and maximum consumption. By no stretch of the imagination can a foreign competitor using antiquated methods of production and distribution, hope to match modern competitive methods developed in mass-production enterprises of this country, by tariff tinkering and preferences. More than that, we can not afford to allow our economy to be reduced to the lowest common denominator of all the countries which trade with us. Rather, we must help raise the level of their economy closer to ours.

At the very top of the list of the kind of aid we might extend, in our own enlightened self interest, to foreign countries, is that of private capital investment - particularly in the under-developed areas of the world. In these areas, characterized by low productivity and low individual consumer power based on a "one-industry economy," usually confined to primary or raw materials, there has been little or no opportunity to develop the great ameliorating middle-class, such as we have in this country, having the capacity to accumulate savings and thus establish a broad diversified economy able to develop the economic potential of the country and of its people and resources and extend its benefits. As a result, there has been little or no comprehension of the benefits to be accrued from private capital investment, and this, in turn, has led to increasing reliance on government when capital is required. This then tends to create the socialistic chain of government capital, government marketing and distribution, government control, and even government production in some degree, and the liquidation of the middle economic classes. We would suggest, therefore, that those seriously and deeply concerned with the problems of international economic development and trade, examine ever more closely the various politico-economic aspects of private investment and its proper use. Programs of self-help based on sound incentives and geared to proper national interests and potentials would go far to belie the charge of economic colonialism which many countries fear may replace the political colonialism from which they have so recently emerged.

Coupled with private investment of necessity will be the export of management and production know-how, and training of workers and supervisors in technical skills and marketing.

This will involve far more activity on the part of our own appropriate government departments and industry itself, in promoting the kind of indigenous management knowledge and understanding conducive to the use of risk capital, both domestic and foreign, and in explaining the kind of economic climate that will be necessary both to attract and expand its use. Particular emphasis should be laid on the necessity for internal protection by the importing country of capital invested rather than too

much dependence on insurance or guarantees by our own country. Exchange of information and the necessary research into various incentives which might be attractive to risk capital, should be explored jointly. Programs of such nature should be sharply defined as to their non-military character and objectives.

Our own internal tax structure should be adjusted so as to provide proper and sound tax benefits and incentives to investors from this country to meet the needs for investment in foreign development. While these should not be so attractive as to drain our own country of needed capital funds, the situation in the receiving country should be such as to encourage and promote retention of earnings to induce and promote the orderly expansion of investment by the plow-back system which has characterized the expanding economy of this country.

It would seem also that, rather than relying on the General Agreement on Trade and Tariff (GATT), there might well be established a different approach. GATT appears to be more concerned with haggling over the vehicles of trade restriction than in attempting to promote more trade and a sound balance by methods other than tariff tinkering. Its further usefulness is in grave doubt, to say the least, except as it might serve as an international forum for the exchange of views and opinions as a more fundamental approach to the solution of trade problems.

The regulation and control of United States foreign trade is vested in the Congress by the Constitution and should remain there. As a proper vehicle for a sound and broadly comprehensive approach to our foreign economic problems, we suggest the formation of a Foreign Economic Board. After establishing policies governing foreign economc relations, (and parenthetically we think, sound economic relations would quickly lead to sound political relations), the routine administration of our foreign economic policy should then be delegated to such a Board. This organization should be made up of the Secretaries of State, Treasury, Commerce, Agriculture, and Labor, and the Chairmen of the U.S. Tariff Commission and the Federal Reserve Board, the President of the Export-Import Bank, and the American director of the International Bank for Reconstruction and Development. Representatives of private finance, manufacturing, distribution, agriculture, and labor, chosen for their interest and

knowledge of foreign trade and investment, should also be included. Instead of haggling over the barter of economic for political favors, the sound approach for such a board would be to negotiate and direct treaties of investment, commerce, navigation, and friendship, country by country on a quid pro quo basis, including various phases of fundamental economic policy such as investment, currency convertibility, internal monetary policy, and inter-related aspects. The multilateral aspects, which are important, should then be extended likewise on the basis of quid pro quo concessions of equitable and substantial nature, not merely on paper. Its objectives should be to foster and promote equilibrium in the economic development of friendly nations as a basis for balanced trade relations with the U.S. and among themselves. The result would be to promote economic exchange and trade of products as a factor therein, and the importance of such factors as quotas, escape procedures, exchange regulations, fees and duties, and preferential treatment would fade as progress is made in establishing a sound economic base for world-wide production and trade. Foreign trade always flourishes among prosperous nations, else they would not be prosperous.

Among the more pressing needs of our country is a scientific approach on a research basis into the problems, and the reasons why they are problems, of international trade. Upon such finding we can then begin to build solid solutions.

Among other pressing needs we should find some method by which we can put to a painful death the rash of slogans recently so prominent in trade discussions. Slogans such as "trade not aid" - "we have to buy if we expect to sell" - "trade is a two-way street" - are all meaningless except as by-products of a healthy world economy and they well may obscure the need for the kind of hard and painful methods by which they may be achieved, and also the inescapable fact which must eventually become obvious - namely, that the job is not ours alone.

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FARM POLICY; SOME PROPOSALS FOR IMPROVEMENTS*

By J. K. Galbraith, 2 sep.
Professor of Economics, Harvard University

Farm policy, in recent times, has almost certainly been a source of discouragement to those who believe that, with thought and energy public problems, however intractable, can be made to yield, however gradually, to solution. There has been no time when discouragement was better justified than now. We have just come through another notably agonizing reappraisal of our farm policy. It began in early 1953 with a year-long study of our farm policy in which the men of most experience and knowledge in these matters were called upon for their views. The people in general, and the Congress in particular, were promised that the result would be a new and fresh approach to this old and tired problem. The Congress, at the same time, spared no effort to inform itself. It sought counsel and advice here in Washington. By travel it undertook to tap that unique source of wisdom which wise politicians know to exist at the grassroots. Then, during the last session of Congress we had full debate on the proposals offered by the Administration. Eventually these proposals, intact in broad outline, were enacted into law. Then to make sure that no important aspect of the problem had been missed, the whole issue was carefully reviewed in the recent election. Surely, as a result, something important was accomplished. Herein, it seems to me, lies the reason for the peculiar discouragement of the moment. Under the new farm bill we can reasonably expect to have all of the troubles that we had under the old one. Despite all of the effort, which all of us must applaud, it can fairly be said that no substantial problem of past farm policy has been solved.

II

The test obviously lies in the faults of the old program and what happened to them. There were many criticisms of the program that had been developed prior to the Agricultural Act of 1954. These ranged from the complaint that it did least for those farmers who most needed help to the conviction that it did things for all farmers that the government shouldn't do at all. Alternatively, it was believed to be working damage to the structure of the economy, the moral fiber of the farmers, or the spiritual fabric of the Republic which, although not yet visible, was nonetheless decisive. However, for testing the new farm program we can properly pass over those faults which are based on ideological preference or individual value systems or which are still hypothetical. Attention may be restricted to those shortcomings which are a matter of practical experience. Of these there would seem to be four which are of commanding importance. I venture to suggest that there would be a considerable measure of agreement on them. They are:

(1) The Surplus Problem. Repeatedly in the process of supporting farm prices the government, through the Commodity Credit Corporation, has been forced to acquire large inventories of products which it did not want, for which it does not have a plan

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*A lecture given before the Graduate School of the U. S. Department of Agriculture. December 1, 1952.

for handling and disposing, and which cost money to store, or, in some spectacular instances, couldn't be stored. Most recent Secretaries of Agriculture would undoubtedly identify the surplus problem as the worst of their woes under past farm programs.

(2) The Controls Problem. As surpluses became embarrassing under past programs, it became necessary to impose acreage allotments and marketing quotas. These involve a sizeable administrative apparatus and are otherwise unwelcome. While the experience is not entirely conclusive, it seems likely that, apart from tobacco and cotton, they present a serious dilemma. Either the controls are politically acceptable and not very effective, or they are effective and politically disagreeable. The recent experience with controls over diverted acreage and its abandonment suggests the nature of the difficulty.

(3) The Trade Problem. Under past programs, export products had to be subsidized if they were to maintain their place in world markets. Otherwise the supported price at home would gradually (or rapidly) retire the products from competition. Imports of products subject to the support-price program had to be limited by quota to keep the farmers of the world at large from taking advantage of American generosity. These export subsidies and import quotas were sharply in conflict with our general pretensions on trade policy.

(4) The Discrimination Problem. The past programs provided a large measure of price security for wheat, cotton, corn, rice, tobacco, and peanuts, slightly less for dairy products, some feeds and oilseeds, and no price security at all for most other products. As a result, a farmer could have his raw material (feed) costs pegged while his product was subject to the rigors of the open market. Products in substantial surplus, like wheat, had their prices pegged. Nutritionally more important alternatives or those which better served the ends of soil and water conservation -- the products of grassland agriculture in particular -- enjoyed less or no price protection. The question of whether a product would receive support depended not on logic but on history, politics, and the infinitely important detail of whether or not it would keep.

III

I have spoken of these faults in the past tense. It is the rigorous but, I think, fair test of the new farm program that it solves none of them. On two points there can be no argument. The discrimination between basics and non-basics (or storables and perishables) continues and no one suggests that anything is done to eliminate it. The effect on international trade continues: it is the fact of support prices rather than their precise level which necessitates export subsidies and import restrictions. That the supports are "flexible" will have no effect.

But the twin problems of surpluses and of controls also remain untouched unless, perchance, one is willing to embrace some rather breathtaking propositions in economic theory. The prospective reduction in prices under the new flexible supports is relatively slight. For the next two or three years it will be non-existent in the case of tobacco, nominal for cotton, and perceptible only in the case of wheat. (In 1955 wheat support prices will drop by 18 cents from $2.24 to $2.06 a bushel.) During the congressional debates, and more especially during the recent campaign, it was emphasized that no farmer would be "hurt" by the new program.

It seems likely that no one will be much hurt. And since there will be little or no pain there can be little or no effect on production. Even in the extreme case of wheat, no one can really suppose that eighteen cents a bushel will make much of an appreciable difference in output. We know that in agriculture the supply response to price reductions can be small, and that it is likely to be small or even negligible for products like wheat where product substitution in the important producing areas is at sharply increasing rates.

Nor is there any chance that such small or nominal changes in price will bring an appreciable increase in consumption. The surplus commodities are in general those for which demand is inelastic. An element of faith seems to lie behind the notion that the new program will eliminate or mitigate the surplus problem. However, as it has been truly said, faith without the requisite elasticities is not enough.[1]

If the new program offers no cure for surpluses -- if it does not affect these one way or another -- then the problem of controls also remains unsolved and untouched. If surpluses grow under the new program, administrators will still face the ineluctable choice between letting them grow still more, putting on effective controls which might put the administrators out of office.

So after two years of notable effort, all of the past problems of our farm policy are still with us. The farm program is still in conflict with the trade policy. There is still a severe -- I would myself say indefensible -- discrimination between different producers. The surplus problem is untouched. As a result, the need for controls remains and the dilemma they present is unresolved. This is why, I suggest, that this is a discouraging time in the history of farm policy.

In this gathering of civil servants there is no one, I am sure, who will have partisan objection to my analysis of the Agricultural Act of 1954 or who will derive partisan satisfaction therefrom. I suppose I could seem to be criticizing the Republican Administration which was responsible for the program under review. But if there is a clandestine Democrat within the sound of my voice, let me remind him that the faults which the Republican Administration failed to correct were the faults of a Democratic program.

IV

The reasons we have tried so hard and accomplished so little are instructive. Oddly enough, no effort was made to correct the faults of the past programs. These were ignored. Instead, the new program was designed around a goal which was deemed good and desirable in itself. Because that goal seemed good, it was taken for granted that progress theretoward would solve all problems. There was no reason to believe this, but it was believed nonetheless.

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[1] This discussion takes as given the level of aggregate demand. If during the next crop year, crop conditions being given, we should have a strong, domestic demand coupled with a good export market for wheat and cotton, then the surpluses will fall. This will be true with the new system of supports; it would have been true under the old. If during the coming year unemployment grows, domestic demand becomes increasingly anaemic, and foreign demand declines, then the surpluses will become more serious, whatever the level of support. The movement in demand, not the difference between flexible and rigid prices, will be of determining effect.

The goal was a nostalgic one. It was the traditional pricing arrangements of the free market. The notion that this market is the norm in economic policy is deeply imprinted on our minds. The economist, no less than the layman, falls easily into the habit of making apparent progress toward the free market the measure of economic wisdom.[2] That was the test that was implicit in the recent farm bill. It will scarcely be argued that the major motivation was the escape from the seeming artificiality of fixed or rigid prices for basic products back toward the seeming naturalness of prices that rose and fell with supply in the manner of the classical market. It was not possible to go all the way to the classical market for reasons that were economic as well as political. To have abandoned price supports for wheat, for example, would have caused not only an interesting political effervescence but it would have threatened a fall in farm income on the Great Plains, which even ardent opponents of price supports would not have contemplated with complete equanimity.

The case for or against the free market is not at issue here. I wish only to stress that steps, real or apparent, toward the free market do not solve the exigent problems of farm policy. Nor was there ever any reason to think they would. At any time in the last year or so a detached view would have shown that the remedial of the flexible prices, so far as our farm troubles are concerned, is approximately zero.

V

Our resistance to the lessons of experience in farm matters is extraordinarily high. Accordingly, we can have no great hope that much will be learned from the misspent effort and the disappointment of these last two years. One reason is that our approach to farm policy is now essentially theological. With Republicans, a few heretics from the wide spaces apart, flexible supports, however inflexible, are rapidly becoming a matter of faith. The Democratic Party now avows its support of ninety per cent with at least as much religious fervor as it opposes sin. The position of economists is not greatly different. Defense of the free market either as such or under the more sophisticated euphemisms of "the need to let relative prices do their job" or "the necessity for unimpaired resource allocation" has achieved the standing of a religious rite. (It is also increasingly what marks a scholar as honest, penetrating, forthright, responsible, competent, and decently conservative in his approach to economic policy.) These attitudes -- the notion that farm policy is the province not of economics but of canon law -- are not helpful when it comes to learning by our mistakes and our misfortunes. Misfortune, for the devout, calls not for introspection but for reaffirmation.

Still, if only as a purely intellectual exercise, we might contemplate the lessons of the recent experience. There are two of a minor sort which I might mention in passing. Before and after the election in 1952 and through much of 1953 there was considerable hope that we might find some marvelously new formula for solving our farm troubles. The President repeatedly expressed such a hope. We were told that the best minds were at work. As a result, something new as well as better would be forthcoming.

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[2] Cf. for example, Turning the Searchlight on Farm Policy (The Farm Foundation, 1952) and my commentary, "Economic Preconceptions and the Farm Policy," American Economic Review (March 1954).

As everyone knows, the program that finally emerged was very like the program of 1948 which was already on the books. This should have surprised no one. There was never a chance, and there is now none, that the farm problem will be solved by a new idea of breath-taking originality and brilliance. This is an area where social innovation is confined by social institutions. This means that the brilliant new idea must be consistent with our attitudes toward government, property, and the rights and immunities of individuals in general and of farmers in particular. Something in the way of precedent must be cited to show that the idea is not wholly hair-brained. All this being so — and no doubt it is well that it is so — the chance for a great new idea that will resolve our problems is nil or practically so. The farm problem will be solved, if at all, by the painstaking, and above all the objective, use of what we already know.

We must also be on guard against the habit of testing all proposals by whether they provide a perfect solution. The past farm program has been regularly impugned for the problems it creates. The surpluses, the controls, the interference with trade have been cited to prove that it is wholly bad. The efficient way in which this program cushioned the decline in farm exports since 1951-52 — a decline of no less than 54 per cent in the case of wheat in two crop years — is commonly ignored. Nor are the shortcomings balanced against the support that has been given to farm income and to the prevention of social tension and hardship in the farm areas. Nor do such critics observe that the past program has been one of the important built-in stabilizers for the economy at large.

Progress requires that we be better prepared than in the past to strike a balance between good and bad. We shall find few, if any, reforms which are totally good. We must learn to accept those for which the advantages outweigh the disadvantages. The fact that in repairing some shortcomings others are added is not decisive. The decisive consideration is whether there is a net advance.

But the most important lesson the recent past concerns the orientation of our efforts to reform and improve the farm program. If we are to make progress and if we are to be sure of making progress, we cannot organize our efforts around abstract goals. Free markets, uninhibited resource allocation, lessened reliance on price fixing, however much they excite our affection, are not a promise of improvement. Nor do firm, guaranteed, or rigid prices have intrinsic virtue or shortcomings. If we are to make progress we must organize our efforts around definite remedies for specific faults. Given the problem of surpluses, or controls, or discrimination, or trade we must start by asking ourselves, simply and directly, what measures will solve these problems and at what price in the form of other disadvantages. This means, of course, that we accept the principle of support to farm price and income. We address ourselves to ways of removing the oppressive problems which now arise in course of providing such support.

Until farm policy is approached in simple, non-theological terms such as these, I doubt that we will make any progress. Let me illustrate this approach in relation to the shortcomings of the past programs which unhappily continue under the Agricultural Act of 1954.

VI

Much of our present trouble obviously arises from the particular technique of support which we presently employ and which remains unchanged under the new legislation. The interference with foreign trade is the result of supports which prop prices above the world price. Moreover, it is in the course of propping prices that the government acquires stocks. This technique, therefore, is responsible for so much of the surplus problem as is associated with tovernment ownership of stocks. And since the feasibility or impracticability of government storage is an important cause of discrimination, the support technique also has a bearing here.

This means that a change in the support technique — the abandonment of props and the substitution of a method which would allow prices to find their own level and provide direct payments to bring them up to the standard (i.e., 90, 82 1/2, or whatever per cent of parity) would be a substantial reform. The trade problem would disappear. Since domestic prices would not be directly enhanced, the American exporter would be under no handicap and the domestic market would not be artificially attractive to the foreigner. Also, discrimination between storables and perishables would no longer be technically necessary; obviously the prices of pork or butter or eggs can as readily be supplemented by direct payments as the price of wheat or corn. Since government loans or purchases are not used to peg prices, the surpluses do not become the property and hence the peculiar responsibility of the Secretary of Agriculture.[3]

Meanwhile, the protection accorded to the farmer would be substantially the same. The payments would compensate for adverse movements in his terms of trade in times of declining aggregate demand — perhaps the major rationals of the farm price program — and the economic stabilization effects of the present system are preserved and possibly enhanced.[4]

These are formidable gains. However, not all problems are solved, and these are not undiluted gains. The incentive to produce remains unchanged, so presumably, the production will be as large as before. Large production of a product would manifest itself not in government purchases as before, but in low market prices and proportionately increased payments to give the farmer the guaranteed prices. In effect, migraine induced by a surplus problem moves across the Mall from the office of the Secretary of Agriculture to that of the Secretary of the Treasury.

Since the surplus problem remains, so does that of controls. To keep costs down, some way must be found to prevent the undue expansion of unwanted crops. There is a chance that the new technique of support would ease the control problem — for example, the supplementary payments could easily be denied to

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[3]The proposals submitted to the Congress in the winter of 1949 that came to be known as the Brannan Plan were narrower in their application and hence in their effect. Storable products would still have been propped under the Brannan Plan; only perishables would have had supplementary payments. As a result, the Brannan proposals would not have much affected the trade problem — most export and import products are storable — and government accumulation of storable surpluses would still have been required. Mr. Brannan's attack was, essentially, confined to the problem of discrimination as well as to the peculiarly difficult job of handling perishables like potatoes and butter where storage, though impossible or expensive, is nonetheless forced by Congress.

[4]The cost of sustaining farm income is shifted from the consumer to the Treasury which, in times of receding aggregate demand, means a large expansionist effect.

VIII

As noted, the problem of surplus cum controls remains. This is not surprising, for it has never been attacked. Were it once tackled, not as an exercise in social theory, but as a problem to be solved, the surplus question would also undoubtedly yield.

At the outset a distinction must be made between surpluses that are associated with a general deficiency in demand and those which are the result of a particular disequilibrium in a product or group of products. It is not too much to say that the problem can be discussed intelligently only in light of this distinction. In the past it has not often been made. Let me speak first of the general equilibrium surplus.

When aggregate demand in the economy falls we may expect an all-round redundancy of agricultural output precisely as we expect general unemployment of workers. Unlike unemployment, the concept of an agricultural surplus is not without ambiguity. It implies that more product is available than can be sold at prices the community regards as adequate. Obviously, the notion of what is adequate involves all sorts of subjective judgments. However, the fact that agriculture in the short run adjusts to declining demand with falling prices and industry with a curtailment of output means that the low prices (or growing government inventories) are the precise counterpart of unemployment in industry. The obvious long-run remedy for this type of surplus -- and very likely the only possible remedy -- is to repair the shortage of aggregate demand. The very tasks which this shortage of demand causes the government to perform in the agricultural sector -- the acquisition of stocks to support prices or the outlay of funds to supplement prices under the alternative arrangement here suggested -- help to remedy the general deficiency in demand. We should accept and even welcome these outlays as part of the counter-deflationary machinery of the modern economy. In principle, no measures of crop curtailment or control should be taken when general equilibrium surpluses appear. The practical situation may conceivably force exceptions but, as a broad rule, when farm surpluses are the result of depression the line of remedy runs to the depression and not to the surpluses. The only problem presented by the latter is how to live with them as gracefully as possible. Clearly the alternative support techniques here outlined will substantially ease this problem of surplus management especially for perishables.

The particular equilibrium surplus may arise even when the economy is functioning at full-employment levels. Some set of causes -- exceptionally high yields and production or a decline in foreign or domestic demand -- brings a greater production than can be sold at prices that are deemed adequate. This is the nature of the present surplus of wheat (and related cereals) of cotton, and of a limited number of other products. In the case of cotton the cause is the high upward elasticity of supply. In the case of wheat it is the decline in overseas demand following the earlier expansion to meet wartime requirements. This, it will be said by many, is the kind of surplus that should be eliminated by reduction of the price standard. There is certainly no universally defensible price standard. In the current case of wheat, levels by some standards of equity may well be "too high." Technological change has left the wheat parity marooned on a very high school. But as a device for surplus control, price reduction appeals greatly to those whose affection for the traditional outweighs their desire to be practical as well as to those who dislike on grounds of principle to see the farmer escape the punishment which the market is supposed to mete out to those who are caught over-producing. In fact, where the problem

over-quota production. By thus enforcing a sharp reduction in marginal revenue, enforcement on the specific crop would thus be made relatively simple. However, simple or not, a detailed control apparatus is still necessary, and in cases of severe disequilibrium it would still have to be unpleasantly severe. I shall have a further word on this presently.

VII

There are also some disadvantages from the remedy. In welfare terms, the cost of the alternative technique is no higher and may be lower. By directly boosting the price to the consumer, the present arrangement acts like a sales tax levied on the particular product. The consumer pays this tax. Under the alternative system the money would in fact be raised by the Treasury. When the price supplements were being paid as the result of a shortage of aggregate demand (i.e., a developing depression), this would involve no embarrassment, for it would be fiscally sound and desirable to allow the payments to increase the deficit. With demand at full employment levels, funds for any payments that might then be required should, in principle, come from taxes. This is unlikely to be palatable to Treasury and Budget authorities, although it can hardly be suggested that their preferences should be decisive.

There is also the possibility that farmers -- some at least -- will find the revised technique less palatable, although Hathaway's investigations in Michigan[5] as well as polls by Wallace's Farmer in Iowa suggest that this resistance is easily exaggerated. Under the revised technique, what the farmer regards -- in my view with justice -- as legitimate protection in light of his peculiarly vulnerable position takes the form of a wholly overt subsidy. In the Puritan ethos there is no such thing as a legitimate subsidy. If one must nonetheless be paid, how much better to have it out of sight. It is said that even the woman of easiest virtue likes to think of the money which she finds under the pillow as an earnest of affection.

Under the revised technique there is also a chance that someone will want to cut off the payments to large farmers. This can readily be done. The present technique of propping prices requires that they be propped equally for all. The justification for a farm program is that the uninhibited price system treates the farmer with rather more rigor than it does other groups, that, as noted, it exposes him to especially adverse movements in his terms of trade when aggregate demand falls, and that both farm and general welfare are served by mitigating these effects. If this be so, then the effects should be mitigated for large farmers as well as small. If it is sound social policy to discourage large farms that is a separate matter to be legislated and defended on its own merits. The defects of the revised technique can be partly overcome. The program could be given its own revenue source. The ideal would be a fund to be accumulated when prices are above the standard level. Payments to farmers could be made not by government check, but, in a more seemly manner, by way of buyers or processors and so added to the price. The intention to divorce the payments from discrimination on farm size could be strongly affirmed by Congress.

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of the particular equilibrium surplus is worst — in the case of wheat and cotton in particular — the elasticity of supply in response to price reduction is almost certainly rather low. And agrarian affection for price as a way of enforcing production curtailment is practically zero and intimately associated with voting attitudes.

The solution is not to attack cereals or cotton directly, which will accomplish little or nothing, but to put on a truly vigorous drive to shift resources to the livestock economy. In this effort we are jointly blessed by the much greater elasticity of the demand for animal products as compared particularly with cereals and their very much greater resource requirement per unit of nutrients provided to the consumer. Hence, in sharp contrast with wheat, a small decrease in the price of livestock products will bring a relatively large increase in consumption. And to get the equivalent calories in the form of animal products means a much more than proportional decrease in cereal production. It takes, we know, several times more acres to provide a person with a meat diet than a cereal diet.

However, to remedy the surplus in this way will require a strong reversal of present policy. The present policy favors the surplus products over those which offer the promise of remedying the surplus. Wheat, cotton, and other surplus products are produced with the advantage of a firm price guarantee; animal products either enjoy no such guarantee or, as in the case of dairy products, the guarantee is substantially lower. (A visitor from Mars would conclude from present arrangements that we cherished our over-production and our controls and sought only to keep the CCC in business.) The revision in the technique of support suggested above is essential for reform since the present method cannot be applied to meats and has grave disadvantages for dairy products.

But merely to eliminate the present discrimination against animal products is almost certainly not enough. A determined program for eliminating surpluses would go further and place a positive premium on animal products. By supplementary payments, dairy and poultry products, pork and (if cattlemen could be persuaded to go along) beef would be made profitable to the producer and attractive in price to consumers. Every market incentive would then exist for a movement of resources from the sector where they are an embarrassment to the sector where they can be accommodated with comparative ease. A small subsidy of livestock products would, in effect, be used to eliminate the need for a much larger and much less useful one for cereals, together with the accompanying controls.

However, a full-scale attack on the surplus and control problem would not rely exclusively on market incentives, however generous. Direct resource transfer payments would be offered to farmers who shift land from wheat to permanent pasture and from cotton to balanced-farming systems. (These should also be used for less important crops like apples and prunes which, otherwise, we subsidize year after year.) Also, the government credit agencies should be awakened to provide special credit up to a very large percentage of total requirements of farmers making the favored resource shifts.[6]

IX

I have no hesitation in saying that, given full employment demand, a determined attack could solve the problem of the cereal surplus — and the need for companion controls — within five years. Substantial progress might even be apparent by the time of the next election.

I would not wish to claim that the measures I have here outlined would "solve" all of the farm problem -- or more precisely the commercial farm price problem. There are disorders which I have not touched; no doubt we would be blessed with some new problems before the old ones disappeared. Yet it is evident that some of our worst problems will yield if vigorously attacked. Moreover, the solutions do not subject the farmer to the unreality of more extreme punishment by the market than he now experiences. Nor need the cost be great. Given full employment, the end product of the measures here outlined might well be a direct Treasury cost as low or lower than at present.

Nor must we accustom ourselves to any breath-taking innovations in economic or social policy. Little that I have suggested is new. We can solve the farm problems because they are not especially intractable. We haven't solved them because we haven't tried.

FARM POLICY: SOME PROPOSALS FOR IMPROVEMENTS*

By J. K. Galbraith
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Farm policy, in recent times, has almost certainly been a source of discouragement to those who believe that, with thought and energy public problems, however intractable, can be made to yield, however gradually, to solution. There has been no time when discouragement was better justified than now. We have just come through another notably agonizing reappraisal of our farm policy. It began in early 1953 with a year-long study of our farm policy in which the men of most experience and knowledge in these matters were called upon for their views. The people in general, and the Congress in particular, were promised that the result would be a new and fresh approach to this old and tired problem. The Congress, at the same time, spared no effort to inform itself. It sought counsel and advice here in Washington. By travel it undertook to tap that unique source of wisdom which wise politicians know to exist at the grassroots. Then, during the last session of Congress we had full debate on the proposals offered by the Administration. Eventually these proposals, intact in broad outline, were enacted into law. Then to make sure that no important aspect of the problem had been missed, the whole issue was carefully reviewed in the recent election. Surely, as a result, something important was accomplished. Herein, it seems to me, lies the reason for the peculiar discouragement of the moment. Under the new farm bill we can reasonably expect to have all of the troubles that we had under the old one. Despite all of the effort, which all of us must applaud, it can fairly be said that no substantial problem of past farm policy has been solved.

II

The test obviously lies in the faults of the old program and what happened to them. There were many criticisms of the program that had been developed prior to the Agricultural Act of 1954. These ranged from the complaint that it did least for those farmers who most needed help to the conviction that it did things for all farmers that the government shouldn't do at all. Alternatively, it was believed to be working damage to the structure of the economy, the moral fiber of the farmers, or the spiritual fabric of the Republic which, although not yet visible, was nonetheless decisive. However, for testing the new farm program we can properly pass over those faults which are based on ideological preference or individual value systems or which are still hypothetical. Attention may be restricted to those shortcomings which are a matter of practical experience. Of these there would seem to be four which are of commanding importance. I venture to suggest that there would be a considerable measure of agreement on them. They are:

(1) The Surplus Problem. Repeatedly in the process of supporting farm prices the government, through the Commodity Credit Corporation, has been forced to acquire large inventories of products which it did not want, for which it does not have a plan

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*A lecture given before the Graduate School of the U. S. Department of Agriculture. December 1, 1952.

for handling and disposing, and which cost money to store, or, in some spectacular instances, couldn't be stored. Most recent Secretaries of Agriculture would undoubtedly identify the surplus problem as the worst of their woes under past farm programs.

(2) The Controls Problem. As surpluses became embarrassing under past programs, it became necessary to impose acreage allotments and marketing quotas. These involve a sizeable administrative apparatus and are otherwise unwelcome. While the experience is not entirely conclusive, it seems likely that, apart from tobacco and cotton, they present a serious dilemma. Either the controls are politically acceptable and not very effective, or they are effective and politically disagreeable. The recent experience with controls over diverted acreage and its abandonment suggests the nature of the difficulty.

(3) The Trade Problem. Under past programs, export products had to be subsidized if they were to maintain their place in world markets. Otherwise the supported price at home would gradually (or rapidly) retire the products from competition. Imports of products subject to the support-price program had to be limited by quota to keep the farmers of the world at large from taking advantage of American generosity. These export subsidies and import quotas were sharply in conflict with our general pretensions on trade policy.

(4) The Discrimination Problem. The past programs provided a large measure of price security for wheat, cotton, corn, rice, tobacco, and peanuts, slightly less for dairy products, some feeds and oilseeds, and no price security at all for most other products. As a result, a farmer could have his raw material (feed) costs pegged while his product was subject to the rigors of the open market. Products in substantial surplus, like wheat, had their prices pegged. Nutritionally more important alternatives or those which better served the ends of soil and water conservation -- the products of grassland agriculture in particular -- enjoyed less or no price protection. The question of whether a product would receive support depended not on logic but on history, politics, and the infinitely important detail of whether or not it would keep.

III

I have spoken of these faults in the past tense. It is the rigorous but, I think, fair test of the new farm program that it solves none of them. On two points there can be no argument. The discrimination between basics and non-basics (or storables and perishables) continues and no one suggests that anything is done to eliminate it. The effect on international trade continues: it is the fact of support prices rather than their precise level which necessitates export subsidies and import restrictions. That the supports are "flexible" will have no effect.

But the twin problems of surpluses and of controls also remain untouched unless, perchance, one is willing to embrace some rather breathtaking propositions in economic theory. The prospective reduction in prices under the new flexible supports is relatively slight. For the next two or three years it will be non-existent in the case of tobacco, nominal for cotton, and perceptible only in the case of wheat. (In 1955 wheat support prices will drop by 18 cents from $2.24 to $2.06 a bushel.) During the congressional debates, and more especially during the recent campaign, it was emphasized that no farmer would be "hurt" by the new program.

It seems likely that no one will be much hurt. And since there will be little or no pain there can be little or no effect on production. Even in the extreme case of wheat, no one can really suppose that eighteen cents a bushel will make much of an appreciable difference in output. We know that in agriculture the supply response to price reductions can be small, and that it is likely to be small or even negligible for products like wheat where product substitution in the important producing areas is at sharply increasing rates.

Nor is there any chance that such small or nominal changes in price will bring an appreciable increase in consumption. The surplus commodities are in general those for which demand is inelastic. An element of faith seems to lie behind the notion that the new program will eliminate or mitigate the surplus problem. However, as it has been truly said, faith without the requisite elasticities is not enough.[1]

If the new program offers no cure for surpluses -- if it does not affect these one way or another -- then the problem of controls also remains unsolved and untouched. If surpluses grow under the new program, administrators will still face the ineluctable choice between letting them grow still more, putting on effective controls which might put the administrators out of office.

So after two years of notable effort, all of the past problems of our farm policy are still with us. The farm program is still in conflict with the trade policy. There is still a severe -- I would myself say indefensible -- discrimination between different producers. The surplus problem is untouched. As a result, the need for controls remains and the dilemma they present is unresolved. This is why, I suggest, that this is a discouraging time in the history of farm policy.

In this gathering of civil servants there is no one, I am sure, who will have partisan objection to my analysis of the Agricultural Act of 1954 or who will derive partisan satisfaction therefrom. I suppose I could seem to be criticizing the Republican Administration which was responsible for the program under review. But if there is a clandestine Democrat within the sound of my voice, let me remind him that the faults which the Republican Administration failed to correct were the faults of a Democratic program.

IV

The reasons we have tried so hard and accomplished so little are instructive. Oddly enough, no effort was made to correct the faults of the past programs. These were ignored. Instead, the new program was designed around a goal which was deemed good and desirable in itself. Because that goal seemed good, it was taken for granted that progress thereto ward would solve all problems. There was no reason to believe this, but it was believed nonetheless.

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[1] This discussion takes as given the level of aggregate demand. If during the next crop year, crop conditions being given, we should have a strong, domestic demand coupled with a good export market for wheat and cotton, then the surpluses will fall. This will be true with the new system of supports; it would have been true under the old. If during the coming year unemployment grows, domestic demand becomes increasingly anaemic, and foreign demand declines, then the surpluses will become more serious, whatever the level of support. The movement in demand, not the difference between flexible and rigid prices, will be of determining effect.

The goal was a nostalgic one. It was the traditional pricing arrangements of the free market. The notion that this market is the norm in economic policy is deeply imprinted on our minds. The economist, no less than the layman, falls easily into the habit of making apparent progress toward the free market the measure of economic wisdom.[2] That was the test that was implicit in the recent farm bill. It will scarcely be argued that the major motivation was the escape from the seeming artificiality of fixed or rigid prices for basic products back toward the seeming naturalness of prices that rose and fell with supply in the manner of the classical market. It was not possible to go all the way to the classical market for reasons that were economic as well as political. To have abandoned price supports for wheat, for example, would have caused not only an interesting political effervescence but it would have threatened a fall in farm income on the Great Plains, which even ardent opponents of price supports would not have contemplated with complete equanimity.

The case for or against the free market is not at issue here. I wish only to stress that steps, real or apparent, toward the free market do not solve the exigent problems of farm policy. Nor was there ever any reason to think they would. At any time in the last year or so a detached view would have shown that the remedial of the flexible prices, so far as our farm troubles are concerned, is approximately zero.

V

Our resistance to the lessons of experience in farm matters is extraordinarily high. Accordingly, we can have no great hope that much will be learned from the misspent effort and the disappointment of these last two years. One reason is that our approach to farm policy is now essentially theological. With Republicans, a few heretics from the wide spaces apart, flexible supports, however inflexible, are rapidly becoming a matter of faith. The Democratic Party now avows its support of ninety per cent with at least as much religious fervor as it opposes sin. The position of economists is not greatly different. Defense of the free market either as such or under the more sophisticated euphemisms of "the need to let relative prices do their job" or "the necessity for unimpaired resource allocation" has achieved the standing of a religious rite. (It is also increasingly what marks a scholar as honest, penetrating, forthright, responsible, competent, and decently conservative in his approach to economic policy.) These attitudes -- the notion that farm policy is the province not of economics but of canon law -- are not helpful when it comes to learning by our mistakes and our misfortunes. Misfortune, for the devout, calls not for introspection but for reaffirmation.

Still, if only as a purely intellectual exercise, we might contemplate the lessons of the recent experience. There are two of a minor sort which I might mention in passing. Before and after the election in 1952 and through much of 1953 there was considerable hope that we might find some marvelously new formula for solving our farm troubles. The President repeatedly expressed such a hope. We were told that the best minds were at work. As a result, something new as well as better would be forthcoming.

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[2] Cf. for example, Turning the Searchlight on Farm Policy (The Farm Foundation, 1952) and my commentary, "Economic Preconceptions and the Farm Policy," American Economic Review (March 1954).

As everyone knows, the program that finally emerged was very like the program of 1948 which was already on the books. This should have surprised no one. There was never a chance, and there is now none, that the farm problem will be solved by a new idea of breath-taking originality and brilliance. This is an area where social innovation is confined by social institutions. This means that the brilliant new idea must be consistent with our attitudes toward government, property, and the rights and immunities of individuals in general and of farmers in particular. Something in the way of precedent must be cited to show that the idea is not wholly hair-brained. All this being so — and no doubt it is well that it is so — the chance for a great new idea that will resolve our problems is nil or practically so. The farm problem will be solved, if at all, by the painstaking, and above all the objective, use of what we already know.

We must also be on guard against the habit of testing all proposals by whether they provide a perfect solution. The past farm program has been regularly impugned for the problems it creates. The surpluses, the controls, the interference with trade have been cited to prove that it is wholly bad. The efficient way in which this program cushioned the decline in farm exports since 1951-52 — a decline of no less than 54 per cent in the case of wheat in two crop years — is commonly ignored. Nor are the shortcomings balanced against the support that has been given to farm income and to the prevention of social tension and hardship in the farm areas. Nor do such critics observe that the past program has been one of the important built-in stabilizers for the economy at large.

Progress requires that we be better prepared than in the past to strike a balance between good and bad. We shall find few, if any, reforms which are totally good. We must learn to accept those for which the advantages outweigh the disadvantages. The fact that in repairing some shortcomings others are added is not decisive. The decisive consideration is whether there is a net advance.

But the most important lesson the recent past concerns the orientation of our efforts to reform and improve the farm program. If we are to make progress and if we are to be sure of making progress, we cannot organize our efforts around abstract goals. Free markets, uninhibited resource allocation, lessened reliance on price fixing, however much they excite our affection, are not a promise of improvement. Nor do firm, guaranteed, or rigid prices have intrinsic virtue or shortcomings. If we are to make progress we must organize our efforts around definite remedies for specific faults. Given the problem of surpluses, or controls, or discrimination, or trade we must start by asking ourselves, simply and directly, what measures will solve these problems and at what price in the form of other disadvantages. This means, of course, that we accept the principle of support to farm price and income. We address ourselves to ways of removing the oppressive problems which now arise in course of providing such support.

Until farm policy is approached in simple, non-theological terms such as these, I doubt that we will make any progress. Let me illustrate this approach in relation to the shortcomings of the past programs which unhappily continue under the Agricultural Act of 1954.

VI

Much of our present trouble obviously arises from the particular technique of support which we presently employ and which remains unchanged under the new legislation. The interference with foreign trade is the result of supports which prop prices above the world price. Moreover, it is in the course of propping prices that the government acquires stocks. This technique, therefore, is responsible for so much of the surplus problem as is associated with tovernment ownership of stocks. And since the feasibility or impracticability of government storage is an important cause of discrimination, the support technique also has a bearing here.

This means that a change in the support technique — the abandonment of props and the substitution of a method which would allow prices to find their own level and provide direct payments to bring them up to the standard (i.e., 90, 82 1/2, or whatever per cent of parity) would be a substantial reform. The trade problem would disappear. Since domestic prices would not be directly enhanced, the American exporter would be under no handicap and the domestic market would not be artificially attractive to the foreigner. Also, discrimination between storables and perishables would no longer be technically necessary; obviously the prices of pork or butter or eggs can as readily be supplemented by direct payments as the price of wheat or corn. Since government loans or purchases are not used to peg prices, the surpluses do not become the property and hence the peculiar responsibility of the Secretary of Agriculture.[3]

Meanwhile, the protection accorded to the farmer would be substantially the same. The payments would compensate for adverse movements in his terms of trade in times of declining aggregate demand — perhaps the major rationals of the farm price program — and the economic stabilization effects of the present system are preserved and possibly enhanced.[4]

These are formidable gains. However, not all problems are solved, and these are not undiluted gains. The incentive to produce remains unchanged, so presumably, the production will be as large as before. Large production of a product would manifest itself not in government purchases as before, but in low market prices and proportionately increased payments to give the farmer the guaranteed prices. In effect, migraine induced by a surplus problem moves across the Mall from the office of the Secretary of Agriculture to that of the Secretary of the Treasury.

Since the surplus problem remains, so does that of controls. To keep costs down, some way must be found to prevent the undue expansion of unwanted crops. There is a chance that the new technique of support would ease the control problem — for example, the supplementary payments could easily be denied to

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[3]The proposals submitted to the Congress in the winter of 1949 that came to be known as the Brannan Plan were narrower in their application and hence in their effect. Storable products would still have been propped under the Brannan Plan; only perishables would have had supplementary payments. As a result, the Brannan proposals would not have much affected the trade problem — most export and import products are storable — and government accumulation of storable surpluses would still have been required. Mr. Brannan's attack was, essentially, confined to the problem of discrimination as well as to the peculiarly difficult job of handling perishables like potatoes and butter where storage, though impossible or expensive, is nonetheless forced by Congress.

[4]The cost of sustaining farm income is shifted from the consumer to the Treasury which, in times of receding aggregate demand, means a large expansionist effect.

VIII

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However, to remedy the surplus in this way will require a strong reversal of present policy. The present policy favors the surplus products over those which offer the promise of remedying the surplus. Wheat, cotton, and other surplus products are produced with the advantage of a firm price guarantee; animal products either enjoy no such guarantee or, as in the case of dairy products, the guarantee is substantially lower. (A visitor from Mars would conclude from present arrangements that we cherished our over-production and our controls and sought only to keep the CCC in business.) The revision in the technique of support suggested above is essential for reform since the present method cannot be applied to meats and has grave disadvantages for dairy products.

But merely to eliminate the present discrimination against animal products is almost certainly not enough. A determined program for eliminating surpluses would go further and place a positive premium on animal products. By supplementary payments, dairy and poultry products, pork and (if cattlemen could be persuaded to go along) beef would be made profitable to the producer and attractive in price to consumers. Every market incentive would then exist for a movement of resources from the sector where they are an embarrassment to the sector where they can be accommodated with comparative ease. A small subsidy of livestock products would, in effect, be used to eliminate the need for a much larger and much less useful one for cereals, together with the accompanying controls.

However, a full-scale attack on the surplus and control problem would not rely exclusively on market incentives, however generous. Direct resource transfer payments would be offered to farmers who shift land from wheat to permanent pasture and from cotton to balanced-farming systems. (These should also be used for less important crops like apples and prunes which, otherwise, we subsidize year after year.) Also, the government credit agencies should be awakened to provide special credit up to a very large percentage of total requirements of farmers making the favored resource shifts.

IX

I have no hesitation in saying that, given full employment demand, a determined attack could solve the problem of the cereal surplus -- and the need for companion controls -- within five years. Substantial progress might even be apparent by the time of the next election.

I would not wish to claim that the measures I have here outlined would "solve" all of the farm problem -- or more precisely the commercial farm price problem. There are disorders which I have not touched; no doubt we would be blessed with some new problems before the old ones disappeared. Yet it is evident that some of our worst problems will yield if vigorously attacked. Moreover, the solutions do not subject the farmer to the unreality of more extreme punishment by the market than he now experiences. Nor need the cost be great. Given full employment, the end product of the measures here outlined might well be a direct Treasury cost as low or lower than at present.

Nor must we accustom ourselves to any breath-taking innovations in economic or social policy. Little that I have suggested is new. We can solve the farm problems because they are not especially intractable. We haven't solved them because we haven't tried.

FARM POLICY: SOME PROPOSALS FOR IMPROVEMENTS*

By J. K. Galbraith
Professor of Economics, Harvard University

Farm policy, in recent times, has almost certainly been a source of discouragement to those who believe that, with thought and energy public problems, however intractable, can be made to yield, however gradually, to solution. There has been no time when discouragement was better justified than now. We have just come through another notably agonizing reappraisal of our farm policy. It began in early 1953 with a year-long study of our farm policy in which the men of most experience and knowledge in these matters were called upon for their views. The people in general, and the Congress in particular, were promised that the result would be a new and fresh approach to this old and tired problem. The Congress, at the same time, spared no effort to inform itself. It sought counsel and advice here in Washington. By travel it undertook to tap that unique source of wisdom which wise politicians know to exist at the grassroots. Then, during the last session of Congress we had full debate on the proposals offered by the Administration. Eventually these proposals, intact in broad outline, were enacted into law. Then to make sure that no important aspect of the problem had been missed, the whole issue was carefully reviewed in the recent election. Surely, as a result, something important was accomplished. Herein, it seems to me, lies the reason for the peculiar discouragement of the moment. Under the new farm bill we can reasonably expect to have all of the troubles that we had under the old one. Despite all of the effort, which all of us must applaud, it can fairly be said that no substantial problem of past farm policy has been solved.

II

The test obviously lies in the faults of the old program and what happened to them. There were many criticisms of the program that had been developed prior to the Agricultural Act of 1954. These ranged from the complaint that it did least for those farmers who most needed help to the conviction that it did things for all farmers that the government shouldn't do at all. Alternatively, it was believed to be working damage to the structure of the economy, the moral fiber of the farmers, or the spiritual fabric of the Republic which, although not yet visible, was nonetheless decisive. However, for testing the new farm program we can properly pass over those faults which are based on ideological preference or individual value systems or which are still hypothetical. Attention may be restricted to those shortcomings which are a matter of practical experience. Of these there would seem to be four which are of commanding importance. I venture to suggest that there would be a considerable measure of agreement on them. They are:

(1) The Surplus Problem. Repeatedly in the process of supporting farm prices the government, through the Commodity Credit Corporation, has been forced to acquire large inventories of products which it did not want, for which it does not have a plan

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for handling and disposing, and which cost money to store, or, in some spectacular instances, couldn't be stored. Most recent Secretaries of Agriculture would undoubtedly identify the surplus problem as the worst of their woes under past farm programs.

(2) The Controls Problem. As surpluses became embarrassing under past programs, it became necessary to impose acreage allotments and marketing quotas. These involve a sizeable administrative apparatus and are otherwise unwelcome. While the experience is not entirely conclusive, it seems likely that, apart from tobacco and cotton, they present a serious dilemma. Either the controls are politically acceptable and not very effective, or they are effective and politically disagreeable. The recent experience with controls over diverted acreage and its abandonment suggests the nature of the difficulty.

(3) The Trade Problem. Under past programs, export products had to be subsidized if they were to maintain their place in world markets. Otherwise the supported price at home would gradually (or rapidly) retire the products from competition. Imports of products subject to the support-price program had to be limited by quota to keep the farmers of the world at large from taking advantage of American generosity. These export subsidies and import quotas were sharply in conflict with our general pretensions on trade policy.

(4) The Discrimination Problem. The past programs provided a large measure of price security for wheat, cotton, corn, rice, tobacco, and peanuts, slightly less for dairy products, some feeds and oilseeds, and no price security at all for most other products. As a result, a farmer could have his raw material (feed) costs pegged while his product was subject to the rigors of the open market. Products in substantial surplus, like wheat, had their prices pegged. Nutritionally more important alternatives or those which better served the ends of soil and water conservation -- the products of grassland agriculture in particular -- enjoyed less or no price protection. The question of whether a product would receive support depended not on logic but on history, politics, and the infinitely important detail of whether or not it would keep.

III

I have spoken of these faults in the past tense. It is the rigorous but, I think, fair test of the new farm program that it solves none of them. On two points there can be no argument. The discrimination between basics and non-basics (or storables and perishables) continues and no one suggests that anything is done to eliminate it. The effect on international trade continues: it is the fact of support prices rather than their precise level which necessitates export subsidies and import restrictions. That the supports are "flexible" will have no effect.

But the twin problems of surpluses and of controls also remain untouched unless, perchance, one is willing to embrace some rather breathtaking propositions in economic theory. The prospective reduction in prices under the new flexible supports is relatively slight. For the next two or three years it will be non-existent in the case of tobacco, nominal for cotton, and perceptible only in the case of wheat. (In 1955 wheat support prices will drop by 18 cents from $2.24 to $2.06 a bushel.) During the congressional debates, and more especially during the recent campaign, it was emphasized that no farmer would be "hurt" by the new program.

It seems likely that no one will be much hurt. And since there will be little or no pain there can be little or no effect on production. Even in the extreme case of wheat, no one can really suppose that eighteen cents a bushel will make much of an appreciable difference in output. We know that in agriculture the supply response to price reductions can be small, and that it is likely to be small or even negligible for products like wheat where product substitution in the important producing areas is at sharply increasing rates.

Nor is there any chance that such small or nominal changes in price will bring an appreciable increase in consumption. The surplus commodities are in general those for which demand is inelastic. An element of faith seems to lie behind the notion that the new program will eliminate or mitigate the surplus problem. However, as it has been truly said, faith without the requisite elasticities is not enough.[1]

If the new program offers no cure for surpluses -- if it does not affect these one way or another -- then the problem of controls also remains unsolved and untouched. If surpluses grow under the new program, administrators will still face the ineluctable choice between letting them grow still more, putting on effective controls which might put the administrators out of office.

So after two years of notable effort, all of the past problems of our farm policy are still with us. The farm program is still in conflict with the trade policy. There is still a severe -- I would myself say indefensible -- discrimination between different producers. The surplus problem is untouched. As a result, the need for controls remains and the dilemma they present is unresolved. This is why, I suggest, that this is a discouraging time in the history of farm policy.

In this gathering of civil servants there is no one, I am sure, who will have partisan objection to my analysis of the Agricultural Act of 1954 or who will derive partisan satisfaction therefrom. I suppose I could seem to be criticizing the Republican Administration which was responsible for the program under review. But if there is a clandestine Democrat within the sound of my voice, let me remind him that the faults which the Republican Administration failed to correct were the faults of a Democratic program.

IV

The reasons we have tried so hard and accomplished so little are instructive. Oddly enough, no effort was made to correct the faults of the past programs. These were ignored. Instead, the new program was designed around a goal which was deemed good and desirable in itself. Because that goal seemed good, it was taken for granted that progress thereto ward would solve all problems. There was no reason to believe this, but it was believed nonetheless.

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[1] This discussion takes as given the level of aggregate demand. If during the next crop year, crop conditions being given, we should have a strong, domestic demand coupled with a good export market for wheat and cotton, then the surpluses will fall. This will be true with the new system of supports; it would have been true under the old. If during the coming year unemployment grows, domestic demand becomes increasingly anaemic, and foreign demand declines, then the surpluses will become more serious, whatever the level of support. The movement in demand, not the difference between flexible and rigid prices, will be of determining effect.

The goal was a most logic one. It was the traditional pricing arrangements of the free market. The notion that this market is the norm in economic policy is deeply imprinted on our minds. The economist, no less than the layman, falls easily into the habit of making apparent progress toward the free market the measure of economic wisdom.[2] That was the test that was implicit in the recent farm bill. It will scarcely be argued that the major motivation was the escape from the seeming artificiality of fixed or rigid prices for basic products back toward the seeming naturalness of prices that rose and fell with supply in the manner of the classical market. It was not possible to go all the way to the classical market for reasons that were economic as well as political. To have abandoned price supports for wheat, for example, would have caused not only an interesting political effervescence but it would have threatened a fall in farm income on the Great Plains, which even ardent opponents of price supports would not have contemplated with complete equanimity.

The case for or against the free market is not at issue here. I wish only to stress that steps, real or apparent, toward the free market do not solve the exigent problems of farm policy. Nor was there ever any reason to think they would. At any time in the last year or so a detached view would have shown that the remedial of the flexible prices, so far as our farm troubles are concerned, is approximately zero.

V

Our resistance to the lessons of experience in farm matters is extraordinarily high. Accordingly, we can have no great hope that much will be learned from the misspent effort and the disappointment of these last two years. One reason is that our approach to farm policy is now essentially theological. With Republicans, a few heretics from the wide spaces apart, flexible supports, however inflexible, are rapidly becoming a matter of faith. The Democratic Party now avows its support of ninety per cent with at least as much religious fervor as it opposes sin. The position of economists is not greatly different. Defense of the free market either as such or under the more sophisticated euphemisms of "the need to let relative prices do their job" or "the necessity for unimpaired resource allocation" has achieved the standing of a religious rite. (It is also increasingly what marks a scholar as honest, penetrating, forthright, responsible, competent, and decently conservative in his approach to economic policy.) These attitudes -- the notion that farm policy is the province not of economics but of canon law -- are not helpful when it comes to learning by our mistakes and our misfortunes. Misfortune, for the devout, calls not for introspection but for reaffirmation.

Still, if only as a purely intellectual exercise, we might contemplate the lessons of the recent experience. There are two of a minor sort which I might mention in passing. Before and after the election in 1952 and through much of 1953 there was considerable hope that we might find some marvelously new formula for solving our farm troubles. The President repeatedly expressed such a hope. We were told that the best minds were at work. As a result, something new as well as better would be forthcoming.

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[2] Cf. for example, Turning the Searchlight on Farm Policy (The Farm Foundation, 1952) and my commentary, "Economic Preconceptions and the Farm Policy," American Economic Review (March 1954).

As everyone knows, the program that finally emerged was very like the program of 1948 which was already on the books. This should have surprised no one. There was never a chance, and there is now none, that the farm problem will be solved by a new idea of breath-taking originality and brilliance. This is an area where social innovation is confined by social institutions. This means that the brilliant new idea must be consistent with our attitudes toward government, property, and the rights and immunities of individuals in general and of farmers in particular. Something in the way of precedent must be cited to show that the idea is not wholly hair-brained. All this being so — and no doubt it is well that it is so — the chance for a great new idea that will resolve our problems is nil or practically so. The farm problem will be solved, if at all, by the painstaking, and above all the objective, use of what we already know.

We must also be on guard against the habit of testing all proposals by whether they provide a perfect solution. The past farm program has been regularly impugned for the problems it creates. The surpluses, the controls, the interference with trade have been cited to prove that it is wholly bad. The efficient way in which this program cushioned the decline in farm exports since 1951--52 — a decline of no less than 54 per cent in the case of wheat in two crop years — is commonly ignored. Nor are the shortcomings balanced against the support that has been given to farm income and to the prevention of social tension and hardship in the farm areas. Nor do such critics observe that the past program has been one of the important built-in stabilizers for the economy at large.

Progress requires that we be better prepared than in the past to strike a balance between good and bad. We shall find few, if any, reforms which are totally good. We must learn to accept those for which the advantages outweigh the disadvantages. The fact that in repairing some shortcomings others are added is not decisive. The decisive consideration is whether there is a net advance.

But the most important lesson the recent past concerns the orientation of our efforts to reform and improve the farm program. If we are to make progress and if we are to be sure of making progress, we cannot organize our efforts around abstract goals. Free markets, uninhibited resource allocation, lessened reliance on price fixing, however much they excite our affection, are not a promise of improvement. Nor do firm, guaranteed, or rigid prices have intrinsic virtue or shortcomings. If we are to make progress we must organize our efforts around definite remedies for specific faults. Given the problem of surpluses, or controls, or discrimination, or trade we must start by asking ourselves, simply and directly, what measures will solve these problems and at what price in the form of other disadvantages. This means, of course, that we accept the principle of support to farm price and income. We address ourselves to ways of removing the oppressive problems which now arise in course of providing such support.

Until farm policy is approached in simple, non-theological terms such as these, I doubt that we will make any progress. Let me illustrate this approach in relation to the shortcomings of the past programs which unhappily continue under the Agricultural Act of 1954.

VI

Much of our present trouble obviously arises from the particular technique of support which we presently employ and which remains unchanged under the new legislation. The interference with foreign trade is the result of supports which prop prices above the world price. Moreover, it is in the course of propping prices that the government acquires stocks. This technique, therefore, is responsible for so much of the surplus problem as is associated with tovernment ownership of stocks. And since the feasibility or impracticability of government storage is an important cause of discrimination, the support technique also has a bearing here.

This means that a change in the support technique — the abandonment of props and the substitution of a method which would allow prices to find their own level and provide direct payments to bring them up to the standard (i.e., 90, 82 1/2, or whatever per cent of parity) would be a substantial reform. The trade problem would disappear. Since domestic prices would not be directly enhanced, the American exporter would be under no handicap and the domestic market would not be artificially attractive to the foreigner. Also, discrimination between storables and perishables would no longer be technically necessary; obviously the prices of pork or butter or eggs can as readily be supplemented by direct payments as the price of wheat or corn. Since government loans or purchases are not used to peg prices, the surpluses do not become the property and hence the peculiar responsibility of the Secretary of Agriculture.[3]

Meanwhile, the protection accorded to the farmer would be substantially the same. The payments would compensate for adverse movements in his terms of trade in times of declining aggregate demand — perhaps the major rationals of the farm price program — and the economic stabilization effects of the present system are preserved and possibly enhanced.[4]

These are formidable gains. However, not all problems are solved, and these are not undiluted gains. The incentive to produce remains unchanged, so presumably, the production will be as large as before. Large production of a product would manifest itself not in government purchases as before, but in low market prices and proportionately increased payments to give the farmer the guaranteed prices. In effect, migraine induced by a surplus problem moves across the Mall from the office of the Secretary of Agriculture to that of the Secretary of the Treasury.

Since the surplus problem remains, so does that of controls. To keep costs down, some way must be found to prevent the undue expansion of unwanted crops. There is a chance that the new technique of support would ease the control problem — for example, the supplementary payments could easily be denied to

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[3]The proposals submitted to the Congress in the winter of 1949 that came to be known as the Brannan Plan were narrower in their application and hence in their effect. Storable products would still have been propped under the Brannan Plan; only perishables would have had supplementary payments. As a result, the Brannan proposals would not have much affected the trade problem — most export and import products are storable — and government accumulation of storable surpluses would still have been required. Mr. Brannan's attack was, essentially, confined to the problem of discrimination as well as to the peculiarly difficult job of handling perishables like potatoes and butter where storage, though impossible or expensive, is nonetheless forced by Congress.

[4]The cost of sustaining farm income is shifted from the consumer to the Treasury which, in times of receding aggregate demand, means a large expansionist effect.

over-quota production. By thus enforcing a sharp reduction in marginal revenue, enforcement on the specific crop would thus be made relatively simple. However, simple or not, a detailed control apparatus is still necessary, and in cases of severe disequilibrium it would still have to be unpleasantly severe. I shall have a further word on this presently.

VII

There are also some disadvantages from the remedy. In welfare terms, the cost of the alternative technique is no higher and may be lower. By directly boosting the price to the consumer, the present arrangement acts like a sales tax levied on the particular product. The consumer pays this tax. Under the alternative system the money would in fact be raised by the Treasury. When the price supplements were being paid as the result of a shortage of aggregate demand (i.e., a developing depression), this would involve no embarrassment, for it would be fiscally sound and desirable to allow the payments to increase the deficit. With demand at full employment levels, funds for any payments that might then be required should, in principle, come from taxes. This is unlikely to be palatable to Treasury and Budget authorities, although it can hardly be suggested that their preferences should be decisive.

There is also the possibility that farmers -- some at least -- will find the revised technique less palatable, although Hathaway's investigations in Michigan[5] as well as polls by Wallace's Farmer in Iowa suggest that this resistance is easily exaggerated. Under the revised technique, what the farmer regards -- in my view with justice -- as legitimate protection in light of his peculiarly vulnerable position takes the form of a wholly overt subsidy. In the Puritan ethos there is no such thing as a legitimate subsidy. If one must nonetheless be paid, how much better to have it out of sight. It is said that even the woman of easiest virtue likes to think of the money which she finds under the pillow as an earnest of affection.

Under the revised technique there is also a chance that someone will want to cut off the payments to large farmers. This can readily be done. The present technique of propping prices requires that they be propped equally for all. The justification for a farm program is that the uninhibited price system treates the farmer with rather more rigor than it does other groups, that, as noted, it exposes him to especially adverse movements in his terms of trade when aggregate demand falls, and that both farm and general welfare are served by mitigating these effects. If this be so, then the effects should be mitigated for large farmers as well as small. If it is sound social policy to discourage large farms that is a separate matter to be legislated and defended on its own merits. The defects of the revised technique can be partly overcome. The program could be given its own revenue source. The ideal would be a fund to be accumulated when prices are above the standard level. Payments to farmers could be made not by government check, but, in a more seemly manner, by way of buyers or processors and so added to the price. The intention to divorce the payments from discrimination on farm size could be strongly affirmed by Congress.

5

VIII

As noted, the problem of surplus gum controls remains. This is not surprising, for it has never been attacked. Were it once tackled, not as an exercise in social theory, but as a problem to be solved, the surplus question would also undoubtedly yield.

At the outset a distinction must be made between surpluses that are associated with a general deficiency in demand and those which are the result of a particular disequilibrium in a product or group of products. It is not too much to say that the problem can be discussed intelligently only in light of this distinction. In the past it has not often been made. Let me speak first of the general equilibrium surplus.

When aggregate demand in the economy falls we may expect an all-round redundancy of agricultural output precisely as we expect general unemployment of workers. Unlike unemployment, the concept of an agricultural surplus is not without ambiguity. It implies that more product is available than can be sold at prices the community regards as adequate. Obviously, the notion of what is adequate involves all sorts of subjective judgments. However, the fact that agriculture in the short run adjusts to declining demand with falling prices and industry with a curtailment of output means that the low prices (or growing government inventories) are the precise counterpart of unemployment in industry. The obvious long-run remedy for this type of surplus -- and very likely the only possible remedy -- is to repair the shortage of aggregate demand. The very tasks which this shortage of demand causes the government to perform in the agricultural sector -- the acquisition of stocks to support prices or the outlay of funds to supplement prices under the alternative arrangement here suggested -- help to remedy the general deficiency in demand. We should accept and even welcome these outlays as part of the counter-deflationary machinery of the modern economy. In principle, no measures of crop curtailment or control should be taken when general equilibrium surpluses appear. The practical situation may conceivably force exceptions but, as a broad rule, when farm surpluses are the result of depression the line of remedy runs to the depression and not to the surpluses. The only problem presented by the latter is how to live with them as gracefully as possible. Clearly the alternative support techniques here outlined will substantially ease this problem of surplus management especially for perishables.

The particular equilibrium surplus may arise even when the economy is functioning at full-employment levels. Some set of causes -- exceptionally high yields and production or a decline in foreign or domestic demand -- brings a greater production than can be sold at prices that are deemed adequate. This is the nature of the present surplus of wheat (and related cereals) of cotton, and of a limited number of other products. In the case of cotton the cause is the high upward elasticity of supply. In the case of wheat it is the decline in overseas demand following the earlier expansion to meet wartime requirements. This, it will be said by many, is the kind of surplus that should be eliminated by reduction of the price standard. There is certainly no universally defensible price standard. In the current case of wheat, levels by some standards of equity may well be "too high." Technological change has left the wheat parity marooned on a very high school. But as a device for surplus control, price reduction appeals greatly to those whose affection for the traditional outweighs their desire to be practical as well as to those who dislike on grounds of principle to see the farmer escape the punishment which the market is supposed to mete out to those who are caught over-producing. In fact, where the problem

of the particular equilibrium surplus is worst -- in the case of wheat and cotton in particular -- the elasticity of supply in response to price reduction is almost certainly rather low. And agrarian affection for price as a way of enforcing production curtailment is practically zero and intimately associated with voting attitudes.

The solution is not to attack cereals or cotton directly, which will accomplish little or nothing, but to put on a truly vigorous drive to shift resources to the livestock economy. In this effort we are jointly blessed by the much greater elasticity of the demand for animal products as compared particularly with cereals and their very much greater resource requirement per unit of nutrients provided to the consumer. Hence, in sharp contrast with wheat, a small decrease in the price of livestock products will bring a relatively large increase in consumption. And to get the equivalent calories in the form of animal products means a much more than proportional decrease in cereal production. It takes, we know, several times more acres to provide a person with a meat diet than a cereal diet.

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(2) The Controls Problem. As surpluses became embarrassing under past programs, it became necessary to impose acreage allotments and marketing quotas. These involve a sizeable administrative apparatus and are otherwise unwelcome. While the experience is not entirely conclusive, it seems likely that, apart from tobacco and cotton, they present a serious dilemma. Either the controls are politically acceptable and not very effective, or they are effective and politically disagreeable. The recent experience with controls over diverted acreage and its abandonment suggests the nature of the difficulty.

(3) The Trade Problem. Under past programs, export products had to be subsidized if they were to maintain their place in world markets. Otherwise the supported price at home would gradually (or rapidly) retire the products from competition. Imports of products subject to the support-price program had to be limited by quota to keep the farmers of the world at large from taking advantage of American generosity. These export subsidies and import quotas were sharply in conflict with our general pretensions on trade policy.

(4) The Discrimination Problem. The past programs provided a large measure of price security for wheat, cotton, corn, rice, tobacco, and peanuts, slightly less for dairy products, some feeds and oilseeds, and no price security at all for most other products. As a result, a farmer could have his raw material (feed) costs pegged while his product was subject to the rigors of the open market. Products in substantial surplus, like wheat, had their prices pegged. Nutritionally more important alternatives or those which better served the ends of soil and water conservation -- the products of grassland agriculture in particular -- enjoyed less or no price protection. The question of whether a product would receive support depended not on logic but on history, politics, and the infinitely important detail of whether or not it would keep.

III

I have spoken of these faults in the past tense. It is the rigorous but, I think, fair test of the new farm program that it solves none of them. On two points there can be no argument. The discrimination between basics and non-basics (or storables and perishables) continues and no one suggests that anything is done to eliminate it. The effect on international trade continues: it is the fact of support prices rather than their precise level which necessitates export subsidies and import restrictions. That the supports are "flexible" will have no effect.

But the twin problems of surpluses and of controls also remain untouched unless, perchance, one is willing to embrace some rather breathtaking propositions in economic theory. The prospective reduction in prices under the new flexible supports is relatively slight. For the next two or three years it will be non-existent in the case of tobacco, nominal for cotton, and perceptible only in the case of wheat. (In 1955 wheat support prices will drop by 18 cents from $2.24 to $2.06 a bushel.) During the congressional debates, and more especially during the recent campaign, it was emphasized that no farmer would be "hurt" by the new program.

It seems likely that no one will be much hurt. And since there will be little or no pain there can be little or no effect on production. Even in the extreme case of wheat, no one can really suppose that eighteen cents a bushel will make much of an appreciable difference in output. We know that in agriculture the supply response to price reductions can be small, and that it is likely to be small or even negligible for products like wheat where product substitution in the important producing areas is at sharply increasing rates.

Nor is there any chance that such small or nominal changes in price will bring an appreciable increase in consumption. The surplus commodities are in general those for which demand is inelastic. An element of faith seems to lie behind the notion that the new program will eliminate or mitigate the surplus problem. However, as it has been truly said, faith without the requisite elasticities is not enough.[1]

If the new program offers no cure for surpluses -- if it does not affect these one way or another -- then the problem of controls also remains unsolved and untouched. If surpluses grow under the new program, administrators will still face the ineluctable choice between letting them grow still more, putting on effective controls which might put the administrators out of office.

So after two years of notable effort, all of the past problems of our farm policy are still with us. The farm program is still in conflict with the trade policy. There is still a severe -- I would myself say indefensible -- discrimination between different producers. The surplus problem is untouched. As a result, the need for controls remains and the dilemma they present is unresolved. This is why, I suggest, that this is a discouraging time in the history of farm policy.

In this gathering of civil servants there is no one, I am sure, who will have partisan objection to my analysis of the Agricultural Act of 1954 or who will derive partisan satisfaction therefrom. I suppose I could seem to be criticizing the Republican Administration which was responsible for the program under review. But if there is a clandestine Democrat within the sound of my voice, let me remind him that the faults which the Republican Administration failed to correct were the faults of a Democratic program.

IV

The reasons we have tried so hard and accomplished so little are instructive. Oddly enough, no effort was made to correct the faults of the past programs. These were ignored. Instead, the new program was designed around a goal which was deemed good and desirable in itself. Because that goal seemed good, it was taken for granted that progress thereto ward would solve all problems. There was no reason to believe this, but it was believed nonetheless.

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[1] This discussion takes as given the level of aggregate demand. If during the next crop year, crop conditions being given, we should have a strong, domestic demand coupled with a good export market for wheat and cotton, then the surpluses will fall. This will be true with the new system of supports; it would have been true under the old. If during the coming year unemployment grows, domestic demand becomes increasingly anaemic, and foreign demand declines, then the surpluses will become more serious, whatever the level of support. The movement in demand, not the difference between flexible and rigid prices, will be of determining effect.

The goal was a most logic one. It was the traditional pricing arrangements of the free market. The notion that this market is the norm in economic policy is deeply imprinted on our minds. The economist, no less than the layman, falls easily into the habit of making apparent progress toward the free market the measure of economic wisdom.[2] That was the test that was implicit in the recent farm bill. It will scarcely be argued that the major motivation was the escape from the seeming artificiality of fixed or rigid prices for basic products back toward the seeming naturalness of prices that rose and fell with supply in the manner of the classical market. It was not possible to go all the way to the classical market for reasons that were economic as well as political. To have abandoned price supports for wheat, for example, would have caused not only an interesting political effervescence but it would have threatened a fall in farm income on the Great Plains, which even ardent opponents of price supports would not have contemplated with complete equanimity.

The case for or against the free market is not at issue here. I wish only to stress that steps, real or apparent, toward the free market do not solve the exigent problems of farm policy. Nor was there ever any reason to think they would. At any time in the last year or so a detached view would have shown that the remedial of the flexible prices, so far as our farm troubles are concerned, is approximately zero.

V

Our resistance to the lessons of experience in farm matters is extraordinarily high. Accordingly, we can have no great hope that much will be learned from the misspent effort and the disappointment of these last two years. One reason is that our approach to farm policy is now essentially theological. With Republicans, a few heretics from the wide spaces apart, flexible supports, however inflexible, are rapidly becoming a matter of faith. The Democratic Party now avows its support of ninety per cent with at least as much religious fervor as it opposes sin. The position of economists is not greatly different. Defense of the free market either as such or under the more sophisticated euphemisms of "the need to let relative prices do their job" or "the necessity for unimpaired resource allocation" has achieved the standing of a religious rite. (It is also increasingly what marks a scholar as honest, penetrating, forthright, responsible, competent, and decently conservative in his approach to economic policy.) These attitudes -- the notion that farm policy is the province not of economics but of canon law -- are not helpful when it comes to learning by our mistakes and our misfortunes. Misfortune, for the devout, calls not for introspection but for reaffirmation.

Still, if only as a purely intellectual exercise, we might contemplate the lessons of the recent experience. There are two of a minor sort which I might mention in passing. Before and after the election in 1952 and through much of 1953 there was considerable hope that we might find some marvelously new formula for solving our farm troubles. The President repeatedly expressed such a hope. We were told that the best minds were at work. As a result, something new as well as better would be forthcoming.

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[2] Cf. for example, Turning the Searchlight on Farm Policy (The Farm Foundation, 1952) and my commentary, "Economic Preconceptions and the Farm Policy," American Economic Review (March 1954).

As everyone knows, the program that finally emerged was very like the program of 1948 which was already on the books. This should have surprised no one. There was never a chance, and there is now none, that the farm problem will be solved by a new idea of breath-taking originality and brilliance. This is an area where social innovation is confined by social institutions. This means that the brilliant new idea must be consistent with our attitudes toward government, property, and the rights and immunities of individuals in general and of farmers in particular. Something in the way of precedent must be cited to show that the idea is not wholly hair-brained. All this being so — and no doubt it is well that it is so — the chance for a great new idea that will resolve our problems is nil or practically so. The farm problem will be solved, if at all, by the painstaking, and above all the objective, use of what we already know.

We must also be on guard against the habit of testing all proposals by whether they provide a perfect solution. The past farm program has been regularly impugned for the problems it creates. The surpluses, the controls, the interference with trade have been cited to prove that it is wholly bad. The efficient way in which this program cushioned the decline in farm exports since 1951--52 — a decline of no less than 54 per cent in the case of wheat in two crop years — is commonly ignored. Nor are the shortcomings balanced against the support that has been given to farm income and to the prevention of social tension and hardship in the farm areas. Nor do such critics observe that the past program has been one of the important built-in stabilizers for the economy at large.

Progress requires that we be better prepared than in the past to strike a balance between good and bad. We shall find few, if any, reforms which are totally good. We must learn to accept those for which the advantages outweigh the disadvantages. The fact that in repairing some shortcomings others are added is not decisive. The decisive consideration is whether there is a net advance.

But the most important lesson the recent past concerns the orientation of our efforts to reform and improve the farm program. If we are to make progress and if we are to be sure of making progress, we cannot organize our efforts around abstract goals. Free markets, uninhibited resource allocation, lessened reliance on price fixing, however much they excite our affection, are not a promise of improvement. Nor do firm, guaranteed, or rigid prices have intrinsic virtue or shortcomings. If we are to make progress we must organize our efforts around definite remedies for specific faults. Given the problem of surpluses, or controls, or discrimination, or trade we must start by asking ourselves, simply and directly, what measures will solve these problems and at what price in the form of other disadvantages. This means, of course, that we accept the principle of support to farm price and income. We address ourselves to ways of removing the oppressive problems which now arise in course of providing such support.

Until farm policy is approached in simple, non-theological terms such as these, I doubt that we will make any progress. Let me illustrate this approach in relation to the shortcomings of the past programs which unhappily continue under the Agricultural Act of 1954.

VI

Much of our present trouble obviously arises from the particular technique of support which we presently employ and which remains unchanged under the new legislation. The interference with foreign trade is the result of supports which prop prices above the world price. Moreover, it is in the course of propping prices that the government acquires stocks. This technique, therefore, is responsible for so much of the surplus problem as is associated with government ownership of stocks. And since the feasibility or impracticability of government storage is an important cause of discrimination, the support technique also has a bearing here.

This means that a change in the support technique -- the abandonment of props and the substitution of a method which would allow prices to find their own level and provide direct payments to bring them up to the standard (i.e., 90, 82 1/2, or whatever per cent of parity) would be a substantial reform. The trade problem would disappear. Since domestic prices would not be directly enhanced, the American exporter would be under no handicap and the domestic market would not be artificially attractive to the foreigner. Also, discrimination between storables and perishables would no longer be technically necessary; obviously the prices of pork or butter or eggs can as readily be supplemented by direct payments as the price of wheat or corn. Since government loans or purchases are not used to peg prices, the surpluses do not become the property[3] and hence the peculiar responsibility of the Secretary of Agriculture.

Meanwhile, the protection accorded to the farmer would be substantially the same. The payments would compensate for adverse movements in his terms of trade in times of declining aggregate demand -- perhaps the major rationals of the farm price program -- and the economic stabilization effects of the present system are preserved and possibly enhanced.[4]

These are formidable gains. However, not all problems are solved, and these are not undiluted gains. The incentive to produce remains unchanged, so presumably, the production will be as large as before. Large production of a product would manifest itself not in government purchases as before, but in low market prices and proportionately increased payments to give the farmer the guaranteed prices. In effect, migraine induced by a surplus problem moves across the Mall from the office of the Secretary of Agriculture to that of the Secretary of the Treasury.

Since the surplus problem remains, so does that of controls. To keep costs down, some way must be found to prevent the undue expansion of unwanted crops. There is a chance that the new technique of support would ease the control problem -- for example, the supplementary payments could easily be denied to

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[3]The proposals submitted to the Congress in the winter of 1949 that came to be known as the Brannan Plan were narrower in their application and hence in their effect. Storable products would still have been propped under the Brannan Plan; only perishables would have had supplementary payments. As a result, the Brannan proposals would not have much affected the trade problem -- most export and import products are storable -- and government accumulation of storable surpluses would still have been required. Mr. Brannan's attack was, essentially, confined to the problem of discrimination as well as to the peculiarly difficult job of handling perishables like potatoes and butter where storage, though impossible or expensive, is nonetheless forced by Congress.

[4]The cost of sustaining farm income is shifted from the consumer to the Treasury which, in times of receding aggregate demand, means a large expansionist effect.

over-quota production. By thus enforcing a sharp reduction in marginal revenue, enforcement on the specific crop would thus be made relatively simple. However, simple or not, a detailed control apparatus is still necessary, and in cases of severe disequilibrium it would still have to be unpleasantly severe. I shall have a further word on this presently.

VII

There are also some disadvantages from the remedy. In welfare terms, the cost of the alternative technique is no higher and may be lower. By directly boosting the price to the consumer, the present arrangement acts like a sales tax levied on the particular product. The consumer pays this tax. Under the alternative system the money would in fact be raised by the Treasury. When the price supplements were being paid as the result of a shortage of aggregate demand (i.e., a developing depression), this would involve no embarrassment, for it would be fiscally sound and desirable to allow the payments to increase the deficit. With demand at full employment levels, funds for any payments that might then be required should, in principle, come from taxes. This is unlikely to be palatable to Treasury and Budget authorities, although it can hardly be suggested that their preferences should be decisive.

There is also the possibility that farmers -- some at least -- will find the revised technique less palatable, although Hathaway's investigations in Michigan[5] as well as polls by Wallace's Farmer in Iowa suggest that this resistance is easily exaggerated. Under the revised technique, what the farmer regards -- in my view with justice -- as legitimate protection in light of his peculiarly vulnerable position takes the form of a wholly overt subsidy. In the Puritan ethos there is no such thing as a legitimate subsidy. If one must nonetheless be paid, how much better to have it out of sight. It is said that even the woman of easiest virtue likes to think of the money which she finds under the pillow as an earnest of affection.

Under the revised technique there is also a chance that someone will want to cut off the payments to large farmers. This can readily be done. The present technique of propping prices requires that they be propped equally for all. The justification for a farm program is that the uninhibited price system treates the farmer with rather more rigor than it does other groups, that, as noted, it exposes him to especially adverse movements in his terms of trade when aggregate demand falls, and that both farm and general welfare are served by mitigating these effects. If this be so, then the effects should be mitigated for large farmers as well as small. If it is sound social policy to discourage large farms that is a separate matter to be legislated and defended on its own merits. The defects of the revised technique can be partly overcome. The program could be given its own revenue source. The ideal would be a fund to be accumulated when prices are above the standard level. Payments to farmers could be made not by government check, but, in a more seemly manner, by way of buyers or processors and so added to the price. The intention to divorce the payments from discrimination on farm size could be strongly affirmed by Congress.

5

VIII

As noted, the problem of surplus cum controls remains. This is not surprising, for it has never been attacked. Were it once tackled, not as an exercise in social theory, but as a problem to be solved, the surplus question would also undoubtedly yield.

At the outset a distinction must be made between surpluses that are associated with a general deficiency in demand and those which are the result of a particular disequilibrium in a product or group of products. It is not too much to say that the problem can be discussed intelligently only in light of this distinction. In the past it has not often been made. Let me speak first of the general equilibrium surplus.

When aggregate demand in the economy falls we may expect an all-round redundancy of agricultural output precisely as we expect general unemployment of workers. Unlike unemployment, the concept of an agricultural surplus is not without ambiguity. It implies that more product is available than can be sold at prices the community regards as adequate. Obviously, the notion of what is adequate involves all sorts of subjective judgments. However, the fact that agriculture in the short run adjusts to declining demand with falling prices and industry with a curtailment of output means that the low prices (or growing government inventories) are the precise counterpart of unemployment in industry. The obvious long-run remedy for this type of surplus -- and very likely the only possible remedy -- is to repair the shortage of aggregate demand. The very tasks which this shortage of demand causes the government to perform in the agricultural sector -- the acquisition of stocks to support prices or the outlay of funds to supplement prices under the alternative arrangement here suggested -- help to remedy the general deficiency in demand. We should accept and even welcome these outlays as part of the counter-deflationary machinery of the modern economy. In principle, no measures of crop curtailment or control should be taken when general equilibrium surpluses appear. The practical situation may conceivably force exceptions but, as a broad rule, when farm surpluses are the result of depression the line of remedy runs to the depression and not to the surpluses. The only problem presented by the latter is how to live with them as gracefully as possible. Clearly the alternative support techniques here outlined will substantially ease this problem of surplus management especially for perishables.

The particular equilibrium surplus may arise even when the economy is functioning at full-employment levels. Some set of causes -- exceptionally high yields and production or a decline in foreign or domestic demand -- brings a greater production than can be sold at prices that are deemed adequate. This is the nature of the present surplus of wheat (and related cereals) of cotton, and of a limited number of other products. In the case of cotton the cause is the high upward elasticity of supply. In the case of wheat it is the decline in overseas demand following the earlier expansion to meet wartime requirements. This, it will be said by many, is the kind of surplus that should be eliminated by reduction of the price standard. There is certainly no universally defensible price standard. In the current case of wheat, levels by some standards of equity may well be "too high." Technological change has left the wheat parity marooned on a very high school. But as a device for surplus control, price reduction appeals greatly to those whose affection for the traditional outweighs their desire to be practical as well as to those who dislike on grounds of principle to see the farmer escape the punishment which the market is supposed to mete out to those who are caught over-producing. In fact, where the problem

of the particular equilibrium surplus is worst -- in the case of wheat and cotton in particular -- the elasticity of supply in response to price reduction is almost certainly rather low. And agrarian affection for price as a way of enforcing production curtailment is practically zero and intimately associated with voting attitudes.

The solution is not to attack cereals or cotton directly, which will accomplish little or nothing, but to put on a truly vigorous drive to shift resources to the livestock economy. In this effort we are jointly blessed by the much greater elasticity of the demand for animal products as compared particularly with cereals and their very much greater resource requirement per unit of nutrients provided to the consumer. Hence, in sharp contrast with wheat, a small decrease in the price of livestock products will bring a relatively large increase in consumption. And to get the equivalent calories in the form of animal products means a much more than proportional decrease in cereal production. It takes, we know, several times more acres to provide a person with a meat diet than a cereal diet.

However, to remedy the surplus in this way will require a strong reversal of present policy. The present policy favors the surplus products over those which offer the promise of remedying the surplus. Wheat, cotton, and other surplus products are produced with the advantage of a firm price guarantee; animal products either enjoy no such guarantee or, as in the case of dairy products, the guarantee is substantially lower. (A visitor from Mars would conclude from present arrangements that we cherished our over-production and our controls and sought only to keep the CCC in business.) The revision in the technique of support suggested above is essential for reform since the present method cannot be applied to meats and has grave disadvantages for dairy products.

But merely to eliminate the present discrimination against animal products is almost certainly not enough. A determined program for eliminating surpluses would go further and place a positive premium on animal products. By supplementary payments, dairy and poultry products, pork and (if cattlemen could be persuaded to go along) beef would be made profitable to the producer and attractive in price to consumers. Every market incentive would then exist for a movement of resources from the sector where they are an embarrassment to the sector where they can be accommodated with comparative ease. A small subsidy of livestock products would, in effect, be used to eliminate the need for a much larger and much less useful one for cereals, together with the accompanying controls.

However, a full-scale attack on the surplus and control problem would not rely exclusively on market incentives, however generous. Direct resource transfer payments would be offered to farmers who shift land from wheat to permanent pasture and from cotton to balanced-farming systems. (These should also be used for less important crops like apples and prunes which, otherwise, we subsidize year after year.) Also, the government credit agencies should be awakened to provide special credit up to a very large percentage of total requirements of farmers making the favored resource shifts.[6]

IX

I have no hesitation in saying that, given full employment demand, a determined attack could solve the problem of the cereal surplus -- and the need for companion controls -- within five years. Substantial progress might even be apparent by the time of the next election.

I would not wish to claim that the measures I have here outlined would "solve" all of the farm problem -- or more precisely the commercial farm price problem. There are disorders which I have not touched; no doubt we would be blessed with some new problems before the old ones disappeared. Yet it is evident that some of our worst problems will yield if vigorously attacked. Moreover, the solutions do not subject the farmer to the unreality of more extreme punishment by the market than he now experiences. Nor need the cost be great. Given full employment, the end product of the measures here outlined might well be a direct Treasury cost as low or lower than at present.

Nor must we accustom ourselves to any breath-taking innovations in economic or social policy. Little that I have suggested is new. We can solve the farm problems because they are not especially intractable. We haven't solved them because we haven't tried.

A POLITICAL INTERPRETATION OF AGRICULTURAL ISSUES [1]

By Charles M. Hardin, Department of Political Science
University of Chicago

This is a sweeping title. Many things could be brought under it. Take electoral politics. Is the farm vote now of negligible influence in determining which party elects the President and organizes Congress? Is there a relationship between farm prices and the farm vote? How much leeway in adjusting farm policy do politicians have in light of the voting behavior of farmers? Or one could discuss group politics within agriculture. What is the anatomy of farm politics? What organizations are growing? Specifically, is the Farmers Union able to make gains because of rural dissatisfaction with farm prices and farm policies? What is the state of intersectional competition and cooperation among farm groups? What changes in the pressure group aspects of administrative agencies have occurred since 1952? More broadly, how do farm policies affect horizontal groups in society—the rich, the middle class, and the poor? Is the achievement of social mobility facilitated or frustrated by farm policies? How well do these policies arbitrate the conflicting demands for security and for mobility? Or one could let the examination embrace relationships among farmers, business, and labor. Akin to this is the mutual involvement of rural and urban interests. We in agriculture can anticipate a swelling chorus of complaints, increasingly bitter, about "rurally dominated legislatures." We can reply in part that this phrase distorts the truth. But there remains the germ of truth, and we will wince, too; our withers will still be wrung.

All these and more would be relevant to my subject. Important as they are, however, I have other fish to fry. Politics is largely concerned with the organization and purposes of power. I propose to discuss with you this afternoon the tangential effects of farm politics upon the two most compelling problems of contemporary American politics—one having to do with the organization of power, the other with its purposes.

I

Let me speak first to the organizational problem, namely, how to develop effective presidential leadership and still to hold it accountable.

The assumption underlying what follows is that any government's organization and procedures are of considerable importance in its success or failure. I am not arguing that governmental gadgets can be perfected so that a fool can make as wise decisions as a man of character. In politics there is no substitute for statesmanship. Yet statesmanship can be given institutional encouragement; you all have heard the definition of a statesman as a politician held upright by equal pressures from all sides. Nor do I overlook chance—good or ill fortune which presides over many human events. And yet the puritan father who took his gun to church was wise. "What will thy gun availeth thee, Samuel?" asked his wife. "If God intendeth the Indian to kill thee, he will kill thee." "True, indeed, Martha," said Samuel, "But what if God intendeth that I kill the Indian?" In this spirit, let us proceed.

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[1] An address at the Graduate School of the U.S. Department of Agriculture on December 8, 1954, as one of a series of lectures on Farm Policy.

French government has been characterized as apoplectic at the center and paralytic at the extremeties. American government might be called schizophrenic at the center and generally satisfactory at the extremeties. The Founding Fathers (I prefer this term to the "Framers" connotations of which give me pause) had a dual intention, first, so to divide and distribute power that national tyranny should forever be prevented--but, second, to facilitate the rapid consolidation of power in emergencies. National tyranny was forestalled by separating power among Congress, the President, and the courts; by dividing power again between the federal government and the States; and by creating a framework in which the social power of groups (agriculture, labor, business, veterans, the professions, and so on) could intrench themselves. Our constitutional skeleton is muscled by a thousand interests. Some of them have sought, with occasional success, to secure a piece of the presidency for themselves. Many of them are ordinarily implanted in Congress. As James Madison foresaw [1] "the spirit of party and faction" is involved "in the necessary and ordinary operations of government."

But the Founding Fathers also gave us the presidency, an office whose main characteristic, according to Alexander Hamilton[2], is energy. In crises of peace and war, the presidency has emerged as the foremost organ of government. Now crisis is continuous, and the expansion of the presidency shows it. In President Coolidge's executive office, there were only 25 persons. Under FDR this figure jumped eventually to 596 and it exploded under Truman to 1,470[3]. President Eisenhower has carried forward the trend, among other ways, by his use of the National Security Council and by his recent establishment of a cabinet secretariat.

Nevertheless, Congress and President continue from time to time to glare at each other across the barricades. A Lincoln story told by Louis Brownlow is illustrative. One day President Lincoln began to tell an aide about his early experiences as a teacher in a one room school. He had about a dozen pupils, he said, ranging in age from 6 to 16 and they were all taking turns reading passages from the Bible. The little boys and girls rattled off, "with easy precision the memorized, oft-repeated text." But one boy, "a dull-witted sixteen year old named Willy..., a great, stumbling, awkward fellow..."had to be lifted over his passages not only word by word but syllable by syllable. When they reached the fiery furnace, Lincoln painfully maneuvered Willy through one bout with Shadrach, Meschach, and Abednego and called on the next pupil. Suddenly Willy began to bawl. "Willy," Lincoln said, "What's the matter?" "Teacher," he said, "I counted down these verses here, and here come them three damn fellers again," At that, Lincoln pointed out the window. Coming toward the White House were Charles Sumner, Ben Wade, and Thaddeus Stevens--three leaders of an anti-administration clique which was making his life miserable in Congress. [4] Those "three damn fellers," more or less, have reappeared in every chapter of our history. Theodore Roosevelt had his Aldrich, Hale, and Cannon; Woodrow Wilson, his "little group of wilful men"; Coolidge had the Sons of the Wild Jackasses. FDR and Truman had an assortment of Congressional antagonists. And the present incumbent is discovering that the problem is generic--that no landscape in political Washington is without its bridges that must eventually be crossed.

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1. Federalist No. 10. 2. Federalist No. 69.
3. Fortune, Feb., 1952, p. 77. 4. Adapted from Brownlow, The President and The Presidency (Chicago: Public Administration Service, 1949) pp.9-10.

During much of our past history the consequences of the separation between the President and Congress have been, at least, supportable. Much public policy has been successfully carved up and passed out to the interested parties. Congressman Flannagan once declared of the tobacco program: "It works. If this House will continue to leave the tobacco problems to the tobacco growers and their Representatives in Congress it will continue to work." The Army Engineers provide perhaps the best example of this tendency toward independence from overall control, but there are many others; and, on the whole, it must be said that the country has lived very well with its loose-jointed, dispersive government.

Yet it seems that we are now continuously confronted by a number of live-or-die issues, all of which demand presidential leadership; these policy issues cluster under the name of defense; they number foreign policy, both diplomatic and economic; policy in the entire area of science--a field in which national survival also requires that we maintain at least a parity with Russia; security policy; fiscal policy; immigration policy; information policy; and perhaps, others. In each of these matters, and all of them together, the presidency needs organized criticism of which Congress is an unrivalled source. But criticism is far different from offering alternative leadership. We cannot safely parcel out these issues among Congressional committee chairmen--as we can, say, flood control policy, or soil conservation, or grazing on the public domain, or policy for crops like sugar, tobacco, peanuts, rice, or even (to some extent) wheat and cotton. Let me repeat, the problem is by no means to stifle criticism of the executive. Rather it is to recognize that in a series of issues on which national survival may well depend, our time-honored alternative to executive leadership--to wrench whole areas of policy out of the presidency and plant them in Congressional committees--is no longer acceptable.

Where does farm politics fit in? In several ways, agricultural issues have worked to create the modern presidency. The late Clifford Gregory vividly described how the first AAA was formulated when its architects learned from the National Industrial Recovery Act that it was possible to operate by means of massive delegations of legislative power to the executive.[1] The NIRA was soon condemned, among other reasons, for being "delegation run riot;" but the AAA has survived several transmigrations and is still with us, under another name. Moreover, the principle permitting broad delegation of legislative authority to the executive was established in large part by the Supreme Court in the milk cases--M. Mendes-France should realize that, with us, milk is a very potent beverage.

On the other hand, farm politicians have continuously found their main reliance in Congress where their political strength primarily lies--while, in recent years, it has become clear that the presidency rests upon a constituency in which the center of gravity is located in a handful of States which are dominated by great metropolitan centers. There is no need for me to go into the high, fixed, rigid parity enjoyed by each State in the Senate, nor to discuss the manner of redistricting House of Representative seats--an exercise in applied political geography by State legislatures in which rural and small-town areas are heavily over-represented.

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1 See his article, "The Farm Bureau and The AAA," in The Annals of The American Academy of Political and Social Science, January 1935.

Farm politicians have long recognized the phenomenon we are discussing. In the 1920's, McNary-Haugenites fought the administration. In the 1930's after the initial New Deal upsurge, control over farm legislation shifted toward Congress--even by 1934 in the Bankhead Cotton Bill and the Kerr Tobacco Bill, neither of which were administration measures. Legislation in 1936 and 1938 was collaborative between the administration, Congress, and the farm groups. By 1941, Congress scored a victory in raising farm price supports to 85 per cent of parity. In 1942 President Roosevelt laid down his famous threat to Congress in his Labor Day speech: You control farm prices or I will. Relationships between the P resident and most of the organizedfarm interest deteriorated during the rest of World War II, and they worsened again in and after 1949.

In April 1954, the chairman of the sub-committee on agricultural appropriations of the House of Representatives, Mr. H. Carl Anderson, exploded rather violently against the White House, the American Farm Bureau Federation, and the Grange for re-writing the annual appropriation bill for agriculture. "Shall we permit the executive department," he asked, "regardless whether it is in control of my political party or the other political party, to write our appropriation bills?"[1] On every appropriation bill except two, Congress cut the President's request for fiscal 1955; on the agricultural bill and only one other, Congress raised the President's budget.[2]

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Before I leave the organizational problem, let me make it clear that I have no nostrums for it up my sleeve. Of the numerous proposals that have been made, Professor Corwin's suggestion of a cabinet which would include members of Congress might commend itself to you.[1] Short of some profound institutional change, it may be that the present constitution can be made to work better if enough influential people are as conscious of its shortcomings as they are of its advantages and are as anxious to make up for the former as they are to exploit the latter.

II

Now let me turn from the organization of government in order to emphasize its purposes. The distinction between organization and purposes is not a dichotomy. A British political scientist recently called politics "the arrangements by which men live together." Such arrangements include forms and procedures as well as ends or purposes; nevertheless, we believe that in the final analysis government is only instrumental to something else--what appear to be governmental purposes are, in their essence, means and not ends.

For us, government is made for man, and not vice versa. We do not paraphrase Hitler by inscribing over the entrances to our public schools the statement: "You were born to die for America." Nor do we find all human purposes, individual and collective, determined by economics, as Marx would have it. Instead, we celebrate the educated, well-balanced, mature, and morally-responsible human being.

Most profoundly, then, government in our scheme of things find its first principles outside itself. The purposes of government are penultimate. Ultimate purposes are realized in the lives of individuals, and the highest end of government is to perfect the conditions under which these lives are led. We must hold fast to this principle even though the government which we are discussing can, and does, and sometimes must order its citizens to their death.

Wheat are the purposes of our government? Most admirably, they are expressed in the preamble to the Constitution. Yet none of the famous phrases are self-elaborating -- what order, justice, the common defense, the general welfare, and even liberty mean must be continually defined in concrete situations. In

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this definition, farm politics has had a considerable part. Probably the most important single decision in constitutional law, John Marshall's enunciation in 1819 of the doctrine of implied powers, was induced directly by an agricultural controversy. Some 58 years later, the Supreme Court, in upholding the State Granger laws which regulated grain elevators, railroads, and warehouses, defined as regulable a category of "businesses affected with a public interest." Later, this category grew so restricted and artificial that it became useless--until in 1934 the Court was called upon to decide the constitutionality of New York's milk control law. In finding this law valid, the Court helped to rip away many restraints which had been judicially fastened on the police power of the States. But we need not catalogue the broadening effect of farm policy upon the definition of economic activity within reach of Congress and State legislatures. Let me say only that no field of waving grain is beyond the reach of Federal marketing quotas. There are no rocks nor rills, no woods nor tempted hills that cannot be defined as within a small watershed. There is no known rural need for which federal assistance is constitutionally unavailable. It is curious to recall President Buchanan's fretful veto of the first Morrill bill to provide federal grants to the States for the establishment of the agricultural and mechanical arts colleges lest "the character of both Governments...be greatly deteriorated." But Lincoln did sign the bill, the land-grant institutions were established, and the chances are that each of you can gather empirical evidence upon Buchanan's gloomy prophecy by looking at your neighbor on either side. Farm politics has underwritten the principle of federal support for higher education, research, and extension; it has therefore helped to consummate the wedding between "government and science" that Don K. Price has brilliantly celebrated in his recent book.[1]

Such have been some of the effects of farm political issues on the public purposes of this country. Farm politicians have made great contributions to these purposes--especially in the fields of economics, education, welfare, and resource conservation. I must confess to a profound respect for the men who helped broaden the scope of government in response to rural--and urban--demands. Although I was not one of the 460,000 who wrote President Franklin D. Roosevelt on the occasion, I thrilled to his inaugural statement that "we have nothing to fear but fear itself." The country felt the benefits of the gentle rain of checks from Washington and it took heart at the determination at the center to do something about economic blight. Later, I saw the New Deal in agriculture at its best--in the cabins of Farm Security Administration borrowers, in the gleaming rows of canned food on their shelves, and in the instrument that made them possible: a pressure cooker--perhaps the only authentic symbol of what we sometimes call the American Way of Life that this family had ever possessed. Whether the light in the people's faces reflected this shining thing or the reflection was the other way around was sometimes a little difficult to tell.

And yet even such good things can be uncritically accepted. I am reminded of the British Conservative's complaint that the Labor politicant who "lets his bleeding heart go to his bloody head." Experience with the public farm programs, among other programs, has demonstrated that not all economic problems are readily solved simply by transferring them to government. Recent experience

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1 Government and Science (New York University Press, 1954).

also shows that the most unprecedented prosperity does not automatically neutralize the poisons of inter-group hatred and distrust which society generates. Meanwhile, however, the expanded role of government in economic life has required building a powerful political machine which may be used either for ill or good, or, more likely, for mixed ill and good. Some farm statesmen have been appropriately aware of the tendencies of the welfare state to extend public regulation and control until economic liberty is seriously hampered. Without subscribing to their bill of particulars against public price supports, storage, and production controls, I think that their critical disposition serves the public interest. Unfortunately, however, this critical disposition tends to be myopic.

Let me make this point crystal clear. Governmental purposes are expanded by other than economic pressures. War is the greatest nourisher of governments. Our government, already surfeited, must continue to feed heavily during this uneasy peace. At the same time, the strengthened will to resist an outward enemy is matched by a hypersensitivity to the threats of internal subversion. Past wars, the threat of future wars, and the nagging fear of domestic disloyalty--all expand and mold our political purposes. "Now is the time that tries men's souls," wrote Tom Paine at Valley Forge. With us, in this rather graceless year of grace, it is the government that tries men's souls.

This is where the agricultural myopia comes in. Farm politicians who are both good architects and good critics when it comes to public economic policy are too often indifferent to other areas of public policy from which liberty may be subject to even greater dangers. I think that this myopia stems straight out of their intense concern with farm problems. I want to make this point with all the force at my disposal. Too many agriculturalists become so absorbed in the compelling and exacting issues of agriculture that they neglect, ignore, and even depreciate those other matters. We must guard against sacrificing, in the name of welfare, the essential freedomes of economic choice. In the name of security, we must not so worship the virtues of conformity that George Orwell's nightmare state emerges from the ruins of the bill of rights.

A POLITICAL INTERPRETATION OF AGRICULTURAL ISSUES [1]

By Charles M. Hardin, Department of Political Science
University of Chicago

This is a sweeping title. Many things could be brought under it. Take electoral politics. Is the farm vote now of negligible influence in determining which party elects the President and organizes Congress? Is there a relationship between farm prices and the farm vote? How much leeway in adjusting farm policy do politicians have in light of the voting behavior of farmers? Or one could discuss group politics within agriculture. What is the anatomy of farm politics? What organizations are growing? Specifically, is the Farmers Union able to make gains because of rural dissatisfaction with farm prices and farm policies? What is the state of intersectional competition and cooperation among farm groups? What changes in the pressure group aspects of administrative agencies have occurred since 1952? More broadly, how do farm policies affect horizontal groups in society—the rich, the middle class, and the poor? Is the achievement of social mobility facilitated or frustrated by farm policies? How well do these policies arbitrate the conflicting demands for security and for mobility? Or one could let the examination embrace relationships among farmers, business, and labor. Akin to this is the mutual involvement of rural and urban interests. We in agriculture can anticipate a swelling chorus of complaints, increasingly bitter, about "rurally dominated legislatures." We can reply in part that this phrase distorts the truth. But there remains the germ of truth, and we will wince, too; our withers will still be wrung.

All these and more would be relevant to my subject. Important as they are, however, I have other fish to fry. Politics is largely concerned with the organization and purposes of power. I propose to discuss with you this afternoon the tangential effects of farm politics upon the two most compelling problems of contemporary American politics—one having to do with the organization of power, the other with its purposes.

I

Let me speak first to the organizational problem, namely, how to develop effective presidential leadership and still to hold it accountable.

The assumption underlying what follows is that any government's organization and procedures are of considerable importance in its success or failure. I am not arguing that governmental gadgets can be perfected so that a fool can make as wise decisions as a man of character. In politics there is no substitute for statesmanship. Yet statesmanship can be given institutional encouragement; you all have heard the definition of a statesman as a politician held upright by equal pressures from all sides. Nor do I overlook chance--good or ill fortune which presides over many human events. And yet the puritan father who took his gun to church was wise. "What will thy gun availeth thee, Samuel?" asked his wife. "If God intendeth the Indian to kill thee, he will kill thee." "True, indeed, Martha," said Samuel, "But what if God intendeth that I kill the Indian?" In this spirit, let us proceed.

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[1] An address at the Graduate School of the U.S. Department of Agriculture on December 8, 1954, as one of a series of lectures on Farm Policy.

French government has been characterized as apoplectic at the center and paralytic at the extremeties. American government might be called schizophrenic at the center and generally satisfactory at the extremeties. The Founding Fathers (I prefer this term to the "Framers" connotations of which give me pause) had a dual intention, first, so to divide and distribute power that national tyranny should forever be prevented--but, second, to facilitate the rapid consolidation of power in emergencies. National tyranny was forestalled by separating power among Congress, the President, and the courts; by dividing power again between the federal government and the States; and by creating a framework in which the social power of groups (agriculture, labor, business, veterans, the professions, and so on) could intrench themselves. Our constitutional skeleton is muscled by a thousand interests. Some of them have sought, with occasional success, to secure a piece of the presidency for themselves. Many of them are ordinarily implanted in Congress. As James Madison foresaw [1] "the spirit of party and faction" is involved "in the necessary and ordinary operations of government."

But the Founding Fathers also gave us the presidency, an office whose main characteristic, according to Alexander Hamilton[2], is energy. In crises of peace and war, the presidency has emerged as the foremost organ of government. Now crisis is continuous, and the expansion of the presidency shows it. In President Coolidge's executive office, there were only 25 persons. Under FDR this figure jumped eventually to 596 and it exploded under Truman to 1,470[3]. President Eisenhower has carried forward the trend, among other ways, by his use of the National Security Council and by his recent establishment of a cabinet secretariat.

Nevertheless, Congress and President continue from time to time to glare at each other across the barricades. A Lincoln story told by Louis Brownlow is illustrative. One day President Lincoln began to tell an aide about his early experiences as a teacher in a one room school. He had about a dozen pupils, he said, ranging in age from 6 to 16 and they were all taking turns reading passages from the Bible. The little boys and girls rattled off, "with easy precision the memorized, oft-repeated text." But one boy, "a dull-witted sixteen year old named Willy..., a great, stumbling, awkward fellow..."had to be lifted over his passages not only word by word but syllable by syllable. When they reached the fiery furnace, Lincoln painfully maneuvered Willy through one bout with Shadrach, Meschach, and Abednego and called on the next pupil. Suddenly Willy began to bawl. "Willy," Lincoln said, "What's the matter?" "Teacher," he said, "I counted down these verses here, and here come them three darn fellers again," At that, Lincoln pointed out the window. Coming toward the White House were Charles Sumner, Ben Wade, and Thaddeus Stevens--three leaders of an anti-administration clique which was making his life miserable in Congress. [4] Those "three darn fellers," more or less, have reappeared in every chapter of our history. Theodore Roosevelt had his Aldrich, Hale, and Cannon; Woodrow Wilson, his "little group of wilful men"; Coolidge had the Sons of the Wild Jackasses. FDR and Truman had an assortment of Congressional antagonists. And the present incumbent is discovering that the problem is generic--that no landscape in political Washington is without its bridges that must eventually be crossed.

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1. Federalist No. 10. 2. Federalist No. 69.
3. Fortune, Feb., 1952, p. 77. 4. Adapted from Brownlow, The President and The Presidency (Chicago: Public Administration Service, 1949) pp.9-10.

During much of our past history the consequences of the separation between the President and Congress have been, at least, supportable. Much public policy has been successfully carved up and passed out to the interested parties. Congressman Flannagan once declared of the tobacco program: "It works. If this House will continue to leave the tobacco problems to the tobacco growers and their Representatives in Congress it will continue to work." The Army Engineers provide perhaps the best example of this tendency toward independence from overall control, but there are many others; and, on the whole, it must be said that the country has lived very well with its loose-jointed, dispersive government.

Yet it seems that we are now continuously confronted by a number of live-or-die issues, all of which demand presidential leadership; these policy issues cluster under the name of defense; they number foreign policy, both diplomatic and economic; policy in the entire area of science--a field in which national survival also requires that we maintain at least a parity with Russia; security policy; fiscal policy; immigration policy; information policy; and perhaps, others. In each of these matters, and all of them together, the presidency needs organized criticism of which Congress is an unrivalled source. But criticism is far different from offering alternative leadership. We cannot safely parcel out these issues among Congressional committee chairmen--as we can, say, flood control policy, or soil conservation, or grazing on the public domain, or policy for crops like sugar, tobacco, peanuts, rice, or even (to some extent) wheat and cotton. Let me repeat, the problem is by no means to stifle criticism of the executive. Rather it is to recognize that in a series of issues on which national survival may well depend, our time-honored alternative to executive leadership--to wrench whole areas of policy out of the presidency and plant them in Congressional committees--is no longer acceptable.

Where does farm politics fit in? In several ways, agricultural issues have worked to create the modern presidency. The late Clifford Gregory vividly described how the first AAA was formulated when its architects learned from the National Industrial Recovery Act that it was possible to operate by means of massive delegations of legislative power to the executive.[1] The NIRA was soon condemned, among other reasons, for being "delegation run riot;" but the AAA has survived several transmigrations and is still with us, under another name. Moreover, the principle permitting broad delegation of legislative authority to the executive was established in large part by the Supreme Court in the milk cases--M. Mendes-France should realize that, with us, milk is a very potent beverage.

On the other hand, farm politicians have continuously found their main reliance in Congress where their political strength primarily lies--while, in recent years, it has become clear that the presidency rests upon a constituency in which the center of gravity is located in a handful of States which are dominated by great metropolitan centers. There is no need for me to go into the high, fixed, rigid parity enjoyed by each State in the Senate, nor to discuss the manner of redistricting House of Representative seats--an exercise in applied political geography by State legislatures in which rural and small-town areas are heavily over-represented.

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1 See his article, "The Farm Bureau and The AAA," in The Annals of The American Academy of Political and Social Science, January 1935.

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1 E. S. Corwin, The President: Office and Powers, (New York: New York University Press, 1948 ed.) Chapter VII.

this definition, farm politics has had a considerable part. Probably the most important single decision in constitutional law, John Marshall's enunciation in 1819 of the doctrine of implied powers, was induced directly by an agricultural controversy. Some 58 years later, the Supreme Court, in upholding the State Granger laws which regulated grain elevators, railroads, and warehouses, defined as regulable a category of "businesses affected with a public interest." Later, this category grew so restricted and artificial that it became useless--until in 1934 the Court was called upon to decide the constitutionality of New York's milk control law. In finding this law valid, the Court helped to rip away many restraints which had been judicially fastened on the police power of the States. But we need not catalogue the broadening effect of farm policy upon the definition of economic activity within reach of Congress and State legislatures. Let me say only that no field of waving grain is beyond the reach of Federal marketing quotas. There are no rocks nor rills, no woods nor templed hills that cannot be defined as within a small watershed. There is no known rural need for which federal assistance is constitutionally unavailable. It is curious to recall President Buchanan's fretful veto of the first Morrill bill to provide federal grants to the States for the establishment of the agricultural and mechanical arts colleges lest "the character of both Governments...be greatly deteriorated." But Lincoln did sign the bill, the land-grant institutions were established, and the chances are that each of you can gather empirical evidence upon Buchanan's gloomy prophecy by looking at your neighbor on either side. Farm politics has underwritten the principle of federal support for higher education, research, and extension; it has therefore helped to consummate the wedding between "government and science" that Don K. Price has brilliantly celebrated in his recent book.[1]

Such have been some of the effects of farm political issues on the public purposes of this country. Farm politicians have made great contributions to these purposes--especially in the fields of economics, education, welfare, and resource conservation. I must confess to a profound respect for the men who helped broaden the scope of government in response to rural--and urban--demands. Although I was not one of the 460,000 who wrote President Franklin D. Roosevelt on the occasion, I thrilled to his inaugural statement that "we have nothing to fear but fear itself." The country felt the benefits of the gentle rain of checks from Washington and it took heart at the determination at the center to do something about economic blight. Later, I saw the New Deal in agriculture at its best--in the cabins of Farm Security Administration borrowers, in the gleaming rows of canned food on their shelves, and in the instrument that made them possible: a pressure cooker--perhaps the only authentic symbol of what we sometimes call the American Way of Life that this family had ever possessed. Whether the light in the people's faces reflected this shining thing or the reflection was the other way around was sometimes a little difficult to tell.

And yet even such good things can be uncritically accepted. I am reminded of the British Conservative's complaint that the Labor politicant who "lets his bleeding heart go to his bloody head." Experience with the public farm programs, among other programs, has demonstrated that not all economic problems are readily solved simply by transferring them to government. Recent experience

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1 Government and Science (New York University Press, 1954).

also shows that the most unprecedented prosperity does not automatically neutralize the poisons of inter-group hatred and distrust which society generates. Meanwhile, however, the expanded role of government in economic life has required building a powerful political engine which may be used either for ill or good, or, more likely, for mixed ill and good. Some farm statesmen have been appropriately aware of the tendencies of the welfare state to extend public regulation and control until economic liberty is seriously hampered. Without subscribing to their bill of particulars against public price supports, storage, and production controls, I think that their critical disposition serves the public interest. Unfortunately, however, this critical disposition tends to be myopic.

Let me make this point crystal clear. Governmental purposes are expanded by other than economic pressures. War is the greatest nourisher of governments. Our government, already surfeited, must continue to feed heavily during this uneasy peace. At the same time, the strengthened will to resist an outward enemy is matched by a hypersensitivity to the threats of internal subversion. Past wars, the threat of future wars, and the nagging fear of domestic disloyalty--all expand and mold our political purposes. "Now is the time that tries men's souls," wrote Tom Paine at Valley Forge. With us, in this rather graceless year of grace, it is the government that tries men's souls.

This is where the agricultural myopia comes in. Farm politicians who are both good architects and good critics when it comes to public economic policy are too often indifferent to other areas of public policy from which liberty may be subject to even greater dangers. I think that this myopia stems straight out of their intense concern with farm problems. I want to make this point with all the force at my disposal. Too many agriculturalists become so absorbed in the compelling and exacting issues of agriculture that they neglect, ignore, and even depreciate these other matters. We must guard against sacrificing, in the name of welfare, the essential freedoms of economic choice. In the name of security, we must not so worship the virtues of conformity that George Orwell's nightmare state emerges from the ruins of the bill of rights.

ADJUSTING FARM PRODUCTION

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In discussing this topic of adjusting farm production, we will first point out the important sources generating problems for farmers and administrators in adjusting farm production to meet market and national requirements, and then we will discuss some of the principal ways open to dealing with adjustment.

Sources Generating Problems In Agricultural Production Adjustment

An important source of difficulty in adjusting farm production is the character of the demand for agricultural products, and the resulting instability of farm prices and income. We know that the aggregate demand for farm commodities is highly inelastic. Failure of farmers to reduce production when market demand declines would be much less disruptive if the price elasticity of demand were high. With a very low price elasticity for most farm commodities, supplies in excess of the quantities demanded at current prices lead to sizable decreases in farm prices and in total farm income. Similarly, supplies short of the quantities demanded at current prices lead to substantial increases in farm prices and total farm income. Thus inelasticity intensifies the effect of changes in demand on farm prices and total farm income.

Changes in demand for farm products are also important. Changes in demand are associated with growth and mobility in population, changes in technology, in tastes or scales of preference and in degrees of political and economic stability. Some of these changes associated with changes in demand are of a long run nature and predictable while others are of a shorter run character and unforeseeable. For instance, the rural-urban shift in population is of a long run character and foreseeable, whereas shifts in population caused by the mushrooming of military posts in various parts of the country during World War II were of a shorter run nature and more difficult to foresee. In any event, shifts and changes in population underlie changes in demand and in quantities demanded which in turn create problems in agricultural production adjustment. Changes in number of hours worked, in type of work and in living habits are associated with rural-urban population shifts. One effect, for example, has been a declining need for high caloric diets. In the process, the per capita consumption of food items such as wheat and potatoes has decreased. On the other hand, per capita consumption of fruits and vegetables has increased.

Changing rates of population growth also give rise to problems in production adjustment. Currently the nation is growing at a rate of more than two million persons annually. By 1965 population may total 190 million. This will increase substantially the quantity demands for farm

commodities. New land for agricultural production is very limited. Nevertheless, expectations are that the larger market supplies which will be forthcoming from the adoption of new techniques and more extensive adoption of known techniques will fully offset this new market demand. This will require extensive changes in farming practices by the nation's farmers.

Another powerful source is economic and political instability. Prior to the depression of the early 1930's, a significant portion of our total market for agricultural commodities had disappeared through loss of foreign markets. Our total market shrank further with the depression as millions of unemployed approached the point of dropping out of the market. As the depres advanced, consumer incomes dropped sharply as did the aggregate demand for agricultural commodities. Agricultural production was badly maladjusted. Farmers continued to produce for a market which could absorb the volume only at extremely low prices. By the late 1930's economic activity had begun to quicken somewhat but it took the stimuli of World War II to create sharp and sustained business expansion, full employment, and a high level of personal incomes. Aggregate demand for farm products increased greatly as employment and personal incomes picked up with the war's momentum. The European Recovery Program following the war prevented any drop in the total market demand for food which otherwise might have taken place with the end of active warfare. Then in 1950 war broke out in Korea which again strengthened the demand for food. Throughout World War II and through the Korean War farm prices were pegged at levels which were expected to raise total farm production as close to domestic and foreign market demands as possible. Through a multiple point program of price incentives, draft deferments and education, farmers were given every encouragement to expand production. With the cessation of the Korean War and the recovery of farm production in war-torn Europe, our farmers are now facing a situation where their expanded production plants put large farm commodity surpluses into the hands of the government. These surpluses represent, in part, production response to price supports; for many farm commodities, supports have been higher than the level which would clear the market or move all the production into the hands of domestic consumers and into export markets. Without price support operations, consumers and foreign importers alone would have taken the total volume of production only at lower prices.

Economic instability in the form of recurring periods of prosperity and depression, political instability as reflected in alternating periods of war, cold war, and peace all generate momentous production adjustment problems in agriculture. The problem is: How can farmers adjust to the drastic changes in demand and in size of total market which result from political and economic instability? Any upward adjustment in production is not viewed as a distressing problem by farmers. It is the downward adjustment to decreases in demand which is often painful and difficult to accomplish. A declining demand is seldom regarded as of a permanent nature by producers, and farmers are not unique from other producers in this respect. Both economic and psychological factors underlie this attitude. Important economic factors are: (1) that in the short run with fixity in plant, it pays to continue to produce as long as total returns cover total variable costs, and (2) that alternative employment opportunities for farm family resources may be less attractive or even

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nonexistent when declining demand is caused by decreasing business activity and employment. A psychological factor is that expectations are usually for more prosperous future conditions. Hence, farmers may even be willing to disinvest or exploit their resources to assure survival during periods of decreasing demand in order to assure the opportunity to realize expected future farm income. For these reasons, voluntary downward adjustment to a declining demand is usually a slow process in agriculture.

But there are other reasons for the relatively high degree of stability in aggregate farm out-put. One of these is the nature of the factor market in agriculture. To explain the nature of the factor market in agriculture requires a look at the supply function for agricultural resources and at the degree of flexibility in factor prices.

Adjustments to a decreased demand can come about only as a result of either (1) withdrawal of production factors or (2) lower returns to the production factors. When factors are elastic in supply for an industry they will be withdrawn under conditions of decreasing demand for the industry's products and when the prices offered for the use of these factors decline. On the other hand, if factors are inelastic in supply to an industry, their use will tend to be continued in the industry or be withdrawn very slowly when demand for the industry's products decreases. In agriculture, the elasticity of supply for production factors is generally very low. Factors whose supply is generally very inelastic are land, most of farm labor and the existing buildings and machinery. These factor inputs originate within the farming industry itself. Land comes from within agriculture, as does operator and family labor, which makes up most of the labor resource in agriculture. The same is true for existing buildings and machinery. Whenever resources supplies have low elasticity, the price of their services is highly flexible. Hence in periods of decreasing demand and prices for farm products, prices of the farm resource services whose supply elasticity is low decline as much as farm product prices. When decreasing demand conditions culminate in a depression, prices of land and existing buildings decline to low levels since they have no alternative opportunities for employment outside of agriculture. The same can be said about farm labor when industrial unemployment reduces off-farm employment opportunities to zero.

Under similar conditions the same can be said with respect to existing farm stocks of machinery. Since this machinery has no alternative employment opportunities outside of agriculture, its price tends to fall along with farm product prices. Other factor prices which are highly flexible are those for farm-raised feeds with no price supports. On many farms these feeds are both product outputs and factor inputs while on some farms they are only product outputs but become factor inputs on other farms. In either case, as factor inputs, their prices are highly flexible; if their prices decline as products they decline to the same extent as factors. The prices of feeder livestock are similarly flexible. Feeder livestock are product outputs for some farms and become factor inputs for others. When their prices as products fall, their prices as factors fall by an equal amount.

Thus the nature of the resource market in agriculture is characterized as one of very low elasticity of supply for a large part of the factor inputs. Hence, in periods of decreasing demand and declining farm product prices, prices of factors in inelastic supply fall along with product prices to encourage stability in farm output, but great instability in farm prices and income. We can now combine the nature of the factor market in agriculture with the inelasticity of aggregate demand for farm products to explain the high instability in farm prices and income on the one hand and stability of output on the other hand. They are important sources of problems in agricultural production adjustment.

Another source of these problems is the competitive context in which agriculture operates as compared to the market in which agriculture buys. Data on declining prices during periods of business contraction indicate that prices of important resources used in farm production respond more slowly and to a lesser degree to a decreasing over-all national demand than do the prices of farm products and other commodities determined in more competitive markets. Farm resource prices displaying this relative inflexibility are new machinery, repair items, building materials and most other nonfarm-produced resources. Relative price inflexibility for new machinery and new buildings are of concern to farmers only insofar as these capital items must eventually be replaced. At any given point in time the existing stock of machinery and buildings on farms makes it possible for farmers to operate for considerable periods before replacement is necessary. However, over time these items must gradually be replaced. These inflexibly-priced items, including property taxes (and interest payments on debt for some farmers) and some other nonfarm-produced resources contribute to difficulties in farm production adjustment when farm product prices drop faster and further.

Another source which has given rise to problems in agricultural production adjustment are past production adjustment programs in agriculture such as price supports and foreign trade policy. Over the last two decades agricultural programs have used the acreage-control price support mechanism extensively to increase farm income. Because of the highly inelastic demand for agricultural commodities, one might logically expect that a production control policy would increase total income in agriculture and decrease the total quantity of resources used in agriculture.

It is common knowledge that past production control programs in agriculture have been less than fully effective in decreasing the total quantity of resources used in agriculture and in reducing output in the aggregate. A number of factors explain this failure. Instead of having the effect of withdrawing resources from agriculture, past programs have caused these resources to shift within agriculture. Farmers have either shifted their resources to the production of non-control commodities or shifted their given supplies of capital and labor to fewer acres. In the latter instance, they have substituted labor and capital for land. Furthermore, they have substituted forage for grain in livestock production. Through income payments to farmers who reduce acreage, past production control programs have actually encouraged resources to stay

in agriculture. They have fallen short in transferring resources out of agriculture also because the individual farmer is essentially what economists call an atomistic competitor. For this reason he has the incentive to expand production because he hopes that other farmers won't and he knows that his actions as an individual won't affect the outcome. Finally these programs have fallen short in reducing aggregate farm output because of the complementary effects of legumes, grasses and fallow on grain and fiber crops. Our prewar and present agricultural surpluses reflect the ineffectiveness of past production control programs in decreasing total agricultural output.

Furthermore, by forcing proportional adjustments throughout agriculture, past production control programs have contributed to further maladjustment in agricultural production. To improve resource efficiency in agriculture their effect should instead be one of (1) withdrawing resources from agriculture where they are in surplus, (2) increasing the mobility of agricultural resources so that they will move from areas where their marginal value productivity is low to where their productivity is higher, and (3) facilitating resource movement among production opportunities so as to be consistent with consumer preferences, the nation's dietary goals and the inherent productivity of our resources.

Problems in agricultural production adjustment also stem from difficulties in foreign trade. Problems in foreign trade rest (1) on fear that producers of farm commodities in other nations will encroach upon our domestic market, (2) on the dumping of our surplus farm commodities in other countries, (3) on differences among nations in political ideologies, (4) on shortages of dollar exchange in potential foreign markets, and (5) on political and economic instability. Fear of foreign encroachment on our domestic market has resulted in tariff barriers and hence production out of line with comparative advantage. Pressure from within agriculture to dump our surplus farm products abroad has resulted in large expenditures on export subsidies, especially for wheat and cotton. The immediate effect of this policy has resulted in no loss to our farmers and has helped in maintaining product prices. Political and economic retaliation from abroad measure the longer run effects. The economic costs of trade restrictions stemming from differences in political ideologies must be weighed against the uncertain political returns. The shortage of dollar exchange in potential foreign markets limits the size of our market and this shortage is partly the effect of our trade policy, the war's devastation of resources, and a whole host of factors which hinder economic development.

Political and economic instability is chiefly responsible for our highly unstable agricultural export market. Let us take wheat as an illustration. The foreign demand for wheat during World War I is fundamental in explaining the very high wheat prices at that time. High wheat prices in turn led to speculatively high land prices, increased farm debts and expansion in production. From 1914 to 1919 wheat acreage increased from 56 million to 74 million. With the end of the war, foreign buying power collapsed. This fact, together with our high import tariffs in 1921 and 1922 and Canada's competition as a world supplier of

wheat, caused severe maladjustment in our wheat production. The market could clear our relatively large wheat supplies only at prices sharply reduced from 1919. From 1919 to 1922 the farm price of wheat fell from $2.16 to $0.97 per bushel.

During the depression of the 1930's, wheat as an export commodity experienced the full effects from loss in buying power. Wheat prices reflected not only our own consumers' loss in buying power but also the loss from abroad. The weak foreign demand for wheat during the 30's contributed toward keeping wheat prices low.

With the beginning of World War II, it was again the large quantity demands for wheat that contributed greatly to our large expansion in wheat acreage and production. From 1939 to 1948 our wheat exports increased from approximately 50 million to 500 million bushels.

Foreign needs for wheat have again dropped sharply from war and early post-war levels and we have a wheat plant capable of producing more than the market will absorb at existing prices. Hence, over time political and economic instability has created a highly unstable external market for wheat, and the fluctuating foreign market for wheat has in turn caused serious production adjustment problems in wheat. The story for our other agricultural export commodities is in varying degrees the same as for wheat.

Since external demand for agricultural commodities is a highly unstabilizing influence in an important sector of our agriculture, some might say that we should embark upon a policy of producing to be sufficient only to ourselves. Such a policy however, would complicate rather than help solve the problem. According to a recent report, such a policy would mean that we would have to reduce our wheat acreage by one-half, cotton acreage by one-third, tobacco acreage by one-fifth and rice production by one-fourth. In addition, adjustments would have to be made in our production of apricots, prunes, raisins, citrus and some other products. Reductions of this magnitude would mean far-reaching adjustments in agricultural land use and employment.

A final source of problems in agricultural production adjustment that I shall mention is that of <u>production uncertainty in farming</u>. Because of weather, insects and disease, planning physical production in agriculture is entirely different from planning industrial output. Droughts and pests may bring severe reductions in crop output and rising farm prices whereas bumper crops tend to bring the reverse. To date little is known about the frequency distribution of "poor" and "good" crop years. We do know that weather is erratic. Therefore, regardless of how carefully farmers and policy makers may plan production to coincide with effective demand, there is little assurance that the outcome in any single year will correspond to the plans. The disparity is likely to be greatest in lines of production having the longest production period. Uncertainty in production conditions places the farmer in an insecure position which can be offset only at a cost.

Attacking the Problems of Production Adjustment

With this background in mind of the nature of the sources which have generated our problems in agricultural production adjustments, I would like to consider with you briefly some of the ways that are open in attacking the problems of production adjustment. The first of these is that of laissez-faire, essentially with no intervention in the pricing or production function in agriculture. Such a solution would be consistent with a maximum of individual freedom of choice and action. Further, it would permit the untrammeled operation of the so-called free market. Overproduction in terms of the available market in agriculture would be solved by low prices. In view of the demand inelasticity we have indicated earlier, these prices at times probably would be disastrously low. In the case of perishables, there would undoubtedly be some outright loss through spoilage. With such a solution, only the financially soundest and most efficient in agriculture could expect to survive for long. The laissez-faire solution also would take care of shortages. When the production of food and fiber fails to reach the level such as normal consumption would require, the pricing system would conduct informal rationing which restricts the volume going even to the wealthiest and may deny entirely, needed commodities to moderate and low income groups in the satisfaction of their basic needs in food and fiber. Under such circumstances, the producers and holders of inventory stand to gain but such gains are made, of course, only at prohibitive cost to consumers. It should be evident, however, that within limits there are possibilities of substitution in consumption which would reduce the necessity for price rationing. Insofar as substitutes are available, consumption would be shifted by relative price differences from those items in shortage to other items in more plentiful supply. Such a solution, however, is inconsistent with the basic philosophy of government participation in agriculture today.

There are other alternatives to consider by way of approaches to solution of the problem of production adjustment in agriculture. One of these is storage. Since it is evident that a margin of safety lies only in the direction of production in excess of current needs, possibility of storing a portion of the products of agriculture within the limits of perishability is one which calls for careful consideration. At the outset, it should be pointed out that there are really two forms of storage with respect to the time period involved: short-run and long-run. Short-run storage primarily within the marketing period has as its purpose the smoothing of the flow to market and prevention of gluts and surpluses to be found in an unguided market, particularly for perishables, in the absence of adequate market information and coordinated market movements. It should be apparent here that the objectives of such a program are entirely to alleviate intra-production period maladjustments of production to utilization. These are market rather than production adjustments. Storage over the longer run calls for a different set of objectives. In this instance, storage is aimed primarily at providing strategic reserves to protect against the hazards of weather or the added needs of a defense effort. Hence, weather yield variation and anticipated strategic needs form the basis for planning for longer run storage in agriculture.

Typically, the short-run market adjustment as opposed to production adjustment, is linked rather directly to the pricing system. Primary indications of need are taken from the pricing system and objectives are related to standards relative to price. Our marketing agreement and orders program, in part, represents such an effort. In the storables also, as well as the perishables, we have had rather extensive experience with a form of storage program -- at least it appeared to be a storage program in terms of results. I refer to the government's non-recourse loan program geared to commitments in terms of a minimum real price to farmers, and usually involving production adjustment as a condition for price support. The accumulations of stocks of farm commodities under such a program at times have been quite sizeable. The eve of U. S. participation in World War II found Uncle Sam with storage stocks of cotton equal to a full year's production, about one-half of a crop of wheat and one-fourth a crop of corn. These were all very welcome in view of the events which followed. Burdensome surpluses became strategic reserves. But the significant point about this experience is this: These stocks were accumulated purely as a by-product of a price-support program. The matching of these surpluses with strategic need was only coincidental and less than complete. Again after World War II, we found the accumulation of substantial storage stocks of some farm commodities, notably cotton, in the hands of government. By 1950, however, the outbreak of the Korean conflict eased the pressure of such stocks temporarily. Now we find ourselves again confronted with mounting surpluses of both storable and some semi-storable farm products. I need not recount for you in detail the present volume of farm products held by the Commodity Credit Corporation: Suffice to say that such stocks are substantial.

A storage program for agriculture conditioned entirely upon strategic needs and weather hazards offers substantially more promise in terms of its usefulness to the economy as a whole, but its necessary divorce from price support and agricultural income contingencies is evident. It is also apparent therefore that such a program would not work toward present income and/or price objectives in agriculture. The idea of a flexible scheme of price supports, with lowering price support levels as supplies become burdensome inducing reduced production in agriculture, has been most acceptable in some quarters. Secretary Benson, in a statement before the House Committee on Agriculture in March of this year pointed to the preponderance of evidence that farmers, contrary to popular thinking, do not try to counteract lower prices by producing more in order to maintain their incomes at a stable level. In citing this evidence the Secretary also indicated the net extent of producer response to be expected in the case of three of our staple crops. For cotton, Mr. Benson indicates, in the absence of acreage controls, if the price changes 10 percent the acreage of cotton the following year changes 2 percent in the same direction. The acreage response for wheat is of similar proportions. For corn, the acreage response to price changes is even less. These figures would suggest that comparatively little faith can be placed in price flexibility in terms of minimum support levels in achieving production adjustments. Taking wheat as an example, according to the Agricultural Act of 1954, the full range of flexibility in which

price supports are effective is available for application in 1956. Assuming no change in the index of prices paid, this range is 15 percentage points, in terms of parity--from 90 percent to 75 percent of parity. This lowering of support price to 75 percent would be instituted for wheat, however, only when according to the legislation recently passed, supplies reach 130 percent of normal. Assuming the Secretary's figures to be correct, a rough calculation indicates that on the average about 90 percent of the job of readjusting production, in this example, must be accomplished by means other than flexible pricing as currently set up.

There are, of course, some undeniable advantages to flexible support pricing--slightly lowered prices to consumers when farm products are in surplus and a lowered cost to government of price support operations in such times as compared to an inflexible system at 90 percent of parity. But as a device for adjusting production, comparatively little reliance can be placed upon it.

Currently, we are relying upon a comparatively rigid minimum price support scheme, bolstered by provisions for acreage allotments and, where appropriate, marketing quotas as conditions for price support eligibility. This year, we find the added device of cross-compliance. As I understand it, cross-compliance means this: In order to be eligible for price supports under the current programs, the producer must not have exceeded his acreage allotment for any crop on which acreage allotments apply. With the exception of vegetable acreage and wheat acreage for which special restrictions apply, the producer is free to shift acreage diverted out of allotment crops into any non-allotment crop as he sees fit, without jeopardy of his price support eligibility. As such, this program represents a substantial easing of the earlier cross-compliance and total acreage allotment provision to be applied for the 1955 crops and implies substantial confidence in the willingness of the producer in agriculture to follow enlightened group interest in his planning, as well as the concern of the government over the impact of droughts in many areas of the country.

Can we move one step further and apply acreage allotments and marketing quotas to adjust production in line with anticipated demand and current stocks "without" coupling this to the price support mechanism? Some of the accumulation of storage stocks is due to price supports which were too high to move all production into consumer channels. Therefore, such a move, if practicable, would facilitate the adjustment from present levels. Two considerations here are pertinent in limiting such an operation, however. (1) The Federal Government cannot restrict or regulate production of agricultural commodities, since this is not one of the powers delegated to the Federal Government, and would be in violation of the 10th Amendment under which all powers not so delegated remain to the states or to the people. Providing for production restrictions could only be accomplished via a referendum to producers concerned and majority rule in the same fashion whereby market orders are promulgated now. (2) After twenty years of intermittent experience with price support and incentive payments as a condition for

production and marketing volume restriction, it is fairly evident that to the producer, price support and production control go hand in hand. Adequate price support assurances must accompany any successful production restriction program, and the penalty provisions for excess marketing are likewise needed. It is not likely that producers would vote favorably on production restrictions in the absence of price supports, nor could compliance be assured without marketing quotas and penalties.

How far can this type of approach--of spelling out what acreages the farmer may produce if he is to be eligible for the benefits of price support--go in accomplishing the ends of adjusted production? Carried to its limits, it is evident that adjusted production in agriculture could be achieved subject only to limitations of (1) intelligence of the planners, (2) weather variations, (3) yield subversion of production goals, and (4) price support incentives (or marketing penalties in case of quotas) sufficient to assure fairly complete compliance. The net product, however, seems likely to be a regimented agriculture, an idea which is unacceptable to producer and consumer alike, and counter to the American tradition.

Because of the large demands which a defense effort can make upon our nation's agriculture in the expansion of production of food and fiber, there is substantial merit in consideration of the use of diverted acres into crops and practices designed to provide the necessary fertility base for such expansion of production. During World War II, farm output in this country rose 20 percent, and did so using, by the end of World War II, almost 7 percent less labor inputs to do so. This expansion was accomplished in response to patriotic appeal as well as price incentives, and represented to a large extent a drawing upon fertility reserves of the land. Such encouragement represents no fundamental innovation in program as such since our soil conservation program has operated under similar objectives over almost two decades. It would, however, involve shifting emphasis from fertilization practices yielding prompt and high level returns to practices in which short-run realization of returns is deferred in favor of a longer run buildup of soil fertility.

In view of the character of demand for farm products and the limited potential for demand expansion per capita which apparently exists at present, another possible route for solving the problem lies in an attempt to shift resources out of agriculture. While I have seen no recent figures, T. W. Shultz, in a 1950 statement based on 1939 empirical evidence, points emphatically to the under-employment of the labor resource and the widespread rationing of capital in agriculture as basic inefficiencies in agriculture today. This is not a new idea. The programs of the early 1930's contained aspects designed to move excess labor resources out of sub-marginal lands and provide greater capital availability in farming. In particular, we found the Rural Resettlement Administration engaged in the retirement of sub-marginal lands. Later, during World War II, due partly to the efforts of the Agricultural Labor Office, some 5 million persons moved out of agriculture into industry or the armed forces. To a substantial extent these moves were conditioned by high non-farm wages and took comparatively little account of skills or

adaptability to long-run non-farm employment. Still further shifts in labor out of agriculture are needed. In the last 5 years, we have increased by 20 percent the number of consumers which one farm worker is providing with food, fiber, and tobacco. In the same period, the U. S. population has increased about 7 percent. The job of producing the food and fiber for the population increases is being accomplished by 14 percent fewer farm workers than 5 years ago. A shifting of labor out of agriculture on any permanent basis however, must necessarily involve prior training for such non-farm employment.

Conclusion

Out of these alternatives for adjustment of production, ranging all the way from a complete laissez faire attitude toward agriculture, which allows the "free market" to solve the problem, to a fairly complete regimentation of the agricultural segment of the economy, in which freedom of choice has been sacrificed in exchange for an effective meshing of production with indicated consumption--of these, which shall agriculture choose? I would not presume to decide this for farm people, but I will venture this observation in closing. It seems very evident that government participation and assistance in agriculture, in all of its forms, has now become an accepted part of our American way of life, both by farm people and by non-farm groups. Further, in keeping with objectives of a steadily rising standard of living, an abundance of consumer goods and services at prices consistent with consumer incomes is a necessity. In such circumstances, the achievement of adjusted production in agriculture will be less than complete and will be accomplished within a framework which leaves room for some freedom of choice for the individual farmer, and which also takes account of the long-run need of an increasing population by allowing a margin for error on the safe side of abundance.

The significance of this conclusion to administrators, research workers and teachers in agriculture is tremendous. The evolution of national agricultural policy, with the complex of agricultural programs that seems inevitable to meet the varying changes in the needs of agriculture, presents a challenge to the ingenuity and imagination of administrators and the management skills of farmers. It also places a heavy responsibility on researchers and teachers to accumulate and to provide a body of knowledge which will give a better understanding of issues and policies and particularly which may better qualify producers to make wise choices and decisions within the framework of national agricultural policy as it evolves.

ADJUSTING FARM PRODUCTION

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In discussing this topic of adjusting farm production, we will first point out the important sources generating problems for farmers and administrators in adjusting farm production to meet market and national requirements, and then we will discuss some of the principal ways open to dealing with adjustment.

Sources Generating Problems In Agricultural Production Adjustment

An important source of difficulty in adjusting farm production is the character of the demand for agricultural products, and the resulting instability of farm prices and income. We know that the aggregate demand for farm commodities is highly inelastic. Failure of farmers to reduce production when market demand declines would be much less disruptive if the price elasticity of demand were high. With a very low price elasticity for most farm commodities, supplies in excess of the quantities demanded at current prices lead to sizable decreases in farm prices and in total farm income. Similarly, supplies short of the quantities demanded at current prices lead to substantial increases in farm prices and total farm income. Thus inelasticity intensifies the effect of changes in demand on farm prices and total farm income.

Changes in demand for farm products are also important. Changes in demand are associated with growth and mobility in population, changes in technology, in tastes or scales of preference and in degrees of political and economic stability. Some of these changes associated with changes in demand are of a long run nature and predictable while others are of a shorter run character and unforeseeable. For instance, the rural-urban shift in population is of a long run character and foreseeable, whereas shifts in population caused by the mushrooming of military posts in various parts of the country during World War II were of a shorter run nature and more difficult to foresee. In any event, shifts and changes in population underlie changes in demand and in quantities demanded which in turn create problems in agricultural production adjustment. Changes in number of hours worked, in type of work and in living habits are associated with rural-urban population shifts. One effect, for example, has been a declining need for high caloric diets. In the process, the per capita consumption of food items such as wheat and potatoes has decreased. On the other hand, per capita consumption of fruits and vegetables has increased.

Changing rates of population growth also give rise to problems in production adjustment. Currently the nation is growing at a rate of more than two million persons annually. By 1965 population may total 190 million. This will increase substantially the quantity demands for farm

commodities. New land for agricultural production is very limited. Nevertheless, expectations are that the larger market supplies which will be forthcoming from the adoption of new techniques and more extensive adoption of known techniques will fully offset this new market demand. This will require extensive changes in farming practices by the nation's farmers.

Another powerful source is economic and political instability. Prior to the depression of the early 1930's, a significant portion of our total market for agricultural commodities had disappeared through loss of foreign markets. Our total market shrank further with the depression as millions of unemployed approached the point of dropping out of the market. As the depres advanced, consumer incomes dropped sharply as did the aggregate demand for agricultural commodities. Agricultural production was badly maladjusted. Farmers continued to produce for a market which could absorb the volume only at extremely low prices. By the late 1930's economic activity had begun to quicken somewhat but it took the stimuli of World War II to create sharp and sustained business expansion, full employment, and a high level of personal incomes. Aggregate demand for farm products increased greatly as employment and personal incomes picked up with the war's momentum. The European Recovery Program following the war prevented any drop in the total market demand for food which otherwise might have taken place with the end of active warfare. Then in 1950 war broke out in Korea which again strengthened the demand for food. Throughout World War II and through the Korean War farm prices were pegged at levels which were expected to raise total farm production as close to domestic and foreign market demands as possible. Through a multiple point program of price incentives, draft deferments and education, farmers were given every encouragement to expand production. With the cessation of the Korean War and the recovery of farm production in war-torn Europe, our farmers are now facing a situation where their expanded production plants put large farm commodity surpluses into the hands of the government. These surpluses represent, in part, production response to price supports; for many farm commodities, supports have been higher than the level which would clear the market or move all the production into the hands of domestic consumers and into export markets. Without price support operations, consumers and foreign importers alone would have taken the total volume of production only at lower prices.

Economic instability in the form of recurring periods of prosperity and depression, political instability as reflected in alternating periods of war, cold war, and peace all generate momentous production adjustment problems in agriculture. The problem is: How can farmers adjust to the drastic changes in demand and in size of total market which result from political and economic instability? Any upward adjustment in production is not viewed as a distressing problem by farmers. It is the downward adjustment to decreases in demand which is often painful and difficult to accomplish. A declining demand is seldom regarded as of a permanent nature by producers, and farmers are not unique from other producers in this respect. Both economic and psychological factors underlie this attitude. Important economic factors are: (1) that in the short run with fixity in plant, it pays to continue to produce as long as total returns cover total variable costs, and (2) that alternative employment opportunities for farm family resources may be less attractive or even

nonexistent when declining demand is caused by decreasing business activity and employment. A psychological factor is that expectations are usually for more prosperous future conditions. Hence, farmers may even be willing to disinvest or exploit their resources to assure survival during periods of decreasing demand in order to assure the opportunity to realize expected future farm income. For these reasons, voluntary downward adjustment to a declining demand is usually a slow process in agriculture.

But there are other reasons for the relatively high degree of stability in aggregate farm out-put. One of these is the nature of the factor market in agriculture. To explain the nature of the factor market in agriculture requires a look at the supply function for agricultural resources and at the degree of flexibility in factor prices.

Adjustments to a decreased demand can come about only as a result of either (1) withdrawal of production factors or (2) lower returns to the production factors. When factors are elastic in supply for an industry they will be withdrawn under conditions of decreasing demand for the industry's products and when the prices offered for the use of these factors decline. On the other hand, if factors are inelastic in supply to an industry, their use will tend to be continued in the industry or be withdrawn very slowly when demand for the industry's products decreases. In agriculture, the elasticity of supply for production factors is generally very low. Factors whose supply is generally very inelastic are land, most of farm labor and the existing buildings and machinery. These factor inputs originate within the farming industry itself. Land comes from within agriculture, as does operator and family labor, which makes up most of the labor resource in agriculture. The same is true for existing buildings and machinery. Whenever resource supplies have low elasticity, the price of their services is highly flexible. Hence in periods of decreasing demand and prices for farm products, prices of the farm resource services whose supply elasticity is low decline as much as farm product prices. When decreasing demand conditions culminate in a depression, prices of land and existing buildings decline to low levels since they have no alternative opportunities for employment outside of agriculture. The same can be said about farm labor when industrial unemployment reduces off-farm employment opportunities to zero.

Under similar conditions the same can be said with respect to existing farm stocks of machinery. Since this machinery has no alternative employment opportunities outside of agriculture, its price tends to fall along with farm product prices. Other factor prices which are highly flexible are those for farm-raised feeds with no price supports. On many farms these feeds are both product outputs and factor inputs while on some farms they are only product outputs but become factor inputs on other farms. In either case, as factor inputs, their prices are highly flexible; if their prices decline as products they decline to the same extent as factors. The prices of feeder livestock are similarly flexible. Feeder livestock are product outputs for some farms and become factor inputs for others. When their prices as products fall, their prices as factors fall by an equal amount.

Thus the nature of the resource market in agriculture is characterized as one of very low elasticity of supply for a large part of the factor inputs. Hence, in periods of decreasing demand and declining farm product prices, prices of factors in inelastic supply fall along with product prices to encourage stability in farm output, but great instability in farm prices and income. We can now combine the nature of the factor market in agriculture with the inelasticity of aggregate demand for farm products to explain the high instability in farm prices and income on the one hand and stability of output on the other hand. They are important sources of problems in agricultural production adjustment.

Another source of these problems is the competitive context in which agriculture operates as compared to the market in which agriculture buys. Data on declining prices during periods of business contraction indicate that prices of important resources used in farm production respond more slowly and to a lesser degree to a decreasing over-all national demand than do the prices of farm products and other commodities determined in more competitive markets. Farm resource prices displaying this relative inflexibility are new machinery, repair items, building materials and most other nonfarm-produced resources. Relative price inflexibility for new machinery and new buildings are of concern to farmers only insofar as these capital items must eventually be replaced. At any given point in time the existing stock of machinery and buildings on farms makes it possible for farmers to operate for considerable periods before replacement is necessary. However, over time these items must gradually be replaced. These inflexibly-priced items, including property taxes (and interest payments on debt for some farmers) and some other nonfarm-produced resources contribute to difficulties in farm production adjustment when farm product prices drop faster and further.

Another source which has given rise to problems in agricultural production adjustment are past production adjustment programs in agriculture such as price supports and foreign trade policy. Over the last two decades agricultural programs have used the acreage-control price support mechanism extensively to increase farm income. Because of the highly inelastic demand for agricultural commodities, one might logically expect that a production control policy would increase total income in agriculture and decrease the total quantity of resources used in agriculture.

It is common knowledge that past production control programs in agriculture have been less than fully effective in decreasing the total quantity of resources used in agriculture and in reducing output in the aggregate. A number of factors explain this failure. Instead of having the effect of withdrawing resources from agriculture, past programs have caused these resources to shift within agriculture. Farmers have either shifted their resources to the production of non-control commodities or shifted their given supplies of capital and labor to fewer acres. In the latter instance, they have substituted labor and capital for land. Furthermore, they have substituted forage for grain in livestock production. Through income payments to farmers who reduce acreage, past production control programs have actually encouraged resources to stay

in agriculture. They have fallen short in transferring resources out of agriculture also because the individual farmer is essentially what economists call an atomistic competitor. For this reason he has the incentive to expand production because he hopes that other farmers won't and he knows that his actions as an individual won't affect the outcome. Finally these programs have fallen short in reducing aggregate farm output because of the complementary effects of legumes, grasses and fallow on grain and fiber crops. Our prewar and present agricultural surpluses reflect the ineffectiveness of past production control programs in decreasing total agricultural output.

Furthermore, by forcing proportional adjustments throughout agriculture, past production control programs have contributed to further maladjustment in agricultural production. To improve resource efficiency in agriculture their effect should instead be one of (1) withdrawing resources from agriculture where they are in surplus, (2) increasing the mobility of agricultural resources so that they will move from areas where their marginal value productivity is low to where their productivity is higher, and (3) facilitating resource movement among production opportunities so as to be consistent with consumer preferences, the nation's dietary goals and the inherent productivity of our resources.

Problems in agricultural production adjustment also stem from difficulties in foreign trade. Problems in foreign trade rest (1) on fear that producers of farm commodities in other nations will encroach upon our domestic market, (2) on the dumping of our surplus farm commodities in other countries, (3) on differences among nations in political ideologies, (4) on shortages of dollar exchange in potential foreign markets, and (5) on political and economic instability. Fear of foreign encroachment on our domestic market has resulted in tariff barriers and hence production out of line with comparative advantage. Pressure from within agriculture to dump our surplus farm products abroad has resulted in large expenditures on export subsidies, especially for wheat and cotton. The immediate effect of this policy has resulted in no loss to our farmers and has helped in maintaining product prices. Political and economic retaliation from abroad measure the longer run effects. The economic costs of trade restrictions stemming from differences in political ideologies must be weighed against the uncertain political returns. The shortage of dollar exchange in potential foreign markets limits the size of our market and this shortage is partly the effect of our trade policy, the war's devastation of resources, and a whole host of factors which hinder economic development.

Political and economic instability is chiefly responsible for our highly unstable agricultural export market. Let us take wheat as an illustration. The foreign demand for wheat during World War I is fundamental in explaining the very high wheat prices at that time. High wheat prices in turn led to speculatively high land prices, increased farm debts and expansion in production. From 1914 to 1919 wheat acreage increased from 56 million to 74 million. With the end of the war, foreign buying power collapsed. This fact, together with our high import tariffs in 1921 and 1922 and Canada's competition as a world supplier of

wheat, caused severe maladjustment in our wheat production. The market could clear our relatively large wheat supplies only at prices sharply reduced from 1919. From 1919 to 1922 the farm price of wheat fell from $2.16 to $0.97 per bushel.

During the depression of the 1930's, wheat as an export commodity experienced the full effects from loss in buying power. Wheat prices reflected not only our own consumers' loss in buying power but also the loss from abroad. The weak foreign demand for wheat during the 30's contributed toward keeping wheat prices low.

With the beginning of World War II, it was again the large quantity demands for wheat that contributed greatly to our large expansion in wheat acreage and production. From 1939 to 1948 our wheat exports increased from approximately 50 million to 500 million bushels.

Foreign needs for wheat have again dropped sharply from war and early post-war levels and we have a wheat plant capable of producing more than the market will absorb at existing prices. Hence, over time political and economic instability has created a highly unstable external market for wheat, and the fluctuating foreign market for wheat has in turn caused serious production adjustment problems in wheat. The story for our other agricultural export commodities is in varying degrees the same as for wheat.

Since external demand for agricultural commodities is a highly unstabilizing influence in an important sector of our agriculture, some might say that we should embark upon a policy of producing to be sufficient only to ourselves. Such a policy however, would complicate rather than help solve the problem. According to a recent report, such a policy would mean that we would have to reduce our wheat acreage by one-half, cotton acreage by one-third, tobacco acreage by one-fifth and rice production by one-fourth. In addition, adjustments would have to be made in our production of apricots, prunes, raisins, citrus and some other products. Reductions of this magnitude would mean far-reaching adjustments in agricultural land use and employment.

A final source of problems in agricultural production adjustment that I shall mention is that of <u>production uncertainty in farming</u>. Because of weather, insects and disease, planning physical production in agriculture is entirely different from planning industrial output. Droughts and pests may bring severe reductions in crop output and rising farm prices whereas bumper crops tend to bring the reverse. To date little is known about the frequency distribution of "poor" and "good" crop years. We do know that weather is erratic. Therefore, regardless of how carefully farmers and policy makers may plan production to coincide with effective demand, there is little assurance that the outcome in any single year will correspond to the plans. The disparity is likely to be greatest in lines of production having the longest production period. Uncertainty in production conditions places the farmer in an insecure position which can be offset only at a cost.

Attacking the Problems of Production Adjustment

With this background in mind of the nature of the sources which have generated our problems in agricultural production adjustments, I would like to consider with you briefly some of the ways that are open in attacking the problems of production adjustment. The first of these is that of laissez-faire, essentially with no intervention in the pricing or production function in agriculture. Such a solution would be consistent with a maximum of individual freedom of choice and action. Further, it would permit the untrammeled operation of the so-called free market. Overproduction in terms of the available market in agriculture would be solved by low prices. In view of the demand inelasticity we have indicated earlier, these prices at times probably would be disastrously low. In the case of perishables, there would undoubtedly be some outright loss through spoilage. With such a solution, only the financially soundest and most efficient in agriculture could expect to survive for long. The laissez-faire solution also would take care of shortages. When the production of food and fiber fails to reach the level such as normal consumption would require, the pricing system would conduct informal rationing which restricts the volume going even to the wealthiest and may deny entirely, needed commodities to moderate and low income groups in the satisfaction of their basic needs in food and fiber. Under such circumstances, the producers and holders of inventory stand to gain but such gains are made, of course, only at prohibitive cost to consumers. It should be evident, however, that within limits there are possibilities of substitution in consumption which would reduce the necessity for price rationing. Insofar as substitutes are available, consumption would be shifted by relative price differences from those items in shortage to other items in more plentiful supply. Such a solution, however, is inconsistent with the basic philosophy of government participation in agriculture today.

There are other alternatives to consider by way of approaches to solution of the problem of production adjustment in agriculture. One of these is storage. Since it is evident that a margin of safety lies only in the direction of production in excess of current needs, possibility of storing a portion of the products of agriculture within the limits of perishability is one which calls for careful consideration. At the outset, it should be pointed out that there are really two forms of storage with respect to the time period involved: short-run and long-run. Short-run storage primarily within the marketing period has as its purpose the smoothing of the flow to market and prevention of gluts and surpluses to be found in an unguided market, particularly for perishables, in the absence of adequate market information and coordinated market movements. It should be apparent here that the objectives of such a program are entirely to alleviate intra-production period maladjustments of production to utilization. These are market rather than production adjustments. Storage over the longer run calls for a different set of objectives. In this instance, storage is aimed primarily at providing strategic reserves to protect against the hazards of weather or the added needs of a defense effort. Hence, weather yield variation and anticipated strategic needs form the basis for planning for longer run storage in agriculture.

Typically, the short-run market adjustment as opposed to production adjustment, is linked rather directly to the pricing system. Primary indications of need are taken from the pricing system and objectives are related to standards relative to price. Our marketing agreement and orders program, in part, represents such an effort. In the storables also, as well as the perishables, we have had rather extensive experience with a form of storage program -- at least it appeared to be a storage program in terms of results. I refer to the government's non-recourse loan program geared to commitments in terms of a minimum real price to farmers, and usually involving production adjustment as a condition for price support. The accumulations of stocks of farm commodities under such a program at times have been quite sizeable. The eve of U. S. participation in World War II found Uncle Sam with storage stocks of cotton equal to a full year's production, about one-half of a crop of wheat and one-fourth a crop of corn. These were all very welcome in view of the events which followed. Burdensome surpluses became strategic reserves. But the significant point about this experience is this: These stocks were accumulated purely as a by-product of a price-support program. The matching of these surpluses with strategic need was only coincidental and less than complete. Again after World War II, we found the accumulation of substantial storage stocks of some farm commodities, notably cotton, in the hands of government. By 1950, however, the outbreak of the Korean conflict eased the pressure of such stocks temporarily. Now we find ourselves again confronted with mounting surpluses of both storable and some semi-storable farm products. I need not recount for you in detail the present volume of farm products held by the Commodity Credit Corporation: Suffice to say that such stocks are substantial.

A storage program for agriculture conditioned entirely upon strategic needs and weather hazards offers substantially more promise in terms of its usefulness to the economy as a whole, but its necessary divorce from price support and agricultural income contingencies is evident. It is also apparent therefore that such a program would not work toward present income and/or price objectives in agriculture. The idea of a flexible scheme of price supports, with lowering price support levels as supplies become burdensome inducing reduced production in agriculture, has been most acceptable in some quarters. Secretary Benson, in a statement before the House Committee on Agriculture in March of this year pointed to the preponderance of evidence that farmers, contrary to popular thinking, do not try to counteract lower prices by producing more in order to maintain their incomes at a stable level. In citing this evidence the Secretary also indicated the net extent of producer response to be expected in the case of three of our staple crops. For cotton, Mr. Benson indicates, in the absence of acreage controls, if the price changes 10 percent the acreage of cotton the following year changes 2 percent in the same direction. The acreage response for wheat is of similar proportions. For corn, the acreage response to price changes is even less. These figures would suggest that comparatively little faith can be placed in price flexibility in terms of minimum support levels in achieving production adjustments. Taking wheat as an example, according to the Agricultural Act of 1954, the full range of flexibility in which

price supports are effective is available for application in 1956. Assuming no change in the index of prices paid, this range is 15 percentage points, in terms of parity--from 90 percent to 75 percent of parity. This lowering of support price to 75 percent would be instituted for wheat, however, only when according to the legislation recently passed, supplies reach 130 percent of normal. Assuming the Secretary's figures to be correct, a rough calculation indicates that on the average about 90 percent of the job of readjusting production, in this example, must be accomplished by means other than flexible pricing as currently set up.

There are, of course, some undeniable advantages to flexible support pricing--slightly lowered prices to consumers when farm products are in surplus and a lowered cost to government of price support operations in such times as compared to an inflexible system at 90 percent of parity. But as a device for adjusting production, comparatively little reliance can be placed upon it.

Currently, we are relying upon a comparatively rigid minimum price support scheme, bolstered by provisions for acreage allotments and, where appropriate, marketing quotas as conditions for price support eligibility. This year, we find the added device of cross-compliance. As I understand it, cross-compliance means this: In order to be eligible for price supports under the current programs, the producer must not have exceeded his acreage allotment for any crop on which acreage allotments apply. With the exception of vegetable acreage and wheat acreage for which special restrictions apply, the producer is free to shift acreage diverted out of allotment crops into any non-allotment crop as he sees fit, without jeopardy of his price support eligibility. As such, this program represents a substantial easing of the earlier cross-compliance and total acreage allotment provision to be applied for the 1955 crops and implies substantial confidence in the willingness of the producer in agriculture to follow enlightened group interest in his planning, as well as the concern of the government over the impact of droughts in many areas of the country.

Can we move one step further and apply acreage allotments and marketing quotas to adjust production in line with anticipated demand and current stocks "without" coupling this to the price support mechanism? Some of the accumulation of storage stocks is due to price supports which were too high to move all production into consumer channels. Therefore, such a move, if practicable, would facilitate the adjustment from present levels. Two considerations here are pertinent in limiting such an operation, however. (1) The Federal Government cannot restrict or regulate production of agricultural commodities, since this is not one of the powers delegated to the Federal Government, and would be in violation of the 10th Amendment under which all powers not so delegated remain to the states or to the people. Providing for production restrictions could only be accomplished via a referendum to producers concerned and majority rule in the same fashion whereby market orders are promulgated now. (2) After twenty years of intermittent experience with price support and incentive payments as a condition for

production and marketing volume restriction, it is fairly evident that to the producer, price support and production control go hand in hand. Adequate price support assurances must accompany any successful production restriction program, and the penalty provisions for excess marketing are likewise needed. It is not likely that producers would vote favorably on production restrictions in the absence of price supports, nor could compliance be assured without marketing quotas and penalties.

How far can this type of approach--of spelling out what acreages the farmer may produce if he is to be eligible for the benefits of price support--go in accomplishing the ends of adjusted production? Carried to its limits, it is evident that adjusted production in agriculture could be achieved subject only to limitations of (1) intelligence of the planners, (2) weather variations, (3) yield subversion of production goals, and (4) price support incentives (or marketing penalties in case of quotas) sufficient to assure fairly complete compliance. The net product, however, seems likely to be a regimented agriculture, an idea which is unacceptable to producer and consumer alike, and counter to the American tradition.

Because of the large demands which a defense effort can make upon our nation's agriculture in the expansion of production of food and fiber, there is substantial merit in consideration of the use of diverted acres into crops and practices designed to provide the necessary fertility base for such expansion of production. During World War II, farm output in this country rose 20 percent, and did so using, by the end of World War II, almost 7 percent less labor inputs to do so. This expansion was accomplished in response to patriotic appeal as well as price incentives, and represented to a large extent a drawing upon fertility reserves of the land. Such encouragement represents no fundamental innovation in program as such since our soil conservation program has operated under similar objectives over almost two decades. It would, however, involve shifting emphasis from fertilization practices yielding prompt and high level returns to practices in which short-run realization of returns is deferred in favor of a longer run buildup of soil fertility.

In view of the character of demand for farm products and the limited potential for demand expansion per capita which apparently exists at present, another possible route for solving the problem lies in an attempt to shift resources out of agriculture. While I have seen no recent figures, T. W. Shultz, in a 1950 statement based on 1939 empirical evidence, points emphatically to the under-employment of the labor resource and the widespread rationing of capital in agriculture as basic inefficiencies in agriculture today. This is not a new idea. The programs of the early 1930's contained aspects designed to move excess labor resources out of sub-marginal lands and provide greater capital availability in farming. In particular, we found the Rural Resettlement Administration engaged in the retirement of sub-marginal lands. Later, during World War II, due partly to the efforts of the Agricultural Labor Office, some 5 million persons moved out of agriculture into industry or the armed forces. To a substantial extent these moves were conditioned by high non-farm wages and took comparatively little account of skills or

adaptability to long-run non-farm employment. Still further shifts in labor out of agriculture are needed. In the last 5 years, we have increased by 20 percent the number of consumers which one farm worker is providing with food, fiber, and tobacco. In the same period, the U. S. population has increased about 7 percent. The job of producing the food and fiber for the population increases is being accomplished by 14 percent fewer farm workers than 5 years ago. A shifting of labor out of agriculture on any permanent basis however, must necessarily involve prior training for such non-farm employment.

Conclusion

Out of these alternatives for adjustment of production, ranging all the way from a complete laissez faire attitude toward agriculture, which allows the "free market" to solve the problem, to a fairly complete regimentation of the agricultural segment of the economy, in which freedom of choice has been sacrificed in exchange for an effective meshing of production with indicated consumption--of these, which shall agriculture choose? I would not presume to decide this for farm people, but I will venture this observation in closing. It seems very evident that government participation and assistance in agriculture, in all of its forms, has now become an accepted part of our American way of life, both by farm people and by non-farm groups. Further, in keeping with objectives of a steadily rising standard of living, an abundance of consumer goods and services at prices consistent with consumer incomes is a necessity. In such circumstances, the achievement of adjusted production in agriculture will be less than complete and will be accomplished within a framework which leaves room for some freedom of choice for the individual farmer, and which also takes account of the long-run need of an increasing population by allowing a margin for error on the safe side of abundance.

The significance of this conclusion to administrators, research workers and teachers in agriculture is tremendous. The evolution of national agricultural policy, with the complex of agricultural programs that seems inevitable to meet the varying changes in the needs of agriculture, presents a challenge to the ingenuity and imagination of administrators and the management skills of farmers. It also places a heavy responsibility on researchers and teachers to accumulate and to provide a body of knowledge which will give a better understanding of issues and policies and particularly which may better qualify producers to make wise choices and decisions within the framework of national agricultural policy as it evolves.

EXPANDING THE DOMESTIC MARKET FOR FOOD PRODUCTS

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My first foray into agricultural economics - made more years ago than I like to recall - took the form of a term paper on the subject of "Expanding the Domestic Market for Food Products". After several days of scholastic travail, which included a cursory reading of what the leading agricultural economists of the time had to say on the subject, I reached the following conclusions: (1) That there was a great nutritional need in America for much more food than was then being produced; (2) that everyone involved - agriculture, the food industries, and the government - were very remiss for not doing something about this matter by methods which were not exactly clear to me but which I referred to vaguely as "improved marketing"; and, (3) since such a sad state of affairs existed, further study and research on the matter was needed!

Those were the standard conclusions to be reached on this subject back in the 1920's, and judging by what most agricultural economists are currently writing and saying on the subject, they are still very much in vogue. As a matter of fact, I have the uneasy feeling that I might come off better on this occasion, if I were to read that old term paper than I will by saying what I am about to say.

The assumption with which discussions of this subject usually begin - namely, that there is a great nutritional need for more food to be produced in America - is at least debatable, and probably wrong. A great many medical and nutritional authorities have come to regard the number I nutritional problem in America as obesity rather than malnutrition in the ordinary sense of that word. The newspapers have recently carried estimates by authorities in this field that as many as 40 million people in America are in some degree obese. This is not to deny that many people in this country should be eating more and better. It is also true that further shifting in the American diet toward relatively more animal products, fruits and vegetables and certain other foods, would tend to improve our average nutritional levels. But to assume or imply, as is frequently done in discussions of farm policy, that a greatly expanded agricultural production is required from a nutritional standpoint, does not seem to me in accord with what facts are known. I think all of us would agree that our information in this field is all too fragmentary for any very positive statements to be made one way or the other.

I do not want to exaggerate the immediate significance to agriculture of the obesity problem, in the sense that a recognition of it by its victims is likely to result in sharply curtailed food consumption. It does, however, seem to be having some effect in reducing per-capita consumption of certain foods, especially some of those high in carbohydrates.

I have already mentioned that segment of the population which is not getting sufficient food, or food of the proper type. Usually, though not invariably, the reason is simply that persons in this group do not have sufficient income to buy their proper food requirements. The remedy is equally obvious; it is to provide either the necessary food, or the money to buy the food, from public funds.

The experience of the 1930's seems to have pretty well established the principle in America that it is a public responsibility to insure that no one goes hungry. Most of you are even more familiar than I am with the government programs by which this responsibility was carried out - direct public relief, the Food Stamp Plan, the School Lunch Program, and numerous other governmental aid programs which contributed directly or indirectly toward this objective.

Some of these programs, notably the Food Stamp Plan and the School Lunch Program, supplement for many of the recipients the expenditures for food which they are able to make from their own funds. This would be true, for instance, of low-income but employed persons. In such instances, the funds provided by the public for these programs do not always result in a like increase in the food consumption of the recipients - the so-called problem of "substitution" for food expenditures they would have made in any case. I do not mean this as a condemnation of these programs from a humanitarian standpoint. I am not, however, as optimistic as some of you might be that a broad-scale Food Stamp Plan or School Lunch Program would greatly expand food consumption under conditions of reasonably full employment.

Among the various government programs for subsidized food consumption, my personal favorite has always been the School Lumch Program, and for two reasons. It seems to me it should be the birthright of every American child to receive an adequate diet in his growing years. A greatly expanded School Lunch Program is the best way to insure this. In addition to at least one good square meal a day, the youngsters are helped to form good eating habits and to learn the rudiments of good nutrition, which is something that more American families than perhaps we like to admit are not in position to give their children.

There is another age group in which, for one reason or another, malnutrition is more common than it should be, and this is among the aged. In homes where older people live alone and there are no young and healthy appetites to be attended to at mealtime, it is perhaps only human nature for the older folk to neglect the preparation of nutritious meals even though they have the means to afford it. But many of our older people are living in an atmosphere of insecurity - they no longer have any current income other than what comes from their small savings, which they hesitate to cut into because they don't know whether these savings will have to suffice them for another year or another 20 years. Our social security programs - both public and private - represent the proper and long overdue attack on this problem. When the major segment of the aged come to enjoy greater social security coverage, we shall have gone a long way toward better nutritional standards for this group.

Under conditions of reasonably full employment such as we have in America today, most of the people have sufficient income to purchase all the food and other basic necessities they require, provided they choose to spend their income for these purposes. In other words, if food expenditures are to be increased, it must be done in competition for the consumer's dollar against things like automobiles, hair tonic, and brightly colored sport shirts. Practically everyone likes a prime roast of beef, a good dressing on his salad, and a dessert topped with whipped cream. The problem for agriculture is to get mama to spend her money for meals like this, instead of serving spaghetti and meat balls and buying Junior a Hopalong Cassidy suit with the money she saves on the grocery bill. Generally speaking, I should say that agriculture and the food industries are doing a pretty good job in this battle for the American consumers' dollar. I think the statistics show that currently we are spending about 25% of our disposable income for food--up several percent from the proportion being spent prior to World War II.

Now let's start getting down to cases on the prospects for increased food consumption and the methods by which it can be achieved. Many people - in fact, most people - would say that one of the first requirements for increased food consumption is lower food prices, to be achieved either by narrowing the spread between producer and consumer or more flexible (by which they mean lower) farm prices. If you ask such people, why, and are they sure, they will give you a disdainful look and ask you if you ever heard of the law of supply and demand. Sometimes I think it would be a good thing if that law had not gained such wide credence, because it is more involved and subject to more qualifications even than some of the more eminent practitioners of economics seem to realize, and not infrequently the assertion of it precludes the use of ordinary common sense.

It is quite true that if, say retail pork prices, were reduced by 50%, while prices of other foods remained the same, relatively less pork and more of other foods would be eaten. But this is quite a different thing from saying that a general lowering of the level of food prices would bring about greatly, or even significantly, increased food consumption. For low-income families which have real difficulty in scraping enough money together to buy food, lower food prices would indeed increase food consumption to some extent, though probably not as much as commonly assumed. But for the great bulk of American families, a general lowering of food prices would probably result mainly in their spending more for non-food items rather than for increased food consumption.

The same people who tell us that lower food prices will bring greatly increased food consumption will almost invariably enlighten us further by saying that lower farm prices will tend to curtail food production, so that supply and demand will again come in balance, just as Adam Smith pointed out several hundred years ago, and any one should know that much. Now if the price of hogs falls relative to the price of beef or milk, of course, farmers will shift their operations accordingly and will produce fewer hogs. But if all farm prices were simultaneously lowered by say 25%, the first reaction of farmers would probably be to produce more in an effort to keep up their gross income. Over a period of time total farm production might decline under the stress of lower price levels, assuming there were full employment and opportunities for greater profit to labor and capital in the non-agricultural segments of the economy. But the qualifications and the arguments even on these grounds become quite intricate - more so, I suspect, than most of those who cite the law of supply and demand ever come to understand.

Now we come to the next shibboleth, without which no pronouncement on agricultural policy is ever deemed to be quite complete, namely: the need to reduce the spread between farmer and consumer as a means of increasing food consumption.

There are three ways by which the spread between farmer and consumer might be reduced. The first is by a reduction of returns to capital, management and labor utilized in food processing and distribution. As regards profit (the return to capital and non-salaried management in the food industries) this is estimated to amount to roughly 3 or 4% of the retail price of food. Whether this is too much or too little - and it can be argued plausibly that profit margins in the food industries should be larger to provide for greater capital formation relative to other industries - the point I am making here is that even the complete elimination of food industry profits would not greatly reduce the level of food prices.

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This type of thing is hardly the panacea for agriculture that some of the current statements being made regarding it would indicate.

Quite frequently we speak of expanding the consumption of this product or that product, or even of all food generally, without knowing precisely what it takes to get increased sales in the market place. Let me illustrate this in the case of cheese, which is what I know best.

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This type of thing has been going on in nearly all branches of the food industry. Perhaps the best way to visualize it is to compare the array and variety of the foods in a modern supermarket with what would have been offered grandmother 50 years ago in her grocery store. There are many new food forms which were not in the grocery stores of 50 years ago in significant quantities - the dry breakfast cereals, packaged cheeses, vegetable shortenings, oleomargarine,

canned orange juice and - thanks to modern refrigeration - a wide variety of fruits and vegetables in fresh and frozen form.

One of the most striking developments in the food field has been the trend toward semi-prepared, or so-called "convenience food forms". Prepared baby foods, cake mixes, frozen meat pies, pre-cooked this and pre-cooked that - even complete meals, quick-frozen and requiring only that they be popped into the oven for a few minutes before serving. The reason for all this is very simple: It is that most housewives really do not like to cook, even though most of them will insist, when asked, that they do.

If I may digress for a moment, I have never understood why women should be expected to like to cook. Except for the very few who make a sort of artistic ritual out of cooking, it is work, the same as pounding a typewriter, or adding a column of figures or combining wheat. So I am all for the housewives in their desire for more "convenience" foods. If the food industries are smart, and it may be presumed that they have at least a modicum of common sense in these matters, they will continue the trend along these lines. Of course, this will add to the spread between farmer and consumer, and for those who focus their attention and lay great store on a reduction of this spread, the food world will seem to be moving in the wrong direction.

In summary, I do not see the prospect for greatly increased per capita food consumption in the years immediately ahead. Assuming full employment, the trend toward a more varied diet, including relatively more animal products, should continue. Also, I should expect future grocery stores to have more and more "convenience" foods because this is part of the pattern of modern living. Animal products are expensive food forms and "convenience" foods are more costly than their component ingredients, so that quite probably consumers may spend somewhat more money for foods on a per capita basis than they are now doing. But I see no realistic basis for thinking that the domestic market will absorb all of our socalled agricultural surpluses until population growth catches up with the capacity of agriculture to produce.

If I cannot find it within me to be as optimistic about this matter as a great many people seem to be, it is mainly because I think that agriculture and the food industries are already doing a pretty good job of moving food into consumption in this country. It is not easy to make spectacular progress beyond a high level of performance.

EXPANDING THE DOMESTIC MARKET FOR FOOD PRODUCTS

By A. C. Hoffman

Vice President, Kraft Foods Company

A paper presented before the Graduate School,
U. S. Department of Agriculture, Nov. 3, 1954

My first foray into agricultural economics - made more years ago than I like to recall -- took the form of a term paper on the subject of "Expanding the Domestic Market for Food Products". After several days of scholastic travail, which included a cursory reading of what the leading agricultural economists of the time had to say on the subject, I reached the following conclusions: (1) That there was a great nutritional need in America for much more food than was then being produced; (2) that everyone involved -- agriculture, the food industries, and the government -- were very remiss for not doing something about this matter by methods which were not exactly clear to me but which I referred to vaguely as "improved marketing"; and, (3) since such a sad state of affairs existed, further study and research on the matter was needed!

Those were the standard conclusions to be reached on this subject back in the 1920's, and judging by what most agricultural economists are currently writing and saying on the subject, they are still very much in vogue. As a matter of fact, I have the uneasy feeling that I might come off better on this occasion, if I were to read that old term paper than I will by saying what I am about to say.

The assumption with which discussions of this subject usually begin - namely, that there is a great nutritional need for more food to be produced in America - is at least debatable, and probably wrong. A great many medical and nutritional authorities have come to regard the number I nutritional problem in America as obesity rather than malnutrition in the ordinary sense of that word. The newspapers have recently carried estimates by authorities in this field that as many as 40 million people in America are in some degree obese. This is not to deny that many people in this country should be eating more and better. It is also true that further shifting in the American diet toward relatively more animal products, fruits and vegetables and certain other foods, would tend to improve our average nutritional levels. But to assume or imply, as is frequently done in discussions of farm policy, that a greatly expanded agricultural production is required from a nutritional standpoint, does not seem to me in accord with what facts are known. I think all of us would agree that our information in this field is all too fragmentary for any very positive statements to be made one way or the other.

I do not want to exaggerate the immediate significance to agriculture of the obesity problem, in the sense that a recognition of it by its victims is likely to result in sharply curtailed food consumption. It does, however, seem to be having some effect in reducing per-capita consumption of certain foods, especially some of those high in carbohydrates.

I have already mentioned that segment of the population which is not getting sufficient food, or food of the proper type. Usually, though not invariably, the reason is simply that persons in this group do not have sufficient income to buy their proper food requirements. The remedy is equally obvious; it is to provide either the necessary food, or the money to buy the food, from public funds.

The experience of the 1930's seems to have pretty well established the principle in America that it is a public responsibility to insure that no one goes hungry. Most of you are even more familiar than I am with the government programs by which this responsibility was carried out - direct public relief, the Food Stamp Plan, the School Lunch Program, and numerous other governmental aid programs which contributed directly or indirectly toward this objective.

Some of these programs, notably the Food Stamp Plan and the School Lunch Program, supplement for many of the recipients the expenditures for food which they are able to make from their own funds. This would be true, for instance, of low-income but employed persons. In such instances, the funds provided by the public for these programs do not always result in a like increase in the food consumption of the recipients - the so-called problem of "substitution" for food expenditures they would have made in any case. I do not mean this as a condemnation of these programs from a humanitarian standpoint. I am not, however, as optimistic as some of you might be that a broad-scale Food Stamp Plan or School Lunch Program would greatly expand food consumption under conditions of reasonably full employment.

Among the various government programs for subsidized food consumption, my personal favorite has always been the School Lunch Program, and for two reasons. It seems to me it should be the birthright of every American child to receive an adequate diet in his growing years. A greatly expanded School Lunch Program is the best way to insure this. In addition to at least one good square meal a day, the youngsters are helped to form good eating habits and to learn the rudiments of good nutrition, which is something that more American families than perhaps we like to admit are not in position to give their children.

There is another age group in which, for one reason or another, malnutrition is more common than it should be, and this is among the aged. In homes where older people live alone and there are no young and healthy appetites to be attended to at mealtime, it is perhaps only human nature for the older folk to neglect the preparation of nutritious meals even though they have the means to afford it. But many of our older people are living in an atmosphere of insecurity - they no longer have any current income other than what comes from their small savings, which they hesitate to cut into because they don't know whether these savings will have to suffice them for another year or another 20 years. Our social security programs - both public and private - represent the proper and long overdue attack on this problem. When the major segment of the aged come to enjoy greater social security coverage, we shall have gone a long way toward better nutritional standards for this group.

Under conditions of reasonably full employment such as we have in America today, most of the people have sufficient income to purchase all the food and other basic necessities they require, provided they choose to spend their income for these purposes. In other words, if food expenditures are to be increased, it must be done in competition for the consumer's dollar against things like automobiles, hair tonic, and brightly colored sport shirts. Practically everyone likes a prime roast of beef, a good dressing on his salad, and a dessert topped with whipped cream. The problem for agriculture is to get mama to spend her money for meals like this, instead of serving spaghetti and meat balls and buying Junior a Hopalong Cassidy suit with the money she saves on the grocery bill. Generally speaking, I should say that agriculture and the food industries are doing a pretty good job in this battle for the American consumers' dollar. I think the statistics show that currently we are spending about 25% of our disposable income for food--up several percent from the proportion being spent prior to World War II.

Now let's start getting down to cases on the prospects for increased food consumption and the methods by which it can be achieved. Many people - in fact, most people - would say that one of the first requirements for increased food consumption is lower food prices, to be achieved either by narrowing the spread between producer and consumer or more flexible (by which they mean lower) farm prices. If you ask such people, why, and are they sure, they will give you a disdainful look and ask you if you ever heard of the law of supply and demand. Sometimes I think it would be a good thing if that law had not gained such wide credence, because it is more involved and subject to more qualifications even than some of the more eminent practitioners of economics seem to realize, and not infrequently the assertion of it precludes the use of ordinary common sense.

It is quite true that if, say retail pork prices, were reduced by 50%, while prices of other foods remained the same, relatively less pork and more of other foods would be eaten. But this is quite a different thing from saying that a general lowering of the level of food prices would bring about greatly, or even significantly, increased food consumption. For low-income families which have real difficulty in scraping enough money together to buy food, lower food prices would indeed increase food consumption to some extent, though probably not as much as commonly assumed. But for the great bulk of American families, a general lowering of food prices would probably result mainly in their spending more for non-food items rather than for increased food consumption.

The same people who tell us that lower food prices will bring greatly increased food consumption will almost invariably enlighten us further by saying that lower farm prices will tend to curtail food production, so that supply and demand will again come in balance, just as Adam Smith pointed out several hundred years ago, and any one should know that much. Now if the price of hogs falls relative to the price of beef or milk, of course, farmers will shift their operations accordingly and will produce fewer hogs. But if all farm prices were simultaneously lowered by say 25%, the first reaction of farmers would probably be to produce more in an effort to keep up their gross income. Over a period of time total farm production might decline under the stress of lower price levels, assuming there were full employment and opportunities for greater profit to labor and capital in the non-agricultural segments of the economy. But the qualifications and the arguments even on these grounds become quite intricate - more so, I suspect, than most of those who cite the law of supply and demand ever come to understand.

Now we come to the next shibboleth, without which no pronouncement on agricultural policy is ever deemed to be quite complete, namely: the need to reduce the spread between farmer and consumer as a means of increasing food consumption.

There are three ways by which the spread between farmer and consumer might be reduced. The first is by a reduction of returns to capital, management and labor utilized in food processing and distribution. As regards profit (the return to capital and non-salaried management in the food industries) this is estimated to amount to roughly 3 or 4% of the retail price of food. Whether this is too much or too little - and it can be argued plausibly that profit margins in the food industries should be larger to provide for greater capital formation relative to other industries - the point I am making here is that even the complete elimination of food industry profits would not greatly reduce the level of food prices.

Labor is the largest single element in the cost of processing and distributing farm products, and the increase in wage rates is, of course, the main reason why the spread between farmer and consumer has widened in recent years. But wages to labor represent a market for farm products, as well as a cost. So are we altogether sure that trying to increase the consumption of farm products by narrowing the spread between farmer and consumer by means of a reduction of wage rates is the glib panacea we are sometimes led to believe?

Everyone is in favor of efficiency, and there is much talk about the need to increase the efficiency of marketing farm products, and of how much the consumption of food might be increased if the marketing system were more efficient. Here again, many who talk in these generalities never bother to define their terms or to get down to cases. Actually we have had a veritable revolution in the techniques of manufacturing and distributing food products in America in the past 50 years. It may be described as the application of the technologies of mass production and mass distribution to food products. For those concerned with the concepts of efficiency and how to improve it as applied to food, I would suggest a study and an understanding of what has already happened, and why. I do not believe the food processing industries have lagged behind other industries in mechanizing their production processes, in the elimination of hand-labor wherever possible, in the application of the newest findings of the scientists and the engineers - which, after all, is the essence of production efficiency. Similarly, distribution efficiency consists in reducing insofar as possible the amount of labor and capital required to get the product from the processor to the consumer in the way she wants it. It may be possible to retail food products more efficiently than is done in a modern supermarket, and I have no doubt that we shall continue to make progress toward this objective. But before we make a speech or pass a resolution or write a textbook with exhortations about the need for greater efficiency in the handling of food products, it might not be a bad idea to take a walk through a modern food processing plant, or tarry awhile in a supermarket while we asked ourselves, "If this is not efficiency, then precisely what do we mean by the word"?

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Forty years ago the per capita consumption of cheese in America was less than 3 pounds per capita. Most of the cheese then sold was natural cheddar, of which the grocer (if he handled it at all) had a chunk in some out-of-the-way place in his store, and from which he would hack off a piece on request - - it was always a moot question between the grocer and the housewife which should take the dried-out surface of the cheese. Then the housewife would take her piece of cheese home in a piece of wax paper, where it would oil off and dry out, or both, and the wonder was that she bought as much as she did. Several things changed all this, the first andmost important of which was the development of process cheese in its various forms and types which could be packaged for the housewife, without surface loss either to the grocer or the housewife. Along with this came the great multiplicity of forms and types of cheese, calculated to a wide appetite and taste appeal, and for multiple use in meal preparation. Cheese has had extensive advertising for many years -- not by one or a few companies, but by many. But this was not all, because good merchandising is more than a double-page spread in Life Magazine. Posters and extensive displays of cheese in grocery stores, consumer leaflets with recipes on how to prepare and serve cheese dishes, better packaging which not only preserved the cheese better but caught the consumers' eye -- all these things and more went into the building per capita cheese consumption from less than 3 pounds per capita to nearly 8 pounds in the past 40 years.

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The assumption with which discussions of this subject usually begin - namely, that there is a great nutritional need for more food to be produced in America - is at least debatable, and probably wrong. A great many medical and nutritional authorities have come to regard the number I nutritional problem in America as obesity rather than malnutrition in the ordinary sense of that word. The newspapers have recently carried estimates by authorities in this field that as many as 40 million people in America are in some degree obese. This is not to deny that many people in this country should be eating more and better. It is also true that further shifting in the American diet toward relatively more animal products, fruits and vegetables and certain other foods, would tend to improve our average nutritional levels. But to assume or imply, as is frequently done in discussions of farm policy, that a greatly expanded agricultural production is required from a nutritional standpoint, does not seem to me in accord with what facts are known. I think all of us would agree that our information in this field is all too fragmentary for any very positive statements to be made one way or the other.

I do not want to exaggerate the immediate significance to agriculture of the obesity problem, in the sense that a recognition of it by its victims is likely to result in sharply curtailed food consumption. It does, however, seem to be having some effect in reducing per-capita consumption of certain foods, especially some of those high in carbohydrates.

I have already mentioned that segment of the population which is not getting sufficient food, or food of the proper type. Usually, though not invariably, the reason is simply that persons in this group do not have sufficient income to buy their proper food requirements. The remedy is equally obvious; it is to provide either the necessary food, or the money to buy the food, from public funds.

The experience of the 1930's seems to have pretty well established the principle in America that it is a public responsibility to insure that no one goes hungry. Most of you are even more familiar than I am with the government programs by which this responsibility was carried out - direct public relief, the Food Stamp Plan, the School Lunch Program, and numerous other governmental aid programs which contributed directly or indirectly toward this objective.

Some of these programs, notably the Food Stamp Plan and the School Lunch Program, supplement for many of the recipients the expenditures for food which they are able to make from their own funds. This would be true, for instance, of low-income but employed persons. In such instances, the funds provided by the public for these programs do not always result in a like increase in the food consumption of the recipients - the so-called problem of "substitution" for food expenditures they would have made in any case. I do not mean this as a condemnation of these programs from a humanitarian standpoint. I am not, however, as optimistic as some of you might be that a broad-scale Food Stamp Plan or School Lunch Program would greatly expand food consumption under conditions of reasonably full employment.

Among the various government programs for subsidized food consumption, my personal favorite has always been the School Lunch Program, and for two reasons. It seems to me it should be the birthright of every American child to receive an adequate diet in his growing years. A greatly expanded School Lunch Program is the best way to insure this. In addition to at least one good square meal a day, the youngsters are helped to form good eating habits and to learn the rudiments of good nutrition, which is something that more American families than perhaps we like to admit are not in position to give their children.

There is another age group in which, for one reason or another, malnutrition is more common than it should be, and this is among the aged. In homes where older people live alone and there are no young and healthy appetites to be attended to at mealtime, it is perhaps only human nature for the older folk to neglect the preparation of nutritious meals even though they have the means to afford it. But many of our older people are living in an atmosphere of insecurity - they no longer have any current income other than what comes from their small savings, which they hesitate to cut into because they don't know whether these savings will have to suffice them for another year or another 20 years. Our social security programs - both public and private - represent the proper and long overdue attack on this problem. When the major segment of the aged come to enjoy greater social security coverage, we shall have gone a long way toward better nutritional standards for this group.

Under conditions of reasonably full employment such as we have in America today, most of the people have sufficient income to purchase all the food and other basic necessities they require, provided they choose to spend their income for these purposes. In other words, if food expenditures are to be increased, it must be done in competition for the consumer's dollar against things like automobiles, hair tonic, and brightly colored sport shirts. Practically everyone likes a prime roast of beef, a good dressing on his salad, and a dessert topped with whipped cream. The problem for agriculture is to get mama to spend her money for meals like this, instead of serving spaghetti and meat balls and buying Junior a Hopalong Cassidy suit with the money she saves on the grocery bill. Generally speaking, I should say that agriculture and the food industries are doing a pretty good job in this battle for the American consumers' dollar. I think the statistics show that currently we are spending about 25% of our disposable income for food--up several percent from the proportion being spent prior to World War II.

Now let's start getting down to cases on the prospects for increased food consumption and the methods by which it can be achieved. Many people - in fact, most people - would say that one of the first requirements for increased food consumption is lower food prices, to be achieved either by narrowing the spread between producer and consumer or more flexible (by which they mean lower) farm prices. If you ask such people, why, and are they sure, they will give you a disdainful look and ask you if you ever heard of the law of supply and demand. Sometimes I think it would be a good thing if that law had not gained such wide credence, because it is more involved and subject to more qualifications even than some of the more eminent practitioners of economics seem to realize, and not infrequently the assertion of it precludes the use of ordinary common sense.

It is quite true that if, say retail pork prices, were reduced by 50%, while prices of other foods remained the same, relatively less pork and more of other foods would be eaten. But this is quite a different thing from saying that a general lowering of the level of food prices would bring about greatly, or even significantly, increased food consumption. For low-income families which have real difficulty in scraping enough money together to buy food, lower food prices would indeed increase food consumption to some extent, though probably not as much as commonly assumed. But for the great bulk of American families, a general lowering of food prices would probably result mainly in their spending more for non-food items rather than for increased food consumption.

The same people who tell us that lower food prices will bring greatly increased food consumption will almost invariably enlighten us further by saying that lower farm prices will tend to curtail food production, so that supply and demand will again come in balance, just as Adam Smith pointed out several hundred years ago, and any one should know that much. Now if the price of hogs falls relative to the price of beef or milk, of course, farmers will shift their operations accordingly and will produce fewer hogs. But if all farm prices were simultaneously lowered by say 25%, the first reaction of farmers would probably be to produce more in an effort to keep up their gross income. Over a period of time total farm production might decline under the stress of lower price levels, assuming there were full employment and opportunities for greater profit to labor and capital in the non-agricultural segments of the economy. But the qualifications and the arguments even on these grounds become quite intricate - more so, I suspect, than most of those who cite the law of supply and demand ever come to understand.

Now we come to the next shibboleth, without which no pronouncement on agricultural policy is ever deemed to be quite complete, namely: the need to reduce the spread between farmer and consumer as a means of increasing food consumption.

There are three ways by which the spread between farmer and consumer might be reduced. The first is by a reduction of returns to capital, management and labor utilized in food processing and distribution. As regards profit (the return to capital and non-salaried management in the food industries) this is estimated to amount to roughly 3 or 4% of the retail price of food. Whether this is too much or too little - and it can be argued plausibly that profit margins in the food industries should be larger to provide for greater capital formation relative to other industries - the point I am making here is that even the complete elimination of food industry profits would not greatly reduce the level of food prices.

Labor is the largest single element in the cost of processing and distributing farm products, and the increase in wage rates is, of course, the main reason why the spread between farmer and consumer has widened in recent years. But wages to labor represent a market for farm products, as well as a cost. So are we altogether sure that trying to increase the consumption of farm products by narrowing the spread between farmer and consumer by means of a reduction of wage rates is the glib panacea we are sometimes led to believe?

Everyone is in favor of efficiency, and there is much talk about the need to increase the efficiency of marketing farm products, and of how much the consumption of food might be increased if the marketing system were more efficient. Here again, many who talk in these generalities never bother to define their terms or to get down to cases. Actually we have had a veritable revolution in the techniques of manufacturing and distributing food products in America in the past 50 years. It may be described as the application of the technologies of mass production and mass distribution to food products. For those concerned with the concepts of efficiency and how to improve it as applied to food, I would suggest a study and an understanding of what has already happened, and why. I do not believe the food processing industries have lagged behind other industries in mechanizing their production processes, in the elimination of hand-labor wherever possible, in the application of the newest findings of the scientists and the engineers - which, after all, is the essence of production efficiency. Similarly, distribution efficiency consists in reducing insofar as possible the amount of labor and capital required to get the product from the processor to the consumer in the way she wants it. It may be possible to retail food products more efficiently than is done in a modern supermarket, and I have no doubt that we shall continue to make progress toward this objective. But before we make a speech or pass a resolution or write a textbook with exhortations about the need for greater efficiency in the handling of food products, it might not be a bad idea to take a walk through a modern food processing plant, or tarry awhile in a supermarket while we asked ourselves, "If this is not efficiency, then precisely what do we mean by the word"?

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Quite frequently we speak of expanding the consumption of this product or that product, or even of all food generally, without knowing precisely what it takes to get increased sales in the market place. Let me illustrate this in the case of cheese, which is what I know best.

Forty years ago the per capita consumption of cheese in America was less than 3 pounds per capita. Most of the cheese then sold was natural cheddar, of which the grocer (if he handled it at all) had a chunk in some out-of-the-way place in his store, and from which he would hack off a piece on request - - it was always a moot question between the grocer and the housewife which should take the dried-out surface of the cheese. Then the housewife would take her piece of cheese home in a piece of wax paper, where it would oil off and dry out, or both, and the wonder was that she bought as much as she did. Several things changed all this, the first andmost important of which was the development of process cheese in its various forms and types which could be packaged for the housewife, without surface loss either to the grocer or the housewife. Along with this came the great multiplicity of forms and types of cheese, calculated to a wide appetite and taste appeal, and for multiple use in meal preparation. Cheese has had extensive advertising for many years -- not by one or a few companies, but by many. But this was not all, because good merchandising is more than a double-page spread in Life Magazine. Posters and extensive displays of cheese in grocery stores, consumer leaflets with recipes on how to prepare and serve cheese dishes, better packaging which not only preserved the cheese better but caught the consumers' eye — all these things and more went into the building per capita cheese consumption from less than 3 pounds per capita to nearly 8 pounds in the past 40 years.

One of the major recent developments in the cheese industry has been the rapidly increasing consumption of Swiss Cheese. Swiss Cheese has been known and sold in the American market for many years, and it is a type of cheese which has a wide taste appeal. But it was never widely consumed, partly because until recently it was made by the factories in huge wheels, with a rind as thick as an elephant's hide, and it is no wonder that many grocers didn't handle it because of the inconvenience and the cutting losses involved in retailing it. Several things changed all this. First was the development of a method for making Swiss cheese in the form of rectangular blocks, and without rind -- not as easy as it sounds, because it took the Kraft laboratories many years and considerable money to work it out. Along with this - thanks to the research of companies like DuPont, Good Year, Union Carbide and others - came the development of the plastic films such as cellophane, pliofilm, saran, etc. which make it possible to put sliced Swiss Cheese in a consumer package, to be sold in a Texas supermarket where 15 years ago many consumers had never ever had an opportunity to buy it. This is why the consumption of Swiss Cheese has gone from about 57 million pounds in 1939 to around 114 million pounds in 1954, and the top for this product is probably not yet in sight.

This type of thing has been going on in nearly all branches of the food industry. Perhaps the best way to visualize it is to compare the array and variety of the foods in a modern supermarket with what would have been offered grandmother 50 years ago in her grocery store. There are many new food forms which were not in the grocery stores of 50 years ago in significant quantities - the dry breakfast cereals, packaged cheeses, vegetable shortenings, oleomargarine,

canned orange juice and - thanks to modern refrigeration - a wide variety of fruits and vegetables in fresh and frozen form.

One of the most striking developments in the food field has been the trend toward semi-prepared, or so-called "convenience food forms". Prepared baby foods, cake mixes, frozen meat pies, pre-cooked this and pre-cooked that - even complete meals, quick-frozen and requiring only that they be popped into the oven for a few minutes before serving. The reason for all this is very simple: It is that most housewives really do not like to cook, even though most of them will insist, when asked, that they do.

If I may digress for a moment, I have never understood why women should be expected to like to cook. Except for the very few who make a sort of artistic ritual out of cooking, it is work, the same as pounding a typewriter, or adding a column of figures or combining wheat. So I am all for the housewives in their desire for more "convenience" foods. If the food industries are smart, and it may be presumed that they have at least a modicum of common sense in these matters, they will continue the trend along these lines. Of course, this will add to the spread between farmer and consumer, and for those who focus their attention and lay great store on a reduction of this spread, the food world will seem to be moving in the wrong direction.

In summary, I do not see the prospect for greatly increased per capita food consumption in the years immediately ahead. Assuming full employment, the trend toward a more varied diet, including relatively more animal products, should continue. Also, I should expect fugure grocery stores to have more and more "convenience" foods because this is part of the pattern of modern living. Animal products are expensive food forms and "convenience" foods are more costly than their component ingredients, so that quite probably consumers may spend somewhat more money for foods on a per capita basis than they are now doing. But I see no realistic basis for thinking that the domestic market will absorb all of our socalled agricultural surpluses until population growth catches up with the capacity of agriculture to produce.

If I cannot find it within me to be as optimistic about this matter as a great many people seem to be, it is mainly because I think that agriculture and the food industries are already doing a pretty good job of moving food into consumption in this country. It is not easy to make spectacular progress beyond a high level of performance.

EXPANDING THE DOMESTIC MARKET FOR FOOD PRODUCTS

By A. C. Hoffman

Vice President, Kraft Foods Company

A paper presented before the Graduate School,
U. S. Department of Agriculture, Nov. 3, 1954

My first foray into agricultural economics - made more years ago than I like to recall - took the form of a term paper on the subject of "Expanding the Domestic Market for Food Products". After several days of scholastic travail, which included a cursory reading of what the leading agricultural economists of the time had to say on the subject, I reached the following conclusions: (1) That there was a great nutritional need in America for much more food than was then being produced; (2) that everyone involved - agriculture, the food industries, and the government - were very remiss for not doing something about this matter by methods which were not exactly clear to me but which I referred to vaguely as "improved marketing"; and, (3) since such a sad state of affairs existed, further study and research on the matter was needed!

Those were the standard conclusions to be reached on this subject back in the 1920's, and judging by what most agricultural economists are currently writing and saying on the subject, they are still very much in vogue. As a matter of fact, I have the uneasy feeling that I might come off better on this occasion, if I were to read that old term paper than I will by saying what I am about to say.

The assumption with which discussions of this subject usually begin - namely, that there is a great nutritional need for more food to be produced in America - is at least debatable, and probably wrong. A great many medical and nutritional authorities have come to regard the number I nutritional problem in America as obesity rather than malnutrition in the ordinary sense of that word. The newspapers have recently carried estimates by authorities in this field that as many as 40 million people in America are in some degree obese. This is not to deny that many people in this country should be eating more and better. It is also true that further shifting in the American diet toward relatively more animal products, fruits and vegetables and certain other foods, would tend to improve our average nutritional levels. But to assume or imply, as is frequently done in discussions of farm policy, that a greatly expanded agricultural production is required from a nutritional standpoint, does not seem to me in accord with what facts are known. I think all of us would agree that our information in this field is all too fragmentary for any very positive statements to be made one way or the other.

I do not want to exaggerate the immediate significance to agriculture of the obesity problem, in the sense that a recognition of it by its victims is likely to result in sharply curtailed food consumption. It does, however, seem to be having some effect in reducing per-capita consumption of certain foods, especially some of those high in carbohydrates.

I have already mentioned that segment of the population which is not getting sufficient food, or food of the proper type. Usually, though not invariably, the reason is simply that persons in this group do not have sufficient income to buy their proper food requirements. The remedy is equally obvious; it is to provide either the necessary food, or the money to buy the food, from public funds.

The experience of the 1930's seems to have pretty well established the principle in America that it is a public responsibility to insure that no one goes hungry. Most of you are even more familiar than I am with the government programs by which this responsibility was carried out - direct public relief, the Food Stamp Plan, the School Lunch Program, and numerous other governmental aid programs which contributed directly or indirectly toward this objective.

Some of these programs, notably the Food Stamp Plan and the School Lunch Program, supplement for many of the recipients the expenditures for food which they are able to make from their own funds. This would be true, for instance, of low-income but employed persons. In such instances, the funds provided by the public for these programs do not always result in a like increase in the food consumption of the recipients - the so-called problem of "substitution" for food expenditures they would have made in any case. I do not mean this as a condemnation of these programs from a humanitarian standpoint. I am not, however, as optimistic as some of you might be that a broad-scale Food Stamp Plan or School Lunch Program would greatly expand food consumption under conditions of reasonably full employment.

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Now let's start getting down to cases on the prospects for increased food consumption and the methods by which it can be achieved. Many people - in fact, most people - would say that one of the first requirements for increased food consumption is lower food prices, to be achieved either by narrowing the spread between producer and consumer or more flexible (by which they mean lower) farm prices. If you ask such people, why, and are they sure, they will give you a disdainful look and ask you if you ever heard of the law of supply and demand. Sometimes I think it would be a good thing if that law had not gained such wide credence, because it is more involved and subject to more qualifications even than some of the more eminent practitioners of economics seem to realize, and not infrequently the assertion of it precludes the use of ordinary common sense.

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Everyone is in favor of efficiency, and there is much talk about the need to increase the efficiency of marketing farm products, and of how much the consumption of food might be increased if the marketing system were more efficient. Here again, many who talk in these generalities never bother to define their terms or to get down to cases. Actually we have had a veritable revolution in the techniques of manufacturing and distributing food products in America in the past 50 years. It may be described as the application of the technologies of mass production and mass distribution to food products. For those concerned with the concepts of efficiency and how to improve it as applied to food, I would suggest a study and an understanding of what has already happened, and why. I do not believe the food processing industries have lagged behind other industries in mechanizing their production processes, in the elimination of hand-labor wherever possible, in the application of the newest findings of the scientists and the engineers - which, after all, is the essence of production efficiency. Similarly, distribution efficiency consists in reducing insofar as possible the amount of labor and capital required to get the product from the processor to the consumer in the way she wants it. It may be possible to retail food products more efficiently than is done in a modern supermarket, and I have no doubt that we shall continue to make progress toward this objective. But before we make a speech or pass a resolution or write a textbook with exhortations about the need for greater efficiency in the handling of food products, it might not be a bad idea to take a walk through a modern food processing plant, or tarry awhile in a supermarket while we asked ourselves, "If this is not efficiency, then precisely what do we mean by the word"?

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canned orange juice and - thanks to modern refrigeration - a wide variety of fruits and vegetables in fresh and frozen form.

One of the most striking developments in the food field has been the trend toward semi-prepared, or so-called "convenience food forms". Prepared baby foods, cake mixes, frozen meat pies, pre-cooked this and pre-cooked that - even complete meals, quick-frozen and requiring only that they be popped into the oven for a few minutes before serving. The reason for all this is very simple: It is that most housewives really do not like to cook, even though most of them will insist, when asked, that they do.

If I may digress for a moment, I have never understood why women should be expected to like to cook. Except for the very few who make a sort of artistic ritual out of cooking, it is work, the same as pounding a typewriter, or adding a column of figures or combining wheat. So I am all for the housewives in their desire for more "convenience" foods. If the food industries are smart, and it may be presumed that they have at least a modicum of common sense in these matters, they will continue the trend along these lines. Of course, this will add to the spread between farmer and consumer, and for those who focus their attention and lay great store on a reduction of this spread, the food world will seem to be moving in the wrong direction.

In summary, I do not see the prospect for greatly increased per capita food consumption in the years immediately ahead. Assuming full employment, the trend toward a more varied diet, including relatively more animal products, should continue. Also, I should expect future grocery stores to have more and more "convenience" foods because this is part of the pattern of modern living. Animal products are expensive food forms and "convenience" foods are more costly than their component ingredients, so that quite probably consumers may spend somewhat more money for foods on a per capita basis than they are now doing. But I see no realistic basis for thinking that the domestic market will absorb all of our socalled agricultural surpluses until population growth catches up with the capacity of agriculture to produce.

If I cannot find it within me to be as optimistic about this matter as a great many people seem to be, it is mainly because I think that agriculture and the food industries are already doing a pretty good job of moving food into consumption in this country. It is not easy to make spectacular progress beyond a high level of performance.

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A paper presented before the Graduate School
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Most of my experience has been in the Land-Grant College and University field and so it is only natural, I suppose, that I should feel I am stepping into a kind of partnership meeting when I appear before the staff members of the U.S. Department of Agriculture. Many of you, too, have had experience in the college field and no doubt you appreciate as I do that it is sometimes difficult to tell just where the Department's work and responsibility ends and where ours begins. All of us are dedicated to helping farmers and the nation with agricultural problems and I might add that finding work is not one of our difficulties.

I have been asked to discuss with you the role of research and education in the development of American agricultural policy. An invitation like that, of course, is a little like being asked to explain the role of Mr. Whistler's mother in the picture of the same name. As I interpret my assignment, at least, it is broader than a review or clinic on price and production policy.

If I were sitting where you are, I would resent it a little, I think, if some representative of the educational field were to stand here and attempt to tell me how I should go about my job. I hope you feel that way too because I have been too close to your Department's work for too long to really have all the answers for you. If this were my first trip to Washington, of course, I would have them. But this is not my first trip to Washington, nor my first meeting with many of you. In fact, some of us know each other very well and that is always a handicap when it comes to being impressive.

Seriously, however, I do think that we can spend some time profitably talking about the Land-Grant institutions, about their natural relation to the Department, and about their place and responsibility in the great cause we serve as compatible and effective companions.

Regardless of how well we know the story, it is always helpful to review the establishment of our Land-Grant College and University system. It sharpens our perspective and renews our appreciation of the philosophy which brought our system into being at the same time that the Department was also organized.

Actually, the Land-Grant colleges and the Department of Agriculture have been partners since their inception in 1862. For some thirty years prior to that time, early American agricultural groups and farmers had been urging the federal government to further demonstrate its recognition of the importance of agriculture to our national welfare and growth by creating agencies to serve American agriculture. We might even make the point here that in the establishment of the U.S. Department of Agriculture and in the inauguration of the Land-Grant College system, the United States actually took one of its earliest and most important steps in the formation of national farm policy.

In setting up the Land-Grant colleges, especially, the Congress cleared the way for a radical departure from Old World concepts of, first, the proper place of agriculture in the economic life of a nation, and, second, of the partnership which might develop between administrative and educational forces.

Considered from the standpoint of policy, the creation of the Department and the adoption of the Land-Grant College program, accomplished a great deal. They were actions which recognized agriculture as an endeavor worthy of special training and subject to advancement by a specialized educational program and by research.

Before the advent of the Land-Grant College concept, our educational effort in this country was limited by the European influence. It was concerned chiefly with training young men for the ministry, for law, and for medicine, and with the training of an additional small group of young people from wealthy and well-established families who might be presumed to have need for a certain amount of culture. It was a program of constricted notions and restricted vision. Under it the young people who wished to pursue careers in agriculture, or in business, or in any pursuit other than the three professions recognized at that time, were expected to get what knowledge they might require by actual experience or by self-teaching. The Land-Grant idea changed that. It extended educational opportunity to all young people capable of doing academic work above the common school level, and it broadened the accepted curricula to eventually include not only agriculture, but other subject areas such as business administration, dentistry, architecture, engineering, home economics, and a whole list of others.

The inauguration of the Land-Grant system also had the effect of making teammates of the professional scholar and the practical man of science. It made higher education an everyday product suitable for use in solving everyday problems.

It is important to note, too, that in creating the Department and in establishing the Land-Grant Colleges, Congress adhered to the notion which has since become an established principle with us, the notion that the States should be left freeto adjust specific programs to local needs. The Land-Grant, or Morrill Act, did not attempt to tell the States precisely what sort of schools they should set up to qualify for federal help. The broad requirements were marked out, but the details were left to the States.

In considering these early steps, I believe we have opportunity to appreciate the dynamics of policy making. The move to meet demands for agricultural support which originally were voiced by our early American agricultural spokesmen actually resulted in far-reaching accomplishments. It affected areas of our society far beyond the immediate pale of agriculture.

Of interest, too, is the fact that the taking of one policy step quickly led to another. The partnership between the Department and the Land-Grant Colleges which was scarcely more than hinted at in 1862, was clearly welded with the passage of the Hatch Act — the first one, that is — in 1887. That act provided $15,000 annually to each State that would establish an agricultural experiment station, and it placed the general administration of the program within the authority of the Department of Agriculture. Here, again, no attempt was made to restrict the work of the individual locality.

No attempt was made to tell the States precisely what experiment work these stations should attempt to do. With the passage of the Hatch Act Congress once again was counting upon the Department and the Land-Grant Colleges to work together amicably, as effective partners, and as efficient companions. Congress was also etching a little deeper the policy of broad supervision and co-ordination at the federal level and respecting the right of the States to judge and serve local needs.

By the time the Cooperative Extension Service legislation came along in 1914, our policy was so well established that this new service could be added quite easily to the partnership environment. And with the addition of the Cooperative Extension Service, of course, the basic members of our present triumvirate — teaching, research, and service — were appointed and assigned. The establishment of the Cooperative Extension Service also marked a further endorsement of the American policy which places broad administrative and coordination responsibility at the federal level but leaves to the States and localities the decision of actual operation and adjustment. The Extension Service pushed the effort even closer to the grass roots. It was an addition which carried all the way from the federal level, down through the States, and out into the counties.

All of these steps had the effect of giving the United States its unique, closely-knit program of agricultural education, research, and service. The result is a policy which unites the elements of a general effort under one roof. Nowhere in the world will you find colleges of agriculture, experiment stations, and the extension programs linked to the national agricultural authority — that is, the Department — as they are here in America, — linked to the Department at the federal level - and in close juxtaposition with the action programs and federal service agencies at State and county levels.

Now let's change our sights a bit and consider what these agencies were about in the early years. The principal purpose of their creation, of course, was to help agriculture produce more with less effort. This was a program which the farmers themselves wanted. They wanted to produce more with less effort and cost. Despite this natural desire, however, we found that we had quite an educational job on our hands. Rugged individualist that he is, the farmer resisted and resented being told hom to farm. The experience was good for all of us. It gave us in education reason to remember that we are teachers and not indoctrinators. We learned that so long as we taught, we got along fine but that when we stepped over the line and tried to dictate we were in trouble. For example, we can discuss the probable effects of lower or higher support prices in an objective manner — and it can be done — but if we place ourselves in position of advocate we cease primarily to be teachers.

We have become pretty good at teaching. We have learned that if we present the facts, and stick to the facts, and keep our own prejudices out of the picture, the farmer will do the learning.

I doubt that we need to spend time here evaluating the effectiveness of the multiple effort that has been made in behalf of agriculture by the Department, the Colleges, the Experiment Stations, the Extension Service, and the various other forces of our American society, such as the farm organizations, in the field of production. It is enough to note that agricultural progress in our country has outstripped even the most glowing predictions of a couple of generations ago. We have a revolution of agricultural production under way in this nation, the like of which the world has never seen. In fact, it has moved so

rapidly that during the past thirty or forty years we have heard certain voices which suggest that we stop research and let the technological advance slow down lest the problem of surpluses in some crops and commodities create chaos in our economy.

I suppose such voices will always be with us. I am thankful that we pay them such little heed. Carried to conclusion, the philosophy they utter is one of pessimism and defeat. I am happy to subscribe to the opposite view, that production is the keystone of American progress and that we should and must continually strive to achieve greater efficiency. Any other point of view, it seems to me, sells the human being short as a resource capable of copying with problems as they arise. A true believer in such a doleful creed would be ready now to give up as lost not only this nation but all mankind.

At the same time, of course, we all recognize that since 1920 the problem of surpluses and their repeated affects on our agricultural economy, has brought into sharp focus the importance of developing a national farm policy. More and more those of us engaged in helping agriculture are impressed with the need to assist with the evolutionary process from which farm policy emerges. In other words, we had one chief concern — production efficiency — a generation or two ago; today, we have still the matter of production efficiency but in addition the whole marketing process and the development of farm policy.

None of us here today, I am sure, is so unrealistic as to contend that we have solved the farm policy problem. I do not think it is the kind of a problem that is ever solved for very long. Changing conditions resulting from changing needs and changing techniques demand continual policy adjustments. Our objective is not to create a fortress, rugged and immovable to stand through the generations, but rather to acquire and use all the basic knowledge we can about the factors — both domestic and foreign — which bear upon our agricultural welfare. Only from a vast store of such knowledge will we be able to select the influences we will need through the years to balance and rebalance; to tune and retune our agricultural economy.

This prospect, of course, presents its difficulties. Until the need for policy development became so apparent we were engaged in a "hot war" of production. But when we attack the policy problem we enter a kind of "cold war" struggle.

For example, it is one thing to take a sample of rotenone to a farmer and say, "Here, try this on your cattle grubs." He tries it and he sees that it will control the grubs. He knows it. We know it. And that's about all there is to it. H e has been given a new production aid and he will continue to use it. Not so simple, however, is the task of explaining the effect of price upon farm production. We can tell the dairy farmer that a drop in price should result in an increase in the consumption of milk. But we can't tell him exactly how much of an increase will be enduring or whether it will increase total returns.

We need to do a lot more research in the agricultural policy area. We should know much more than we do about the effect of lower tariffs on the demand for domestic production and on prices. With population increasing, we need to know much more about basic human and animal nutritional requirements. We need to know more about land and water use, of course, and about population shifts, farm housing needs, and the whole long list which you know as well as I.

The tremendous volume of statistical information that comes from the USDA and other federal agencies has been and will continue to be invaluable in tackling any and all of these problem areas. But we need to go further than we have yet gone. As one example, population pattern is changing - - -

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This means a changing family pattern - with changing consuming and buying pattern and changing living requirements. We need studies that go behind the average and the aggregate data. We can predict family pattern and if we knew in addition the buying pattern of segments of families by age, size, income, etc. — we should be able to anticipate with greater accuracy our needs for various commodities and services.

Knowledge such as this is basic to our educational efforts. It is basic to the development of sound agricultural programs.

Much more research of this general type is needed — and whether it is done by workers in the Department or in the universities, or jointly, is relatively unimportant. What is important is that it be done.

To gain the knowledge we need — knowledge of a different nature from much of that we are using to help production — we find ourselves face to face with a reappraisal of some of our efforts and of our efforts and of our teaching program. And in our colleges, you know, this matter of teaching is a double-edged proposition. We have the responsibility of serving the Department as an educational arm — and I am happy to say that that responsibility is being more clearly understood all around now than it has been — but more than that we also have the responsibility of teaching the young people in our classrooms who will be tomorrow's farmers, tomorrow's county and home demonstration agents, tomorrow's USDA workers, and tomorrow's under secretaries and secretaries of agriculture.

In the colleges we know, as you know, that farm policy develops in a climate which also happens to support the growth of partisan political effort. We don't object to that especially, we just pray for the strength to keep our own prejudices out of our teaching. We don't want to produce more partisanship than policy.

Gradually, I think, we are reaching some basic rules of thumb in our own peculiar academic way. For example, we are sure that we can continue to serve the Department as eyes and ears in the field. We appreciate, of course, that the Department is very capable of thinking in local as well as in national terms, and we like to think, at least, that we are also capable of thinking in national terms. I don't pretend to be a spokesman for the Land-Grant College System or for the local components of the Cooperative Extension Service, but at my own institution I know that we would like to exercise the same basic methods in helping to attack the policy problem that we have used in attacking the production problem. We want to be free to place the pro and con facts on all issues before our students and our farmers and the public — they vote too. We know from experience that when we do that our people demonstrate a remarkable ability to make the right choices.

Some of our state extension services have moved further in the field of policy education than others. One State has used what we might call the mass

approach - the publication of a series of public policy or public affairs leaflets in large quantity which are used by several hundred local discussion groups. Such pamphlets discuss on a pro and con basis - such subjects as:

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Such a program has reached many thousands of rank and file farmers.

Another State has prepared pamphlets - more complete basis - but worked primarily with a few hundred leaders believing that they will spread their new knowledge to others.

Greater use might be made of 4-H and vocational agriculture in policy education -- also Home Demonstration groups.

It remains to be seen which of these methods or which combination will produce the best results -- or whether some better techniques will be evolved. Techniques for one State or one county may not be the best for another locality.

I would like to say, too, that we who work daily in the field of education are keenly aware of the burden of responsibility that became ours when this nation emerged from World War II in a position of world leadership. There was a time, perhaps, when we might have been able to content ourselves with attempting to equip our students for a useful life in an America which was concerned primarily with domestic problems, including the prime agricultural problem of production. Now, however, we cannot content ourselves with any such limited objective. Important though it is, we know that the young people we train, and the practicing farmers we serve, are living in an America which is also concerned with world problems. This is a sobering responsibility. It is one that has ramifications. It is, for example, one thing to think of a farm policy for a nation concerned essentially with domestic problems, but quite another to think of a farm policy for a nation which is also concerned with the task of world leadership.

We in education, of course, are not the only ones who understand this change which is taking place. We know that students also understand it by the questions they ask in class. We know that the members of farm organizations understand it by their willingness to engage more and more in group discussions on such subjects as world trade and the effect of disposing of certain surpluses abroad. And, oh yes, we know the Department of Agriculture understands it too, or why would it take time for a meeting like this? One of the most heartening aspects of our job in agricultural education is the company we keep. We want to keep on keeping it as together we go about the unending task of helping America develop and keep in adjustment a clear, effective farm policy for a young nation in a big new job.

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Actually, the Land-Grant colleges and the Department of Agriculture have been partners since their inception in 1862. For some thirty years prior to that time, early American agricultural groups and farmers had been urging the federal government to further demonstrate its recognition of the importance of agriculture to our national welfare and growth by creating agencies to serve American agriculture. We might even make the point here that in the establishment of the U.S. Department of Agriculture and in the inauguration of the Land-Grant College system, the United States actually took one of its earliest and most important steps in the formation of national farm policy.

In setting up the Land-Grant colleges, especially, the Congress cleared the way for a radical departure from Old World concepts of, first, the proper place of agriculture in the economic life of a nation, and, second, of the partnership which might develop between administrative and educational forces.

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Greater use might be made of 4-H and vocational agriculture in policy education — also Home Demonstration groups.

It remains to be seen which of these methods or which combination will produce the best results — or whether some better techniques will be evolved. Techniques for one State or one county may not be the best for another locality.

I would like to say, too, that we who work daily in the field of education are keenly aware of the burden of responsibility that became ours when this nation emerged from World War II in a position of world leadership. There was a time, perhaps, when we might have been able to content ourselves with attempting to equip our students for a useful life in an America which was concerned primarily with domestic problems, including the prime agricultural problem of production. Now, however, we cannot content ourselves with any such limited objective. Important though it is, we know that the young people we train, and the practicing farmers we serve, are living in an America which is also concerned with world problems. This is a sobering responsibility. It is one that has ramifications. It is, for example, one thing to think of a farm policy for a nation concerned essentially with domestic problems, but quite another to think of a farm policy for a nation which is also concerned with the task of world leadership.

We in education, of course, are not the only ones who understand this change which is taking place. We know that students also understand it by the questions they ask in class. We know that the members of farm organizations understand it by their willingness to engage more and more in group discussions on such subjects as world trade and the effect of disposing of certain surpluses abroad. And, oh yes, we know the Department of Agriculture understands it too, or why would it take time for a meeting like this? One of the most heartening aspects of our job in agricultural education is the company we keep. We want to keep on keeping it as together we go about the unending task of helping America develop and keep in adjustment a clear, effective farm policy for a young nation in a big new job.

ASSISTING LOW INCOME FARMERS

Erren Long
Department of Agricultural Economics and Rural Sociology
University of Tennessee

A paper presented before the Graduate School
U.S. Department of Agriculture, Nov. 24, 1954

The topic assigned to me for this lecture is one that has long absorbed the attention of farm leaders, as well as government and university workers. Especially during the depression years, many government programs were proposed and several adopted that focused more or less particularly on the problems of low income farm people. Agricultural economics research was directed to rural zoning, purchase of "isolated" farm lands, relocation of "isolated" settlers and other such programs as it was felt might alleviate the distress of some low income farm families and of local governments in low income areas.

A little later the necessity of gearing agriculture to the defense and war efforts eclipsed to a large extent this earlier concern over low income farmers. In recent years there has been a resurgence of interest in the problem. Scores of professional agricultural economists contributed to this renewal of interest; most notable was the Joint Committee Study - "Underemployment in American Agriculture" conducted by Dr. Walter Wilcox and his staff. This study gave the best indication, to that date, of the magnitude of the problem of low productivity and consequent low income of underemployed farm families, and helped to locate the problem geographically. Interest had already been strongly stimulated by such works as T. W. Schultz' "Agriculture in an Unstable Economy", which had begun to dig into the underlying causes of the problem; as a result of the Committee study, this interest took on a greater specificity and sense of importance. It now appears to have begun to work its way into the articulated consciousness of persons responsible for framing national public policy, to the point where specific programs may be developed to deal with the problem. If so, and if these programs are successful, they might well represent the greatest contribution of this decade to the welfare of American agriculture.

My first contact with the problem was something over 30 years ago, when as a boy on a poor northern Wisconsin farm, I began to share with my parents the awareness of the crushing pressures of severe agricultural poverty. From the one side we felt the pressures of trying to earn a living on a very "submarginal" farm; from the other side, the pressures of devastating falls in price levels. In one generation a small band of good, young Iowa farmers had pioneered the community and conquered the wilderness, only to be in turn broken in the process. The entire community is now abandoned; young pine trees have again taken over the meadows from which they were so recently cleared. Here I learned my first lesson in economics. And frankly this first lesson has often made it difficult for me to learn the lessons of the textbooks. For textbooks teach us that economic adjustments take place "at the margins," where inefficient producers are "forced out," as we say. But in this first lesson I had learned that these margins are occupied by people. What to a textbook writer is but a point of intercept of two curves, is actually some farm family or community, being broken by forces outside its control and often even beyond its comprehension. Surely it is appropriate for people to attempt through public programs to intercept such processes before they reach such fruition or, failing that, at least to alleviate somewhat the distress they cause. This is why I am so happy to be here today to contribute my bit to this effort.

My comments today will be made primarily within the context of research. There are some things we know, as a result of research, about the causes of low incomes within agriculture. There is much which we do not know. Unfortunately, most research on the problem to date has dealt primarily with identifying and measuring the magnitudes of the problem and rather little genuinely causal analysis has been made.

In the past four and one-half years, we at Tennessee have devoted a very large part of our efforts in the Department to research in this area. In this we have had modest but very strategic financial support from the University of Chicago. We have worked in close cooperation with our agricultural economist friends in the T.V.A. This talk is in the nature of a summation of results from this over-all research effort.

(I want, at this time, to acknowledge here the contribution, especially, of Messrs. R. B. Hughes, J. A. Martin, B. H. Luebke, and H. J. Bonser of my Department, and Messrs. Stephen C. Smith and Vernon Ruttan of the T.V.A.)

1. The first proposition I shall make is a refutation of the oft-stated thesis that low income farmers are that way by choice. Of course, all of us who live or work in low income areas know of several people who actually appear to resist opportunities for self improvement. But we find people of this sort in classrooms, factories, or offices. But this provides no adequate explanation for the existence of huge areas of generally low income. We note that whenever a new industrial plant is established in a low income area, job applications far exceed the number of jobs available - usually by ratios of more than 10-1. In a study in West Tennessee, when low income farmers were asked why they liked farming, they answered because they liked to be their own bosses. But almost all of them said they would rather work elsewhere if they could get more money. Those few who said they wouldn't take other work admitted they had no information about the nature of other employment possibilities. In any event, by the time slack is taken up among those who are willing to work at more gainful employment, if given a meaningful opportunity to do so, the "poverty within agriculture" problem will essentially have been solved.

2. The second proposition is that persistent low income, at least in most agricultural areas, can be remedied only if there are substantial shifts from agricultural to nonagricultural employment of the farm people of the area. I shall not attempt here to substantiate this proposition, as I'm sure this has been adequately done elsewhere. Rather, I should like to give some evidence bearing on the hows, whens and wheres of the process. As evidence to the point, I would, however, like to call your attention to the following figures from the State of Tennessee, as an example. In 1950 there were 231,000 farms, only 83,000 of which produced incomes of $1,200 or more. It is calculated that it would take about 1,900 persons per year to replace people dropping out of the labor force on these 83,000 "commercial" farms. To fill the 1,900 opportunities, approximately 10,000 farm youths are available each year as new entrants into the labor force--or over 5 youths for every meaningful opportunity in farming. This ratio is representative of most low income areas. The question then, granted these basic propositions, is what approach should we take?

The first big obstacle, as I see it, to the solution of the problem of low income in agriculture is the lack of an adequate conceptual framework. Basically, I think, this is the question of whether we treat the problem within a framework of economic statics or dynamics. To understand this better, let's look a bit at the two approaches.

Static approach

1. Visualizes problem as being essentially one of unbalance between low income areas and other areas.

2. Solution primarily in terms of restoring balance--shifting labor from low income area to high income area.

3. Economic problem essentially that of allocation of fixed resources among competing areas.

4. Specifics of problem turn largely to such issues as:

   a. Deterrents and stimulants to migration--how well do Employment Services function in interarea placement? How adequately are our educational facilities preparing youth for migration and nonfarm jobs, etc.?

   b. How well do persons who remain in farming reorganize resources as result of lessened population pressure on land and other resources?

Dynamic Approach

1. Visualizes problem of low income as essentially a detail in problem of economic growth or development.

2. Solution primarily in terms of directing economic growth in such a way as to solve the low income area problem.

3. Economic problem essentially that of creating rather than simply of reallocating resources.

4. Specifics of problem turn largely on questions of ways of stimulating and directing economic growth. For people remaining on farms, questions center on means of stimulating their participation in, as well as response to, these processes of economic development with their consequent relieving of population pressures.

There are several important implications of the distinctions I have drawn between the Static and the Dynamic approach to the problem of low income in rural areas. One of the more important is the relative importance attached to out-migration, as contrasted to local industrial and commercial development, as the means of relieving population pressure on local farm resources. It boils down, perhaps, to a question of whether this surplus labor is considered as a liability, to be lifted out into other areas so that a balance between labor and other resources may be established in the low income area--or whether it be considered as a resource, currently badly used, but serving as the resource nucleus of general economic development.

Out-migration to distant areas from low income areas has many advantages--it probably works more quickly and smoothly, than does economic development within the area, to absorb surplus farm labor. But it also has its shortcomings. They are:

1. A much greater earning differential is necessary to stimulate distant migration than acceptance of nearby industrial employment.

2. As contrasted to local development, it draws the better educated people, the people with lower reproduction rates, into employment--leaving persons least able to reorganize agriculture on farms---and also the people most likely to have large families and little capital--thereby perpetuating the low income problem.

3. It drains capital out of agriculture and out of low income areas, in form of investments in rearing youth. $138 million - each year in Tennessee, $1½ billion for "South East."

Can we expect such a process ever to result in anything but the perpetuation of poverty in these labor-supplying areas? Can capital formation take place? Sheer magnitudes of necessary migration too great.

The basic question here, however, is not simply whether to take worker to job or job to worker. Rather it is whether we rely upon an interarea reallocation of our labor force, or a redirection of our processes of economic growth as the strategic means of solving the rural underemployment problem. This does not imply the need for transfer of industries to these low income areas. I believe it is generally held that our economy must provide for about 700,000 new entrants into the labor market each year. Since a disproportionate number of these people come from low income areas, a disproportionate rate of industrial development should, perhaps, take place in those areas to absorb their expanding labor force.

If a certain amount of subsidy of these areas is required to bring this development about, the policy must, of course, be carefully weighed against other alternatives. But in the weighing, we must consider the subsidy now going from low income areas into areas of industrial development in the form of investments made in the rearing of children who subsequently migrate into these areas. As I mentioned earlier, according to a research study we have just completed (and which is appearing in this month's issue of the Land Economics Journal), over $138,000,000 of capital is drained out of Tennessee each year in this way. These estimates are based upon very conservative assumptions. For the area usually referred to as the "South East", the annual figure is probably in excess of $1½ billions.

Of course, there are many particular reasons. But perhaps some deeper reason in the processes of growth themselves--a catalytic influence starting a self feeding process. Certainly one factor of importance is the development of skills and attitudes favorable to economic development.

II.

A second point of conceptual clarification I feel is needed: the recognition that low incomes in agriculture is not a homogeneous phenomenon. Rural poverty is not cut of one cloth, but is a patchwork of many types. About the only thing most poor people have in common is that they are economically underproductive--(and even this may not be true--many a good workman in a menial-type gang job is more productive than his supervisor) but, this low productivity is essentially just another name for low incomes.

In terms of solutions or remedies for poverty, however, we must recognize that economic illness has fully as many discrete causes as does physical illness. What is needed is a classification of types of low income producing causes, having enough generality to permit of public recognition and treatment, and enough specificity so that corrective programs can be made effective in individual cases.

The search for a single remedy for physical illness has been long since abandoned. Neither can one pill do all the work of curing economic illness.

For example, I should like to distinguish two very different broad categories of low per capita earnings in Southern agriculture.

1. In areas where social institutions are holdovers from old plantation economy.

   a. These areas have long been a part of a market economy.
   b. Low income people (croppers) are mobile.
   c. Migration is likely to pull low income people first--resources now in hands of people with many opportunities (capital, land ownership, knowledge and education) to adjust well and quickly to circumstances created by out-migration. (In one such area, we found that farms from which labor has migrated have grown in productivity per man at a rate higher than other farms).

2. In mountain areas--until recently basically self-sufficient types of farms -

   a. Until recently, people have really not been part of a market economy.
   b. Land owned as well as operated by low income persons.
   c. All people highly immobile--migration essentially selective of more adaptable persons, leaving resources to persons with little opportunity for reorganizing agriculture in more profitable way. People remaining will not have control of resources to extent true in plantation areas. (Didn't find much quick response to lessened population measure here.)

   Even if migration is not selective, the recombination of resources is not an easy matter, because there is no concentration of resource control.

At the outset I indicated that a lessening of population pressure on farm resources is prerequisite to economic improvement of low income agricultural areas. To the extent that it is possible to do this by local economic development, low income problem of farm families might be solved whether or not agriculture becomes more productive - not that this would necessarily be advisable. This could be achieved through enhanced nonfarm earnings of farm families - which is the principal source, we have found, of increased farm family earnings resulting from local industrial development.

But obviously not all low income farm communities will witness enough local economic development to absorb all their surplus population. Some will have to migrate - the closer at hand the employment opportunity, the more readily will they do so. What is the likelihood that farmers remaining behind will be able to recombine their resources into a more efficient mode of economic organization?

For me this is a sober question. Too frequently, perhaps, we have assumed that this adjustment would be automatic. Yet in my home community, the entire community was depopulated over a series of years, and yet none of the farmers capitalized on the lessening population pressure and organized a farming business on a paying basis.

I indicated earlier, on the other hand, that such a reorganization does appear to be going on in West Tennessee. Which is the typical case? What factors impede and which facilitate such adjustment? What can be done through public programs to facilitate the process?

These are questions badly needing study - within a framework with sufficient local emphasis to enable us to recognize the strategic differences in different situations. Actually, very little research has been done on this problem - and I do not expect it to yield easily to such study. But I feel we can make a few observations:

1. The mere availability of extra land does not always lead to higher incomes. In several separate studies of southern mountain areas, marginal productivity of acreage of land has consistently been found to be essentially zero. In other terms, mere farm enlargement does not lead to increased incomes as long as the current methods of farming are followed.

   On the other hand, increased investments in livestock (reflecting also improved crop production practices necessary to feed the extra livestock) does tend to result in increased incomes in mountain areas.

2. Merely shifting from a cotton or tobacco economy to livestock does not insure increased income.

   There is a great deal of folklore about this point in the South. It never had too much appeal to me, because my home community relied principally upon dairy.

   In several cotton areas, we find an inverse correlation between investment in animals and income, when other factors are held constant. (just reverse of mountain areas) Positive correlation with increases in land operated - more so if not used as a base for livestock production.

3. The land tenure system is a principal deterrant to farm enlargement.

   Older farmers lose labor, own farms, can't reorganize resources. In owner-operator areas, little incentive to rent out, as land provides market for their labor, and returns to labor higher than to their land.

In historically tenant or cropper areas, owners like to rent land out - but on short term lease. Hard to break into system so that programs of farm investment can be feasible.

In mountain areas, ownership of abandoned little farms is often held by people after they leave as a "cushion" against unemployment. Again, this is not easily available for farm enlargment.

I would like to make one final point. Education is clearly the strongest lubricant of individuals, helping them to adjust to better economic opportunity. Also, in stimulating them to make adjustments "on the farm." Any program must rely heavily upon education. Much reliance is now being placed upon "farm and home planning" education. One proposition, I believe, is irrefutable--If we are going to assist farmers in this way, we must work with them.

In my judgment, this must be on a sustained contact, on a total farm basis. We need to set up, in a few selected counties, "a low income agent" -- to work with local agencies to stimulate non-farm employment, job information, etc., and to work directly with farmers who are combining resources, working toward a better farming unit. Not necessarily low income farmers. Emphasis should be upon farm planning where enlargement is part of the planning process. A principal task also is to work on lease agreements and on credit problems. In this way, at least, we might come to understand better the possibilities of and obstacles to farm enlargement.

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   Older farmers lose labor, own farms, can't reorganize resources. In owner-operator areas, little incentive to rent out, as land provides market for their labor, and returns to labor higher than to their land.

In historically tenant or cropper areas, owners like to rent land out - but on short term lease. Hard to break into system so that programs of farm investment can be feasible.

In mountain areas, ownership of abandoned little farms is often held by people after they leave as a "cushion" against unemployment. Again, this is not easily available for farm enlargment.

I would like to make one final point. Education is clearly the strongest lubricant of individuals, helping them to adjust to better economic opportunity. Also, in stimulating them to make adjustments "on the farm." Any program must rely heavily upon education. Much reliance is now being placed upon "farm and home planning" education. One proposition, I believe, is irrefutable--- If we are going to assist farmers in this way, we must work with them.

In my judgment, this must be on a sustained contact, on a total farm basis. We need to set up, in a few selected counties, "a low income agent" -- to work with local agencies to stimulate non-farm employment, job information, etc., and to work directly with farmers who are combining resources, working toward a better farming unit. Not necessarily low income farmers. Emphasis should be upon farm planning where enlargement is part of the planning process. A principal task also is to work on lease agreements and on credit problems. In this way, at least, we might come to understand better the possibilities of and obstacles to farm enlargement.
