Our rural problems in their national setting

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OUR RURAL PROBLEMS IN THEIR NATIONAL SETTING

... A report containing papers presented at the
Third Annual Farm Policy Review Conference
held in December, 1962 at
Ames, Iowa

Co-Sponsored by the

Center for Agricultural
and Economic Adjustment

of Iowa State University

Agricultural Policy
Institute

of North Carolina State College
The sharp, clear purpose for holding the Third Annual Farm Policy Review Conference, which generated the papers included in this volume, was to improve understanding not formulate policy.

Congressmen and their staffs have struggled long and hard to hammer out farm policy in recent years. Often they have had to take firm positions. Farm organizations also have taken strong positions. Government civil servants have worked earnestly to execute the laws emerging from the democratic process of debate and compromise on farm policy. Meanwhile the academic people have been a step removed from this pressing business. As some have charged, they perhaps have not had to face the realities of the many problems involved in farm policy formation and execution.

The Third Annual Farm Policy Review Conference attempted to reconsider carefully the nature of the farm problem, emerging new facts, the objectives and nature of policy as actually executed, and possible alternatives to present policy. The object was to discuss these matters in an academic environment, to provide an educational experience for all attending.

To the extent that this goal was achieved, those concerned with farm policy hopefully might find in these proceedings guides to more effective work in farm policy formation, be it education or action.

James H. Hilton, President
Iowa State University
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## LOOKING INTO THE FUTURE

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Do not be alarmed by the title assigned to me on this program. I deserve it because I was unhappy with the first title suggested by the program planner. It seemed to me too restrictive, and I said as much. So I got a title that certainly is not restrictive and it also has a lot of appeal to some people. Professor Kimball Young of Northwestern finished an important manuscript which he called "The Early History of Multiple Marriages in the Four Northern Counties of Utah." The publisher quite rightly was very impressed with the study but did urge Professor Young to change the title slightly. It appeared as a book, as some of you know, under the title *Is One Wife Enough?* In my title there are these fine phrases: National Security, Economic Growth, and Individual Freedom. I shall dispose of them quickly because I do want to restrict myself to another issue.

**National security.** Our agricultural economy has tremendous flexibility. If it is a question of changing production, stepping it up quickly and markedly, even to provide food for an additional 100 million people on really quite short notice, we have that kind of a food-agricultural economy. It is remarkable in this respect. There is no other like it. We obviously have large stocks and some of these are first class foods. There is not much more that one could ask for, except perhaps a better location of some of these stocks.

**Economic growth.** My comment can be very brief. Agriculture has been and continues to be an important source of the economic growth of the United States. No one will challenge this. What is not settled is who deserves credit for this contribution to economic growth. There is some disposition nowadays to try to give a lot of credit to our farm programs. This is misleading. The real credit goes to the capabilities of our farm people. Their ability to really apply and use effectively the high state of knowledge that enters into modern agriculture. There are few farm people in the world who are so capable. The farmers of Denmark, increasingly also those of Japan, stand high on this score. The other major source is new knowledge itself, from science, from the experiment stations, i.e., the useful knowledge they discover and develop. This is most of the story. The reason that the farm programs are not a large part of this advance is that they are making largely transfer payments. But they are not presently improving the efficiency of agriculture in terms of the contribution that agriculture makes to the economic growth.

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1/ Dr. Schultz is professor of economics at the University of Chicago.
Individual freedom. Let me be equally brief even though it may seem somewhat arbitrary. When it comes to individual freedom it is hard to see that our farm programs have endangered the civil rights of people. I find it very hard to believe that this has occurred. The right to assemble, to speak, to protest, to hold mass meetings in protest, to move and to change jobs is unimpaired. The courts certainly have not been undermined by these programs. Certainly, there are some economic restraints, but there are all manner of compensations. I shall argue a little later that the compensation looks very high. It is as if you would expropriate land for some public purpose and then compensate the owner by paying him much more than the value of the land. There are, of course, many little vexing issues here. But it is hard to believe individual freedom is being impaired in any significant way in what we have done to ourselves and for ourselves in something called our agricultural programs.

For the rest I want to examine one broad general question. What is the national interest in agricultural programs? I'm going to argue that it is becoming increasingly hard to discover the national interest in our agricultural programs. Moreover, one can't really get very far in trying to identify what this national interest is by examining the particulars of this or that farm program. Suppose you ask yourself the question, "Did the Secretary of Agriculture do the right thing in terms of national interest the other day by raising the support price on corn?" Well, you can point out that it is going to cost the government many more millions of dollars. You can point out that it increases the price at which corn can be sealed next fall. You can point out the effects and cross effects of all this but I don't think you can get anywhere at all in saying that in this respect the national interest is or is not served. Nor is the size of the budget a test of the national interest. Stocks held or not held are not a test. Suppose I took the issue that is coming up, e.g., subsidizing cotton across the board at 8 1/2 cents a pound. That will cost about 3/5 of a billion dollars, leaving aside the offset on the export side because we are subsidizing these exports already. In any case, it is going to require a lot of public funds even by U. S. standards. But even here where is the national interest? Or, take the surplus of milk. There are all sorts of ways of "controlling" output that might cost a half a billion or even a billion dollars. But again who is to say that this is in the national interest - and by what test?

One might talk about the efficiency of the economy as a whole and assert that it is in the national interest. This is what we usually do as economists, and rightly so in many situations. We have this in mind when we favor anti-trust laws and the enforcement of such laws. We have this in mind in opposing so-called feather bedding by some parts of organized labor. We have efficiency in mind in supporting public appropriations for science, appropriations for the advance in knowledge to create new technology. Consider, for example, funds for the National Science Foundation.

But what about agriculture? In it the national interest now rides predominately on transfer payments. For these one cannot use the efficiency standard. What then is the appropriate standard? How can one test how well or how badly these transfer payments serve the national interest?
There are a lot of transfer payments in our society. They are very large. They are not unique to agriculture. We have them in unemployment payments; we have them in social security arrangements. There is a good deal of this in federal appropriations of one sort or another, schooling, health, urban slum rehabilitation. And, of course, the appropriations for agriculture are exceedingly large.

Let me anticipate the conclusion at which I arrive so you can be on your guard. It can be put as follows:

1. U. S. agricultural programs are becoming less and less concerned about the efficiency of the economy and the contributions that the agricultural sectors can make to national economic growth.

2. U. S. agricultural programs are increasingly large income transfer devices; i.e., they are ways of transferring income from the rest of the economy into agriculture.

3. But these public transfer payments do not satisfy even the most elementary welfare standards that we applied to other public transfer payments.

4. The transfer payments for agriculture benefit mainly and ever more largely the owners of farm land.

5. As income transfers they have a strong regressive effect upon the personal distribution of income among farm families; i.e., those farm families who are already rich and who enjoy high personal incomes by U. S. standards receive the most and more in proportion to the high income they already enjoy than farm families who are really poor. The lowest one fourth of the farm families in personal income is virtually excluded from any of the income transfers going presently into agriculture.

I propose now to consider briefly four interrelated aspects of U. S. agricultural programs: the record of accomplishments, the record of doubts, the sources of frustration, the real unidentified agricultural problem as I see it.

When one enters upon farm policy he is beset by risk. As every farm leader, Congressman, and Secretary of Agriculture knows, making farm policy is no longer a friendly, family game. It is a big money game and the stakes have become shockingly high. This year over one-seventh of all individual income taxes to be collected in the United States is being staked on farm policy. Let the kibitzer beware whether he is a lonely scholar or a prestigious CED.

I. The Record of Accomplishments

The new vigorous approach of the last two years has raised support prices very considerably. The year-to-year increase in total farm output was almost stopped. The output index was at 107 and came to 108 this year. While the CCC is not yet out of business it certainly is little less fully occupied. Total net farm income of farm operators rose a good 1 billion. On a per farm basis it climbed better than 15 percent. Land prices have responded with alacrity, reaching all-time highs. The Department of Agriculture has prospered, its annual budget having expanded from a 5 billion plus rate to a 7 billion plus rate presently.
What has happened in the Corn Belt is even more impressive. Corn production was actually reduced 10 percent. There were those who said, "It can not be done." Stocks fell and continue to fall sharply. The corn carry over by next fall will be only a little more than half as large as it was in October 1960, according to present estimates. The CCC sold off 400 million bushels net last year, so for once the CCC must be taking in a lot of money. I hope Congressmen know this. One dollar corn for feeding did not cheapen hogs and cattle. This is now a fact. The $1.20 sealing corn did not discourage participation.

Next year will be much simpler because it will not be necessary to seal corn to collect the 18 cents a bushel bonus. The art of sealing corn will decline and direct government payments will rise. If every corn producer were to cut back exactly 20 percent and were to collect 18 cents on all of the remainder of his bushelage base, a tidy sum of three quarters of a billion dollars in government payments awaits those who own the corn acreage and bushel allotments next year. A corn base now means money. Soybeans also were uprated as income producers. Farm land prices are responding nicely.

While there are a couple of small clouds to watch, they should not spoil the picture. Cotton stocks are rising a bit, but this in itself is not important. Government purchases of dairy products are becoming politically worrisome. But if corn land can be given allotments and three-quarters of a billion dollars to produce 10 percent less than formerly, surely dairy farms also can be given cow and milk allotments and upwards of a billion dollars of direct government payments to reduce the output of milk, say, 10 percent. Cotton also would benefit from an across-the-board government payments of 8.5 cents per pound to all cotton producers. So would domestic mills that use domestic cotton. It would only require three-fifths of a billion dollars for such payments.

Surely all too much can be made of the clouds that are on the horizon. The approach now used can be extended and appropriations can be increased to clean the horizon.

II. Record of Doubts

Despite these accomplishments, the last two years have raised more doubts about policy than they have settled.

1. The total net income realized by farmers is running at $12.8 billion. Despite selling of a lot of corn the government is presently spending over $7 billion a year on farm programs. Could this mean that for every $100 of net farm income it now requires $55 of USDA expenditures? Or is this one of the better ways of achieving a budgetary deficit?

2. Farmers' net income rose from $11.7 to $12.8 billion between 1960 and 1962. Government payments to farmers rose $1.2 billion which is more than the increase in income. Does this mean that all of the rest of the governmental expenditures on farm programs and the effects of these programs actually reduced farmers' net income somewhat?
3. There are now supposedly 3.7 million farms in the United States. On this basis, the expenditures of the Department of Agriculture are running about $2,000 per farm. Some may doubt that this is desirable.

4. Farm income is too low. Yet the price of farm real estate rose again last year, up 5 percent. Since 1960 the total value of farm real estate rose from $130 to $144.5 billion - up $14.5 billion. Farm programs are obviously raising the price of farm land. But is this the way to improve the lot of farm people?

5. But the big doubt, as big as Paul Bunyan, is the simple fact that despite the accomplishments of the last two years the U. S. agricultural problem is not being solved. On this I shall have more to say later.

III. Sources of Frustration

While doubts are the source of new ideas, they also can produce an abundant crop of frustrations.

1. The urban press is harping on the "mess" in U. S. Agricultural programs, and urban congressmen are voting the appropriations for these programs. Urban people are betwixt and between and badly confused by it all.

2. The U. S. Trade Expansion Act is now law. Our Secretary of Agriculture on November 19 in a tough speech in Paris to European Ministers made it clear that the U. S. wants a more liberal trade policy and supply management for agriculture. But the two are obviously inconsistent economic objectives. Freer trade will not only bust the supply management of a private monopoly, it will also weaken a governmental monopoly of this kind.

   Edwin L. Dale, Jr. of the New York Times warns that the new "Atlantic Partnership" will not get off the ground for the reason that "... a major mutual reduction of trade barriers between the United States and the Common Market, will founder on agriculture." He goes on to say, "On the face of things, of course, it is simply ridiculous, even unthinkable, that a seemingly technical matter like agriculture and farm price supports should sap the genuine political will ... to work toward a 'closer union.'"

   A liberal trade policy and present agricultural policy, both in this country and in European countries, are inconsistent economic objectives. To proclaim that the way to resolve this inconsistency is for the Europeans to adopt our approach to agricultural policy, is absurd. It really is untenable for us to stand on a pious platform and say "Do as we do and then there will be more liberal trade possibilities."

Lastly on this point, let me remind you that it was my privilege as a member of the faculty here at Iowa State in the '30s to observe farm people and the government of the United States reverse the Smoot-Hawley Tariff and embark under the single-minded leadership of Cordell Hull on the reciprocal trade programs. It is to the everlasting credit of farmers that they lent support to Cordell Hull during his ordeal of establishing the reciprocal trade program. On this matter "Edward A. O'Neal rose above the stature of an interest-group politican," making a notable contribution.
Who in agriculture will now support Christian Herter during his ordeal to further liberalize trade?

3. There are many signs of frustration within the agricultural establishment.

Farm leaders are taking an ever more extreme, wholly untenable, policy positions.

Agricultural committees of Congress are no longer models of thoughtful, searching discussion of legislative matters. Basic disagreement and discord are all too evident.

The U. S. Department of Agriculture is frustrated because it can not cope with the real agricultural problem. As I noted a year ago in Raleigh, North Carolina, during the second of these Policy Review Conferences, "Look at what the Secretary of Agriculture has been up against. No matter how competent and imaginative and how many new farm programs he introduced - be he a Brannan, a Benson, or a Freeman - he does not have a ghost of a chance of succeeding. He is doomed to economic and political failure. He is so doomed because it is impossible for the Department of Agriculture, and by the same token, for the agricultural committees in Congress and for farm leaders, to cope with the economic imbalance between agriculture and the rest of the economy." No wonder then that the numerous public addresses of the ranking officials have not been models of economic analysis.

The Real Unidentified Agricultural Problem

The basic reason why the accomplishments to date have not solved the agricultural problem and why these are growing doubts and frustrations is that the real problem has not been clearly identified.

Let me try to clarify this matter by first putting aside the particular economic attributes that are not of the essence of the agricultural problem.

1. During the twenties and thirties the extreme economic instability of the rest of the economy burdened agriculture greatly. This was the problem to which I addressed myself in Agriculture in an Unstable Economy (1945). We can be grateful that that problem has not been upon us since World War II.

2. Despite the growing concern, the extraordinary size of the budget of the Department of Agriculture is not the agricultural problem. The size of this budget obviously is a consequence of existing policy.
3. Likewise, the stocks of farm commodities acquired by the CCC are not the agricultural problem. They, too, are a consequence of established policy.

4. What about farm product prices - Is this not the rub? By every relevant economic test, these prices have not been "too low" for a long time. Higher support prices, of course, create problems - either more stocks or more measures to check and reduce production. Both can be very costly.

5. However serious the increases in the price of farm land may turn out to be for farm people in future years, this rise in real estate prices is primarily a result of the way the government is transferring vast amounts of public funds into agriculture. Thus, it too is to this extent a consequence of policy.

What then is the real problem? Let me over-simplify the matter, because we are a small group which will permit us to discuss this issue with care. It should not be necessary, therefore, at this stage to elaborate at great length.

The heart of the matter is that the income of many farm people is too low. This income is too low not because the non-human factors of production employed in agriculture earn substantially less than comparable factors in the rest of the economy. It is too low because the human agents, i.e., farm people as workers and as entrepreneurs, earn less than comparable human agents in the rest of the economy.

The farm income from the expenditures on fertilizer is obviously not too low, nor is it too low in the expenditures of most reproducible material factors of production. Land has the attributes of a residual income claimant. Land is prosperous. The inference is that agricultural policy and programs are set primarily to benefit land owners. I count myself one, having had the very good fortune to buy a farm south of Ames while I was here. Thus as a private absentee land owner I applaud. But as an economist and as a citizen, I do not applaud. Truly, farm people who own farm land are not in trouble; they are not suffering losses on the land they have acquired.

Agricultural programs that presently benefit mainly the owners of farm land also can be discontinued. When this happens, then the pot at the end of this rainbow will be empty except for bitterness. It has been and continues to be a serious mistake to transfer public funds into agriculture that accrue to the benefit of farm land and thus accrue to the profit of land owners. Meanwhile the earnings of many farm people for the work they do, for the entrepreneurial contributions which they make to farming, is too low. And this is the real problem. It isn't the returns to land, or to the inputs farmers buy; it is that many people in agriculture are giving their skills, their entrepreneurial abilities, for too little.

In general, the solution to what I have identified as the real agricultural problem lies primarily outside of agriculture. The low earnings of many human agents who are in farming is an economic imbalance which the USDA can not correct. It is an imbalance which the agricultural committees of Congress can not cope with. It is an imbalance that is beyond the farm organizations given their present orientation.
But a group of businessmen, those who sponsored the CED policy statement, did come to grips with this imbalance. Chapter Seven of the CED statement represents a radical forward step in recommendations to bring public policy to bear upon this imbalance. Investments in farm people are required and they are the kind of investments that would set the stage for correcting this imbalance. By normal standards these investments are a contribution to welfare. But they go beyond welfare in the sense that they become investment in human capital and thus contribute to national economic growth.
THE MAJOR PROBLEM OF RURAL SOCIETY

by Karl A. Fox

Introduction

The planning committee for the conference suggested that I try to highlight some four major areas: (1) The relative decline of commercial farm income; (2) the problem of small, low income farms; (3) the problem of land resource use; and (4) the problem of adequate education for farm youth.

These are indeed important problem areas. But they are so well recognized by agricultural economists that there is grave danger of our simply playing the same old records with the same well-worn grooves.

I will try to break out of the usual pattern and present a different concept of the structure of the United States economy and society than is generally assumed in discussions of farm policy. I shall then try to show the implications of this concept for the problem areas to which I have already referred.

Stretching Exercises: Perspectives in Time

Nearly thirty years ago, in his article on "Agricultural Fundamentalism," Joseph S. Davis wrote:

"...history reveals a trend, most conspicuous in countries of more advanced standards of living, toward a smaller place of agriculture in national economies. This has been going on for centuries, at times slowly, again with quickened pace. It has been conspicuous since 1850, and especially so in the first decade after the Great War. Though the trend is sometimes interrupted or temporarily reversed, major reversals are rare. It is, of course, the obverse of the expansion of commerce and industry, the arts and the professions. Statistical evidence of it, through largely limited to the past century, is increasingly voluminous. While even now the data are by no means comprehensive, accurate, or easy to use, the testimony of various indicators is substantially concordant. One may even venture to state as a law of economic history that economic progress, broadly viewed, tends to be accompanied by a decline in the relative importance of agriculture. This has been true, if not universally, of most nations in most periods and of the world as a whole.

1/ Dr. Fox is professor and head, Department of Economics and Sociology, Iowa State University.
"Limitations of space here prevent elaborate presentation and interpretation of the relevant evidence, a large body of which I have critically examined. The declining relative importance of agriculture is imperfectly reflected in declining rates of increase in the rural population as compared with the urban, or even in stationary or declining rural populations while city populations increase. It is more clearly revealed by falling ratios of agricultural populations to the total, and of those engaged in agricultural occupations (particularly male workers) to the totals gainfully occupied; still more by absolute contraction of the numbers engaged in or primarily concerned with farming. It is reflected in available though imperfect indexes of the net output of agriculture as compared with that of industry, in evidence of falling ratios of agricultural wealth to total national wealth, and in falling percentages of agricultural income to national income.

"In the light of these facts, it is pertinent to ask: Is agricultural fundamentalism, after all sound doctrine in spite of its antiquity and prevalence today? Is it, with its implications, true enough to furnish bases for wise national policies? The issues are of far-reaching importance. Politicians may cater to popular sentiments and prejudices, but statemanship requires real insight and true perspective. It calls for recognition of truths even when they seem unpalatable, and for recognizing powerful economic forces for what they are. It requires measures that are directed not toward neutralizing such forces, but toward using them and making adaptations to them. Social scientists who do not fear heresy charges have a duty to contribute to clarification of thought in such a field."

In his concluding observations Davis said:

"...I challenge the soundness of agricultural fundamentalism, not because there is no truth in it, but because it contains so much error as to lead the world astray. It stands in the way of progress, and its common acceptance often operates contrary to the interests of farmers themselves."2/

But agricultural fundamentalism still survives, and it is reinforced by an even more stubborn political fundamentalism that invests our institutions of local government.

The major problem of rural society in the United States is our institutionalized belief that a rural society exists and can be manipulated successfully apart from society as a whole.

We Know Not What We Do

It is extremely difficult for laymen to be objective about social, economic, and political problems. It is difficult even for social scientists. The physical and biological scientists deal with objects, and we can be objective about objects. The social scientist deals with people and the cultural environment that people have created; this environment includes the things we live by, fight for, and sometimes die for.

Because of our emotional involvement with our cultural environment, we permit ourselves to be trapped by our own inventions. We spin ingenious webs and get entangled in them. We draw imaginary lines, such as county boundaries, to meet an immediate need and thenceforth regard them as eternal. As an aid to analysis we draw imaginary lines around "Standard Metropolitan Statistical Areas" and find no coordinating principle in the remaining areas.

We also trick ourselves with words. We are particularly enchanted by dichotomies, including such old favorites as agricultural and nonagricultural or farm and nonfarm. The right to use adjectives with a positive valence should provide farm people with considerable psychic income as well as subtle bargaining advantages. The nonagricultural labor force amounts to 92 percent of the total; nonfarm income amounts to at least 95 percent of the total. Somehow these dichotomies have not carried the field in institutions of higher learning; thus, the land-grant universities have colleges of agriculture but no colleges of nonagriculture.

Once we have drawn an imaginary line or institutionalized a dichotomy we cling to it with fearful tenacity. A hundred years ago, our state constitutional conventions created counties with roughly similar areas and populations and assigned seats in our state legislatures to represent these area-population units. Decade after decade, the rural sheriff devotes himself to a dwindling constituency while the sheriff of a county-turned-metropolis struggles to maintain law and order among five million people!

Perhaps we humans could learn something from the animals. My impression is that in a state of nature the number of herbivores tends to adjust itself to the supply of grass and the number of carnivores tends to adjust itself to the number of herbivores; reapportionment takes place without a constitutional convention.

I. The Structure of the United States Economy: Perspective from Outer Space

We have mentioned the ease with which physical and natural scientists attain objectivity about objects and the difficulty with which social scientists attain objectivity about society. Let us try to achieve such objectivity about the United States for a few minutes by imagining that we are a scientific expedition from Mars engaged in an ecological study of the North American continent. To limit our emotional involvement still further, let us assume that we Martians are a species of overgrown intellectual ants; we think of people as specimens, their territory as a habitat, and their economic activities as a food chain.

To obtain perspective on the broader ecological patterns of the human species, we fly over the surface of the planet at different altitudes. We observe the daily movements of people from the shelters in which they spend the night to other shelters in which they spend most of the day. We consider collecting a stratified random sample of people and banding them so that we can identify them at will, but we content ourselves with daubing ultra-violet pigment (visible to us but not to them) on a sample of their metallic vehicles.
We insert optical devices in many individual shelters and observe the micro-behavior that takes place within them. Much of the daytime activity involves direct contact among individuals. Many individuals wander from shelter to shelter, exchanging round metal objects and pieces of green paper for articles of food, apparel, and the like. The peripatetic individuals also exchange disks and green paper for cosmetic services and for the privilege of sitting an hour or two in a large darkened room. In some large shelters they deliver disks and paper and receive nothing identifiable in return.

Evidently, these face-to-face contacts are essential aspects of the functioning of the food chain—or, more precisely, the food-clothing-shelter-service chain.

At this stage, we are able to make a major generalization. On a macro-level, we find we can delineate a set of areas which completely cover the face of the habitat, and have the following features:

(1) The number of individuals making daily trips across area boundaries from nighttime to daytime shelters is small relative to the total population; (2) the number sleeping in Area A and working in Area B is roughly equal to the number sleeping in Area B and working in Area A; (3) the number of boundary crossings of the nighttime to daytime shelter type would be noticeably increased if arbitrary boundaries were drawn more than a mile or two from those which minimize the daily crossings; and (4) if we aggregate the basic areas into clusters of four or nine contiguous ones the percentage of the total population sleeping within a cluster and working outside of it is only slightly larger than the percentage sleeping in an area and working outside of it.

In the interior of the subcontinent, each basic area appears to be organized around a central agglomeration of structures accommodating anywhere from 25,000 to a million or more nighttime inhabitants. However, the geographical extent of the areas is much less variable than the population of the central agglomerations; the size of the basic area appears to be limited by the unwillingness of individuals to spend more than one-eighth of their waking hours in transit between nighttime and daytime shelters. The total populations of the basic areas rarely amount to less than 100,000 individuals and occasionally exceed 1,000,000 individuals.

The nature of the nighttime to daytime shelter trips and the kinds of goods and services obtained on a face-to-face basis in exchange for disks and green paper show little variation as between basic areas including 100,000 individuals and basic areas containing a million or more. This tends to support our generalization that the entire habitat can be divided into residiency clusters each of which contains virtually all the goods and services which individuals obtain by face-to-face interaction. The areas of these residiency clusters range from 2,000 to 6,000 or more square miles.

A most marvelous pattern of exchange takes place between the basic residiency clusters. Many of the large specialized vehicles (including those running on metal rails) are engaged in interarea commerce, and some of the very largest daytime shelters are oriented toward interarea trade.
Some of the interarea trade is evidently based on differences in natural endowments such as soil, climate, and mineral deposits. It seems clear also from the kinds of goods hauled in different kinds of vehicles that considerable attention is given to time, energy, and material costs of overcoming distance.

A careful study of the kinds of artifacts and raw materials moving between areas suggests that the trade-oriented activities of all residentiary clusters in the subcontinent are linked together in one vast production process. In fact, the mathematical ecologist of our expedition is convinced that this production process can be represented as a matrix consisting of several hundred kinds of activities, each classified as to location in one of the 400 to 500 basic residentiary cluster areas.

Evidently, the ecological system of the species can be divided into two major segments. The first is a cluster of residentiary activities which, with relatively minor variations, is replicated in each of 400 to 500 areas. With respect to these residentiary activities, each area is relatively self-contained. The second segment links the export activities of all the residentiary clusters into an interarea production and trading system.

A. Political overtones. Our political ecologist has drawn some interesting inferences from the existence of these two segments.

His hypothesis is that the affairs of the entire subcontinent could be regulated by two layers of government. First, there would be a governing body for each of the residentiary clusters, and it would be responsible for the residentiary and face-to-face kinds of activities. Second, there would be an additional governing body to deal with the interarea production and trading system as a whole.

The latter body could determine or at least powerfully influence the locations of new structures connected with the interarea production and trading system. The individuals working in these structures receive green paper for their efforts. By presenting this green paper in turn to the local suppliers of goods and services, they set up a chain of interactions within the particular residentiary clusters. Our mathematical ecologist has estimated that the final effect of this chain may be represented as the sum of a power series, which he is inclined to call an "export multiplier." A fairly typical value for this export multiplier for a residentiary cluster is around 1.5.

There is evidence that the species has made progressive modifications in its physical environment and in its own spatial distribution. Most daytime shelters associated with the residentiary cluster have a locational pattern and level of activity very closely related to that of the nighttime shelters in the area. But there is evidence that the more sparsely populated portions of each residentiary area were once inhabited by a considerably larger number of individuals. Many structures are unoccupied and have fallen into disrepair.
In the interior portion of the subcontinent, one particular kind of daytime shelter stands out as unrelated in terms of size and number of occupants to the spatial distribution of occupied nighttime shelters. Our cartographer has discovered that one such structure is located at the center of each square unit of territory measuring 24 miles on an edge. All of these structures appear to have been designed by the same individual and built at about the same time.

Our historical ecologist has deduced that these structures were erected before metallic vehicles became the dominant means of transportation. Vehicles were then drawn by large herbivorous animals. Rough calculations indicate that with such transportation any human could have proceeded from his nighttime shelter to the nearest structure of the type under discussion and returned to his nighttime shelter on the same day. Under those conditions each 24 mile square would have constituted a meaningful ecological and governmental unit for activities of the face-to-face or residentiary type.

It seems clear that the real, functioning ecological system has been revolutionized by universal adoption of the metallic vehicles and by associated changes in the food-clothing-shelter-services chain. It is to be expected that the politico-religious attitudes associated with the 24 mile squares will gradually be transferred to the much larger residentiary cluster areas which from the basic units which form the basic units of the functioning system.

The expedition's ecological psychologist is impressed with the changes in interpersonal relationships which must have occurred as a result of this upheaval in the ecological system. However, evidence is rapidly accumulating that at least one human in five changes his residence each year; such mobility is particularly high among young individuals. The capacity of the species for spatial readjustment seems more than sufficient to cope with rather large changes in both segments of the ecological system—i.e., changes within the residentiary clusters and changes in the interarea production and trading system.

Forgive me, fellow Martians, if I have trespassed upon your patience! Let us now pretend that we are members of the human species and consider the implications of our outer-space perspective for dealing with major problems affecting farm people.

B. A Common sense restatement. I have presented the following hypothesis about the structure of the United States economy and the organization of United States society as of 1962:

1. The economy of the United States may be classified into two sets of activities. The first set may be described as residentiary. I believe there are about 400 or 500 residentiary clusters in the United States and that the entire area of the United States can be divided into such residentiary clusters (special complications may exist for the almost continuous stretch of cities along the Atlantic Seaboard which some call Megapolis). For convenience I shall refer to the area covered by each residentiary cluster as a functional economic area, or FEA. The nonresidentiary activities in each FEA are oriented toward an interarea production and trading system which links together all of the 400 to 500 FEA's.
2. Corresponding to these two different systems of activities are two sets of economic policies. One set of policies applies to the residiitary cluster of activities in each FEA. That is, there should be some central policy-making body in each FEA to deal with problems which affect all residents of the given FEA but which are of only negligible interest to residents of other FEA's. Each FEA covers an area equivalent to several Corn Belt counties, and the policies appropriate to the central governing body would be similar to those now assigned to city governments.

The other set of activities logically requires a national government with policy responsibility for the interarea production and trading system. Many instruments are available through which the federal government can influence stability and growth in the economy as a whole. Federal programs may also be used to encourage differential rates of change as between FEA's, but these programs are handicapped by the absence of local policy-making and advisory bodies coextensive with the functional economic areas.

State boundaries, particularly in the smaller states, intersect a fair proportion of all FEA's. Rationally or not, most of us would feel uncomfortable if there were no intermediate level of political aggregation and discussion between the individual FEA's and the federal government. If we were really venturesome, perhaps we would draw "state" lines in such a way as to include a specified number of functional economic areas, with the "state" boundaries roughly identical with the perimeters of clusters of (say) 9 to 16 FEA's.

When I presented these ideas in an informal context a few weeks ago, an economist (Wilbur Thompson) from Wayne State University restated my hypothesis as follows:

"The United States economy is made up not of states but of city-states."

C. Further comment on the residiitary cluster and the FEA. I have suggested above that the policy problems appropriate to a functional economic area should be substantially the same as those of a city of 50,000 to 500,000 people which had political boundaries roughly coextensive with its economic ones. It seems to me that municipal government is primarily concerned with what might be called the "residiitary cluster" of activities, economic and other. Although the municipality would extend police and fire protection to export-oriented firms, regulation of interarea trade would be outside of its jurisdiction.

Figure 1 should serve to make this prescription of municipal government functions for an FEA at least plausible. The figure is a map of a midwestern city with about 50,000 residents. The heavy cross-hatching identifies the industrial plants which constitute the economic base of Center City. The black oblongs are supermarkets. When the map was drawn, there were about ten supermarkets, each serving on the average of about 5,000 people. The central business district is contained in the inner circle of one-half mile radius. Not shown on the map are the small neighborhood stores and other convenience enterprises which can subsist on the patronage of a few hundred customers.
The 10,000 Center City industrial workers require only two or three square miles of land for their production activities and their residences. The same number of export-oriented workers deployed on farms would spread out over five or six Corn Belt counties. To serve such a dispersed population, the neighborhood stores, barber shops, and gasoline stations must fan out into small towns and villages, many with less than 1,000 people. The supermarkets and other units requiring large volume for low-cost operation will be found in county seat towns and others of (say) 1,000 to 5,000 population. The central business district will typically be found in a city of 25,000 population or larger.

Economists should have no difficulty with this projective transformation of the structure of a city into the structure of a multicounty area. Some laymen may have difficulty with the concept, but many Iowa leaders have been quick to grasp it. To me, it seems useful to regard an FEA as a city spatially extended to accommodate a low-density pattern of land use and residential location over the bulk of its area. A further implication is that agriculture, despite its space-filling and eye-catching qualities, is simply another export industry and source of employment from the standpoint of an FEA classification scheme.

Figure 2 shows a geographer's attempt to classify midwestern villages, towns, and cities according to the range of economic activities which they perform; this range is, of course, strongly associated with population size. In the Wisconsin sector, I have left in the "second-order central places," mostly towns of a few hundred to 1,000 or 2,000 people, on the map. My belief is that a hundred years ago a county seat town plus a few nearby villages constituted a relatively self-contained labor market and "residentially cluster" of activities. In the rest of the map I have omitted the small villages and left in towns of county seat size and larger. My hypothesis is that today we could divide the area of the United States into functional economic areas containing 2,000 to 6,000 or occasionally more square miles and centered (in Philbrick's terminology) around a fourth-order or larger central place. (Philbrick's classification is not perfect for this purpose. For example, it seems to me that in north central Indiana there should be an FEA centered on a city which Philbrick's classifies as a third-order central place.)

Figure 3 shows the daily home-to-work commuting pattern of some 2,300 employees of a manufacturing plant in Newton, Iowa. Newton is a town of about 15,000 people located 25 or 30 miles from Des Moines. Significant numbers of workers commute to Newton daily from ten or more counties. Apparently not more than one or two workers drive past a larger city in order to get to Newton; the Newton labor market seems to be hemmed in by the larger towns (Ames and Marshalltown have populations of 20,000 to 30,000; Ottumwa, 35,000; and Des Moines, more than 200,000). It would be more precise to say that Newton is part of the "greater Des Moines" or "central Iowa" functional economic area.

At the risk of being classified as a Martian, I would suggest that the functional economic area has the following implications for political institutions and local government services:
1. Elections for some local government offices should be held on an FEA-wide basis.

2. Various public services, including the school system, law enforcement, health and welfare and other functions should be organized on an FEA-wide basis. Some of these systems would, of course, be guided to a greater or less degree by agencies of the state government.

My main point is that there should be some policy-making body in each FEA which could deal in a coordinated way with the whole cluster of functions affecting people in the area in their capacity as residents, workers, consumers and citizens.

Let me say parenthetically that, given a regional delineation which lends itself to a specified class of policy problems and given a central policy-making body for the region (FEA), a rigorous logical framework is available for stating and analyzing the corresponding set of policy problems. I refer to the "theory of economic policy" framework pioneered by Tinbergen during 1952-1956 and capable, in my opinion, of further elaboration and adaptation to a wide range of policy-making bodies and situations.

Many of you have seen Figure 4 and an amplification of its meaning in some of my other speeches and articles, so I will say no more about it at this point.

D. Interarea competition for new industry. Within an FEA, I expect that businessmen and others identified with residiary activities will generally recognize and take advantage of opportunities for expanding them. National and regional chain stores will also be on the lookout for such opportunities. Some of the larger residiary firms (full-line department stores, for example) will tend to locate in the central city of the FEA; so will specialized services such as commercial airports and the like.

Large industrial firms in the export-oriented cluster of activities will tend to locate in or near the central city of the FEA or in larger satellite towns to obtain sufficient numbers of workers without materially increasing local wage rates to their own disadvantage.

Firms which regard themselves as part of a national or regional trading system are not likely to be influenced by the promitional activities of small towns and villages within an FEA. Typically, such firms will decide upon a desirable area (as large in extent as at least one and probably several FEA's) and will then narrow its choice down to a particular city or town within that broad area. It appears, then, that efforts at encouraging new industries to locate should be coordinated on an FEA-wide basis.

There is room for further coordination of the activities of adjoining FEA's if longer term effects of industrial development on job opportunities available to area residents are considered. State planning boards or industrial development commissions might consider it enough that job opportunities expand rapidly in one FEA out of every three or four located wholly or partly within the boundaries of the state. In that event, while many workers would move to nearby FEA's, they would not have to move more than 50 or 100 miles to find suitable employment.
II. Problems Accessible on an FEA (Functional Economic Area) Basis

Let me return now to the four major types of problems suggested by the conference committee: (1) income problems of commercial farm operators; (2) problems of low-income farms and rural underemployment; (3) land resources and land use; and (4) education of farm youth.

A. Education of farm youth. It seems to me that the public school system of each FEA should be organized and supervised on an FEA-wide basis. Teacher's salaries, curricula and facilities should be of as nearly uniform quality as possible throughout the FEA. The elementary school system throughout the area should carry an implicit assumption that all pupils will move on to junior high schools and high schools in the FEA, and that the majority of them will go on to the state universities or at least to a "community college" located in or near the central city of the FEA.

In brief, there should be no segregation of farm youth from others in the area. We should be aware that failure to provide educational opportunities up to the limit of each pupil's capacity amounts to a betrayal and a distortion of the young human lives for which we are responsible—no matter whether they are currently living on farms, in small towns or in big cities.

B. Problems of low-income farms and underemployed farm people. A functional economic area (FEA) is an integrated labor market area—this is perhaps its most distinctive characteristic. Residents of low-income farms within an FEA are members of this labor market. The success with which they can enter nonfarm occupations in the FEA may be limited by their educational backgrounds, specific vocational skills, aspiration levels and native endowments; it may also be limited by the rate of expansion (or contraction) of job opportunities in those firms and industries within the FEA which constitute its export base.

The problems of labor force members on low-income farms can at least be diagnosed on an FEA basis. In some cases, the answers also can be provided on an FEA basis. Typically, the central city of the FEA will be the logical place for nonfarm vocational training programs and facilities. If total job opportunities in the area are expanding, the locational preferences of low-income farm people may be accommodated by training them for occupations which are expanding locally. However, vocational programs which concentrate only on the particular skills desired by local employers may amount to a betrayal of the young people and adults who seek training or retraining.

C. Problems of land use. Only a minor part of the problems of land use can be met on an FEA basis. It seems to me that zoning of nonagricultural uses might well be handled on an FEA-wide basis; so also should be the planning of recreational areas of primary interest to residents of the FEA.

Problems of price and income policy, supply control and regulation of total land resource inputs cannot be solved by policy makers at the FEA level.
III. Problems Accessible on a National Basis

Conversely, policies affecting the incomes of commercial farm operators must be conceived on a national basis, even though they may be differentiated by commodities and indirectly by geographic areas. But again the needle is in danger of slipping into an extremely well-worn groove.

Commercial agriculture is clearly part of a national production and interarea trading system. Prices received for each commodity by farmers in a given FEA are wholly or almost wholly independent of the level of nonfarm activity in the same FEA.

It seems to me that commodity programs and land retirement or acreage restriction programs should be carried out in such a way as to promote the efficiency of agriculture on a national basis and without too much concern for the effects of such programs upon nonfarm business firms and people in particular FEA's. I don't believe our political system is flexible enough to warrant slanting national commodity programs in an attempt to bolster income and employment in the residiency clusters of particular areas.

IV. National Policies Implemented Through Functional Economic Areas (FEA's)

An FEA is a much more rounded unit than a typical county in terms of the range of occupations included, the range of economic and political problems that must be considered and the age distribution of the population.

However, because their historical backgrounds are different and because educational levels of their populations are different, some entire FEA's as of 1962 enjoy considerably higher income levels and have considerably higher potentials for internally generated economic development than have other FEA's. These existing differences should not be permitted to result in differences in the educational opportunities provided to youth (farm and other) in currently disadvantaged FEA's. This raises the question of federal aid to education in a two-stage political system and of federal and/or state equalization in a three-stage political and fiscal system.

For reasons mentioned above, I believe we are more likely to get high quality education for our farm youth if programs of state and/or federal aid to education are administered on a FEA basis. The school superintendent for the FEA might be an agent of the State Department of Education, and he would be responsible for the use of such state and/or federal funds as might be provided for school buildings or for operating expenses.

Similarly, as different FEA's have capacities for self-generated economic development, some FEA's should benefit from state and/or federal aid in development planning. It would seem desirable to have a central policy-making body in each FEA which could look at all state and federal aid programs, including urban renewal, vocational training and retraining and programs directed toward helping low income farm people from the standpoint of the area as a whole.
In addition, the FEA should form a logical unit for appraising the needs for state and federal investment and the probable impacts of different types of state and federal investment in the area.

V. **Summary**

The problems under discussion may be divided into two major categories, problems focusing on **people** and problems focusing on **commercial agriculture as an industry**. The first category is accessible to programs and efforts organized on an FEA basis; the second category requires intervention or at least policy determination on a national level.

A. **Problems focusing on people.** The functional economic area lends itself particularly well to the formulation of policies and the implementation of programs focusing on people. These include the education of farm youth within the same school system and under the same standards as other youth in the area.

Secondly, the FEA is a logical area for appraising employment opportunities and, in most cases, for programs of training and retraining. These programs should be equally available to low income farm people and others.

Both of these programs involve investments in human beings. The previous speaker (T. W. Schultz) has done a great deal to promote interest in this subject and some useful research and attempts at quantification have begun to appear.

Even if we continue to elect county officers and state legislators indefinitely on the present basis, the multicounty functional economic area provides a useful framework for activities by voluntary citizens' groups. Self-knowledge is the beginning of wisdom. If voluntary groups organize for the study of problems affecting their entire FEA, they will almost certainly recognize educational and employment problems as area wide in scope. They must seek to alleviate these problems through instrumentalities of state and local government, or through federally-aided programs.

We have already commented upon the deployment of court houses, county officers and local political energies in proportion to area rather than to current population. The county is the unit for most action programs and advisory committees of the U. S. Department of Agriculture and of educational programs such as the Cooperative Extension Service. I have seen no estimates of the quantity of human resources that are locked up in this rigid and antiquated county pattern. So far as state activities are concerned, many coordinating and executive powers have been transferred from the counties to state agencies (state boards of public welfare, state highway commissions, the state boards of education and the like). Nevertheless, by the mere fact of electing public officials and representatives to state legislatures on a county basis, we tend to lock up an undue amount of political attention and energy in an inappropriate political unit.
Let me stress once again that when counties were first delineated (at least in the Corn Belt states) they were intended to be roughly coextensive with functional economic areas. Since 1900 the automobile and other factors I have mentioned have greatly extended the sizes of functional economic areas. Each county now includes only a fraction of a functional economic unit, and many county officials are groping blindly for significant and constructive things to do. Each county board is in the position of a blind man grappling with an unidentified portion of the anatomy of a multicounty elephant. If our county officers were flown back and forth across the different tiers of counties in their state on a clear day at a height of 30,000 feet, I believe they would begin to see the shape of the multi-county economy they are trying to administer on a single county basis.

Our acceptance of the county as the basic unit of organization of "rural society" leads to a horizontal pattern of organization of our Cooperative Extension Services. We overlook one of Adam Smith's basic principles of economic development, as enunciated in 1776--the advantages of specialization and the division of labor.

Some extension activities are oriented toward people--as citizens, homemakers and persons interested in self-realization and development. It seems to me that these programs could be organized much more effectively on the basis of functional economic areas than of counties. The resources now deployed horizontally on a county-by-county basis could be regrouped into a different staffing pattern adapted to the geographical areas over which residentiary activities are actually integrated.

Other extension programs are oriented toward commercial agriculture as a business. The proper organization of these activities may be very different than that of activities oriented toward people as such. However, I suspect that in many cases we have deployed our resources horizontally to serve commercial farm operators on an area basis when we might much more effectively have deployed them vertically--so that the quality of our technical information might keep pace with the increasing capacity of the buying and selling agencies with which commercial farm operators must deal.

B. Problems focusing on commercial agriculture as an industry. These are essentially problems of the national production and interarea trading system. The corresponding policy problems constitute a well-tilled field which most of us participating in this conference have plowed many times. They include farm price and income policy, supply control, policies to expand exports and domestic use, and problems of land use. These will be discussed in detail in subsequent sessions of this conference.

C. The illusion of separateness. A number of us at this conference are associated with the U. S. Department of Agriculture or with departments of agricultural economics and rural sociology--designations which help to create an illusion of separateness of agriculture from the rest of the economy and of farm residents from the rest of society. This tends to influence the way in which we conceptualize the problems of commercial agriculture and of farm people. Yet the living forces of our society have already integrated agriculture with the rest of
the economy and farm people with the rest of the society. We should free ourselves of the illusion of separateness which is fostered by our organizational titles, the deployment of our resources along county lines and our consequent tendencies to try to improve low farm incomes or develop nonfarm job opportunities by pushing on county "strings" instead of pulling on area "ropes."

Many of us who are deeply involved in the formulation and implementation of farm policies continue to underestimate the mobility of people (1) between occupations and (2) between areas--this in spite of the phenomenal reduction in the number of small farms shown by the recent census and the differentially high rates of transfer out of the least promising situations and areas.

Joseph S. Davis quotes this passage from a dialogue written in England in 1549:

"...the more necessary that corn is, the more be the men to be cherished that reared it; for if they see there be not so much profit in using the plough as they see in other feats, think you not that they will leave that trade, and fall to the other that they see more profitable?" 3/

This motivation has never ceased to operate in free societies. Evidence that Iowa farm boys are thinking in this fashion is provided by a recent study. 4/ Out of 439 farm boys (high school seniors) who preferred farming to nonfarm jobs at equal prospective incomes of $4,000, less than one-fourth indicated that they would still farm at $4,000 if they could earn $6,000 in a nonfarm job. Further, some 347 of the 836 farm boys in the entire sample indicated that they would prefer nonfarm jobs to farming at equal incomes of $4,000. Nearly three-fourths of these boys indicated that they would prefer to farm if they could earn $6,000 in farming and only $4,000 in a nonfarm job.

I return once again to my earlier statement: The major problem of rural society in the United States is our institutionalized belief that a rural society exists and can be manipulated successfully apart from society as a whole.


FIGURE 1.
Map of Center City

Source: Bob R. Holdren. The Structure of a Retail Market and the Market Behavior of Retail Units. © 1960 Prentice-Hall, Inc. Adapted by permission.
FIGURE 2.  

CRITERIA FOR THIRD-ORDER CENTRAL PLACES:
1. Grocery Wholesaling
2. Daily Newspaper
3. County Seat
4. Industrial Supply
5. Paper Merchants
6. Merchant Wholesaling In 1950 Census And Population Over 5,000
   A. Major Wholesale Grocery Center, 1935
   B. Hardware Wholesaling
   C. Drug Wholesaling
   D. Services Allied to Transportation
   E. Shoe and Leather Wholesaling
   F. Major Steel Warehousing

Source: Adapted from A. K. Philbrick, in Economic Geography, Vol. 33 (October 1957)
FIGURE 3.
The Newton, Iowa Commuting Pattern, 1959*

*Based on C. A. Peterson, An Iowa Commuting Pattern and Labor Market Areas in General, State University of Iowa, June 1961, page 9.
The Theory of Economic Policy

Exogenous Variables
- Utility, welfare or "objective function"
- Endogenous Variables
  - Goals or "target variables"
  - System of structural relationships connecting all variables: The "model"

Policy Instruments
- "Data" or noncontrollable factors

Classification of variables based on J. Tinbergen.

Not subject to control by the policy-maker or level of government that sets the goals and uses the policy instruments in question.
POLICIES TO MAXIMIZE AGRICULTURAL EXPORTS

by Irwin R. Hedges

The topic I have been asked to discuss with you today is big business.

During the 1962-63 fiscal year, our agricultural exports reached an all-time high of $5.1 billion. This was about one-fourth of the country's total exports.

The effects of our banner export totals reach into every rural community in the United States and are felt all along the distribution pipeline. We had record foreign marketings last year of several commodities, notably wheat and feedgrains. Tobacco exports reached a new high in value. Among the major commodities only cotton showed a drop from the previous year's export levels.

Exports accounted for 15 percent of farmers' cash receipts from marketings in 1962 and provided a market for the output of one in every five harvested acres.

Of the year's total exports, commercial sales for dollars accounted for about $3.5 billion, or 70 percent. We make our strongest market development efforts in that area, with countries that can buy for cash.

The remaining $1.6 billion of our 1962 exports moved under the Food for Peace program and included special concessional programs, such as sales for foreign currencies, donations, barter, and long-term supply and dollar credit sales under Public Law 480 and the Act for International Development.

Not only farmers, but every American has a vital interest in our agricultural exports. Our exports for dollars are one of our major foreign exchange earners. During recent years, the United States has developed a balance of payments problem. Our heavy commitments overseas in the form of defense expenditures and economic assistance have overtaxed our capacity to pay for them. As long as the present deadly struggle with international Communism continues, the prospects of our reducing these obligations are not great. Emphasis must, therefore, be on means to expand our export earnings.

Agricultural exports obviously represent an important means of expanding our foreign exchange earnings and reducing the outflow of gold.

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The agricultural commodities that moved abroad under the Food for Peace program likewise served the interests of every American citizen. Thanks to the productivity of our farms we have an abundance of food and fiber to supply our needs at home and still leave enough to share with the less fortunate around the world. In the long run the foreign policy implications for the United States of this food sharing may be greater than our military assistance to friendly countries.

By giving this food or otherwise making it available on generous terms, we have demonstrated our concern for the welfare of less fortunately situated people. Further, we have shown conclusive proof to the uncommitted nations of the world that our system has the capability of banishing hunger, one of the most ancient of all man's enemies. No amount that the Communists spend on propaganda can conceal the stark contrast of their performance in the field of agricultural production and of our own.

But we cannot rest on past performances. We must look to measures that will assure the maintenance and the expansion of our agricultural exports in the future.

As in the past, this job requires the close cooperation of government and private industry to get it done.

Congress has provided a large kit of tools to work with, and has laid down general policy guidelines to be followed in promoting agricultural exports.

The past session of Congress set up, for example, a list of priorities for the Agricultural Commodity export programs. They are as follows:

First: Cash dollar sales
Second: Short term credit dollar sales
Third: Barter
Fourth: Long term credit dollar sales
Fifth: Foreign currency sales
Sixth: Donations

Access to Markets

Let's look first at the job of building dollar export markets, since this has the number one priority.

Of all the government policies and programs designed to build agricultural exports, perhaps the most basic are those aimed at trade liberalization. We cannot build markets in countries that deny or limit access for our products.

The basic tenet of U. S. trade policy is that the way to build world trade is to conduct it on a multilateral nondiscriminatory basis, at moderate levels of fixed tariffs, thereby giving consumers ready access to products from the most efficient producers. To this end, the United States has joined with 39 other similarly minded nations in the General Agreement on Tariffs and Trade (GATT). These nations account for more than 80 percent of the world's international trade. The GATT participants have on five occasions negotiated multilateral, reciprocal tariff concessions.
Under the most favored nation principle, a concession given or obtained in negotiations with one member of GATT is extended to all other members. Trading arrangements thus tend to become global in character.

The United States has consistently used the GATT forum to press for liberalization—that is, relaxation or removal of non-tariff barriers erected against industrial and agricultural trade. Many of the non-tariff import restrictions that came into existence following World War II have now been eliminated. Those that remain affect principally agricultural products.

Among the commodities for which improved access to markets was obtained in 1961 and 1962 through the GATT framework are canned fruit, fresh citrus fruits, poultry, certain cheeses, vegetable oils, lard, canned beef and meat sausage, corn oats, rye and certain grass seeds.

We have sought under GATT to have trade in the widest possible range of products regulated by moderate, fixed tariffs and nothing else. Moderate or zero duties constitute the simplest non-discriminatory method of regulating trade.

A third guiding principle we have sought to emphasize in international trade discussions is the need for nations and economic groupings to act responsibly in developing national agricultural price support policies to the end that such policies do not jeopardize international trade in agricultural commodities based on the principles of comparative advantage.

We in the United States have tried to develop our national agricultural policies with due regard to this rule and to our international responsibilities. We have been fairly generous in trade negotiations in granting access to our own markets for competing products. Thus, about one-half of our agricultural imports consist of competing products such as fresh and frozen beef and lamb, canned meat products, vegetable oils, fruits and vegetables, tobacco, and even feedgrains. These products are permitted unrestricted entry into the United States and are subject only to moderate fixed duties. Only our imports of sugar, peanuts, cotton, wheat, and certain dairy products are subject to import limitations, and on these, except dairy, we also limit our domestic production and marketing.

Most of our commercial agricultural exports take place without benefit of special government payments. There are, of course, export payments on such commodities as wheat and cotton for which domestic prices are maintained above world levels. Here again, however, we have sought to act responsibly. Export payments have been used only to maintain our fair share of world trade. We have not tried to use them to take markets away from traditional suppliers, and I think the record shows we have met this test. Generally speaking, the U. S. portion of commercial world markets has not been increased beyond its traditional share.

As a second test, export prices of commodities for which special payments have been made have been fairly stable in recent years. For example—wheat. This is in contrast to the wide fluctuations which have occurred in world prices of many primary materials.
As a third test, our policies have led to the accumulation in the United States of large stocks of several staple commodities that conceivably could have been dumped onto world markets. We believe our policy of withholding supplies and regulating the flow of our commodities to world markets has been a stabilizing influence of considerable benefit both to exporting and to importing nations.

The United States cannot go on, however, being internationally minded in developing its agricultural policies if other great trading areas do not do likewise. Right now the agricultural policies of the Common Market pose a big question mark over the future of agricultural trade, and indeed over our largest export outlet for agricultural products.

The Common Market, as you know, comprises six countries of Western Europe—France, Germany, Italy, Belgium, Luxembourg and the Netherlands—which are already well on the road toward forming a single great trading unit, and ultimately perhaps a political federation. These six countries account for a significant fraction of the world's agricultural imports. They take over a billion dollars of U.S. farm products a year, about one-third of our dollar exports.

If the Common Market is enlarged to include the U.K., it will account for about one-half of our agricultural exports for dollars.

The policies of such a great trading bloc will thus have great influence on the rules of international trade, as Secretary Freeman recently said.

The means by which the Community reaches its goal of a common agricultural policy will be the largest single factor in determining whether the nations of the Free World develop their agricultural policies within an international context, or within the framework of narrow nationalistic interests. On the decisions of the EEC depends not only the course of agricultural trade, but of international trade generally. We do not think it is either in the Community's own self interests or in the interests of the friendly agricultural exporting countries that the Community sacrifice international trade in achieving a common agricultural policy. Restrictive inward-looking highly protectionist policies would raise food prices to its consumers and encourage resources which could be more productively applied elsewhere to remain in agriculture. In time such policies would constitute a serious drag on the economic growth of the Community.

We are sharply troubled by the mounting evidence that the EEC is leaning toward a highly protectionist, inward-looking trade restrictive policy. In our last round of tariff negotiations the Community refused to give fixed tariff bindings on agricultural imports of most agricultural products that compete with its own production. These include wheat, feedgrains, rice, poultry, dairy and most meat products. These items the Community has indicated will be subjected to variable levies, and for most products also minimum import prices.
A variable levy is simply a device for assuring that imports enter the market at prices somewhat higher than the predetermined level of domestic support prices. Taking wheat as an example, if EEC domestic support prices are at $3.00 a bushel, and imports are offered at the frontier for $2.00 a bushel, then a levy of at least $1.00 and somewhat more would be collected on imports. If import prices dropped to $1.75 a bushel, the variable levy would increase by 25 cents.

Variable levies and minimum import prices, combined with a high level of internal target prices, serve to give domestic producers within the EEC almost unlimited protection. I cannot over-emphasize the seriousness of this situation. The poultry regulations illustrate my point. The poultry regulations combine unreasonably high minimum import or gate prices with variable levies. Germany is our largest poultry market among the Six. The German minimum import price is fixed at 33.31 cents on broilers. Our ready-to-cook broilers are offered at the German frontier at about 30-31 cents a pound. The first duty is simply the difference between the offering price and the minimum import price. Then a series of levies are collected which amount in total to another 9.75 cents a pound. The total import charges thus amount to 12.5 cents a pound—giving German producers a protected price of about 43.5 cents a pound. This system has nearly trebled the import levies collected on American poultry by Germany, our largest poultry market within the EEC.

The internal target prices or support prices to be established for grains by the Community are crucial. The level at which these prices are set will signal the direction which agricultural policies of the Community take. If these price targets are established at unreasonably high levels, then uneconomic production within the Community will be substituted for imports. Consumer prices for animal products within the Community will be unnecessarily increased and imports of feedgrains, dairy, and livestock products will wither away. It is absolutely essential, therefore, that these price targets be established at moderate levels in order to assure the U. S. and other agricultural exporting nations continued access to EEC markets.

We would interpret a moderate price level as one at or near the present French level. France is the biggest agricultural producer among the Six and has a great potential for expanding production, particularly of grains. Any substantial increase in prices would trigger a big expansion in grain production. At higher prices French production could replace a substantial fraction of grain imports, even of an expanded EEC that included the United Kingdom.

Only a few weeks ago, Secretary of Agriculture Freeman, in a speech before the Agricultural Committee of the Organization for Economic Cooperation and Development in Paris, laid before the agricultural officialdom of Europe a strong statement of our concern about current Common Market tendencies. He stressed the fact that the nations of the Atlantic Community cannot be internationally minded in the industrial areas of their respective economies and nationally minded and protectionist in the agricultural sectors. Either the two sectors move forward together under the banner of liberal trade, the Secretary said, or both will succumb to protectionism.
To future negotiations with the Common Market and GATT members and with other nations throughout the world, the United States will bring a new tool in the form of the Trade Expansion Act of 1962. This act will provide the framework within which U. S. participation in trade negotiations must take place. It is our mandate to maintain access to export markets for all our products—industrial as well as agricultural.

In enacting this new trade legislation, Congress stated its purposes this way: "Through trade agreements affording mutual trade benefits, to stimulate the economic growth of the United States and maintain and enlarge foreign markets for American products, to strengthen economic relations with foreign countries through the development of open and non-discriminatory trading in the Free World, and to prevent Communist economic penetration."

This new act goes on to give the President broad authority to negotiate tariff reductions of 50 percent and even up to 100 percent, in some cases. There are special provisions which will facilitate negotiating tariff reductions with the EEC in broad categories of products. The reductions negotiated under this authority will continue to be applied on a non-discriminatory basis and will thus benefit all members of GATT. We expect that the broad concessions we are authorized to negotiate by the new Act will bring about a great interlocking system of more liberal trade.

**Market Promotion**

Market access alone is only the beginning of the answer to our agricultural export problems. With it we need a strong program of market promotion as well, and the Department is carrying out such a program, not only in the Common Market countries but in some 50 other dollar countries.

This work is a joint effort of more than 40 agricultural and trade groups which work with the Foreign Agricultural Service of the Department. Virtually all the U. S. commodities available for export are represented.

Here are the principal guidelines for the program:

1. Export promotion is primarily a trade responsibility; the role of government is to guide, assist, and especially in initial stages assist with financing.

2. Wherever possible, work is undertaken through U. S. trade and agricultural groups.

3. Trade cooperators should, if possible, be non-profit organizations, nationwide in scope.

4. Cooperating trade groups should assume an increasing portion of program costs as results are obtained, particularly in hard-currency countries.
Initially, the government aspects of this program were financed largely with foreign currencies obtained through the sale of farm commodities under Title I of Public Law 480. This was far from satisfactory, since most of these currencies could not be used in the hard-currency countries where market development activities offered the best return. Later, we were able to arrange for conversion of a certain amount of soft currency into hard currencies for use in dollar market development, and greater progress became possible. In 1961, Congress for the first time provided a regular dollar appropriation to be used for agricultural market development, supplemented by certain of the foreign currencies. This gives us more flexibility as to where the money is spent and is the most satisfactory arrangement so far devised.

Since 1954, the Federal Government has spent for agricultural market development about $55 million. Cooperators--both U. S. and foreign--have contributed to the program over $23 million. The portion of program costs paid by industry is increasing every year and for several industry groups exceeds the government cost.

In addition to the increase in total agricultural exports, we can pinpoint some of the specific results of these market promotion efforts. For example, our poultry exports to Western Europe rose from almost nothing in 1955 to 157 million pounds in 1961. Italy, which until a few years ago bought no American wheat, is now our No. 1 dollar customer for wheat, in part at least as the result of intensive promotion work with the Italian trade. Japan has stepped up its purchases of U. S. tobacco substantially on the basis of a major advertising campaign to push Japanese cigarettes that contain American leaf. U. S. cotton, with aggressive promotion, is holding its own around the world in the face of strong competition from man-made fibers.

In our international trade fair exhibit program, our policy is to concentrate on the large international food fairs rather than at the general international fairs where food is sometimes overshadowed by more glamorous machinery and the wonders of the space age. During 1962, we introduced into this program for the first time on a major scale the retail sale to Europeans of U. S. processed foods consigned to the government by American firms. This technique was used successfully at four food fairs this past year, and convincing evidence was developed that substantial untapped markets for processed foods in Western Europe await U. S. firms that go after the business aggressively. In key markets where there are no established food fairs, we hope increasingly to use the technique of the exclusively U. S. food show.

The government has also entered into a program of providing trade centers abroad where U. S. industry representatives can display their wares and deal directly with foreign traders. This program is proving particularly helpful to firms that are new to the export field and need a springboard for becoming established. Four of these trade centers are in operation, and Agriculture is a partner with Commerce in the two largest--those in London and Tokyo.
So far I have talked only about the job of building dollar export markets. Let's next look at export credit sales, since these are closely related.

**CCC Credit**

Short term dollar credit is available under the CCC export credit sales program to finance export sales of commodities in CCC inventory for credit periods up to 3 years provided an assurance of payment is furnished from a bank in the U. S. Sales under this program are made to U. S. exporters who in turn sell and pass on the credit to foreign importers. There are no government-to-government agreements involved and there is almost no red tape involved. Although the program is very conservative and volume has been relatively small, sales are rapidly increasing. In fiscal year 1961 total volume was $18.2 million; in fiscal year 1962 the total rose to $32.9 million and in fiscal year 1963 through November 23 reached $42.4 million. Since the beginning of the program, total credit sales amount to about $150 million. CCC credit arrangements are not approved where the country of export is a cash dollar market such as countries in Western Europe. Recently the interest rate provisions of the CCC credit program were liberalized making the program more attractive to U. S. exporters.

**Title IV Credit**

Title IV of Public Law 480 provides for long-term supply and dollar credit sales of U. S. surplus agricultural commodities. The major objective of this Title is to use such agricultural commodities and the financial resources made available through their sale on a deferred payment basis to assist in the economic development of friendly countries. Also to expand or maintain U. S. dollar exports of such commodities to these countries.

Under Title IV, the U. S. Government may enter into agreements with governments of friendly nations for delivery of U. S. surplus agricultural commodities for periods up to 10 years. Commodities supplied under the agreements are for domestic consumption within the purchasing country. Credit periods of up to 20 years are authorized.

Title IV agreements set forth the commodity composition, financing terms and conditions, general undertakings and other requirements. Adequate safeguards are included with respect to the maintenance of cash dollar imports from the U. S. or commercial purchases from other friendly supplying countries.

Months were required to develop and coordinate with other executive departments workable Title IV agreements. The volume of business done under the program is now picking up. Agreements have now been signed with 10 countries totaling approximately $100 million.

The Congress, at its last Session, added an amendment to Title IV authorizing credit agreements with private members of domestic and foreign trade. Steps are being taken to utilize this authority but to date no agreements have been entered into.
Credit sales often substitute for P. L. 480 Title I sales for local currencies. They thus can provide a useful bridge in shifting a country from Title I sales to commercial purchases for dollars.

**Barter**

1. Under the barter program, surplus agricultural commodities are traded for items needed by U. S. Government agencies and for metals and minerals to be stockpiled which must be imported to meet our industrial requirements and are less expensive to store. Examples of barter transactions are:

   a. Acquisitions of gear for the missile tracking system at Cape Canaveral with payment in agricultural commodities.

   b. Trading of agricultural commodities to an underdeveloped country for manganese or chrome ore it produces and which is essential to our domestic steel industry.

2. Early in 1962 the President ordered an extensive review of the government's entire stockpile and barter programs. This review revealed excesses in stockpiles of most strategic materials. Accordingly in the barter of agricultural commodities there has been a shift in emphasis away from strategic material barter in favor of transactions where agricultural commodities are exchanged for goods and equipment being actively procured by other U. S. agencies—notably the Department of Defense and the Agency for International Development. Strategic material barters will be continued for items where stockpile objectives are unmet. Barters for materials in excess of objectives are authorized under certain conditions: (a) after consultation with the Departments of State and the Treasury, barter for a useful material is found to be more advantageous than additional sales of agricultural commodities for particular foreign currencies; (b) with the concurrence of the Department of State, it is determined that the foreign policy of the U. S. will be furthered, including economic aid for countries subject to overtures and pressures from undemocratic nations; or (c) it is determined that an existing government obligation to pay dollars can be converted to barter on terms advantageous to the U. S. (after the opinion of the Department of the Treasury is secured regarding balance of payment effects.)

3. From its inception through June 30, 1962, barter accounted for agricultural exports valued at about $1.65 billion, mostly since enactment of P. L. 480 on July 10, 1954. For the fiscal years 1959 through 1961, the annual level of new barter business was about $160 million, but in fiscal 1962, while the program was undergoing study, the value of new business fell to around $112 million. It is anticipated that the revised program to be announced shortly on the basis of the Presidential approval just described will result in an increase over the present volume of barter, but that it will be carefully controlled to protect other national objectives.
Food for Peace

What can the government do to promote exports to the underdeveloped countries of the world that lack foreign exchange—a description that applies to most of the nations of Asia, Africa and Latin America? Here the answer appears to lie largely in special export programs which are often lumped under the heading of Food for Peace. These programs include primarily sales for foreign currencies, and donations and grants, although barter and long-term credit sales are often lumped under the Food-for-Peace program also. In recent years, Food for Peace outlets have been accounting for some 30 percent of our farm product export total.

These programs have a two-fold advantage for U.S. farmers and the agricultural trade. For the short-term, they boost exports and in many cases meet urgent food needs of the recipient countries. Over the long pull, they help build future markets by supporting economic development in the many countries that we hope will someday be cash markets for our farm products.

The humanitarian role which food can play has long been recognized. The United States has a great tradition of responding to the food needs of hungry people when disaster strikes. Recently, however, we have added a new dimension to food assistance—that of using food as an aid to economic development.

Today Food for Peace is being systematically worked into economic development plans in those countries where we have agreements under the various titles of Public Law 480.

The biggest outlet is still sales for local currencies under Title I. In most cases the bulk of the currency proceeds are made available to the recipient country as loans or grants for economic development purposes.

Recently we have added a new wrinkle to our Food for Peace program—that of using food to finance both capital and labor in works projects such as cropland restoration, irrigation and drainage facilities, and new schools and roads. In the last year, new programs of this kind have been initiated in Bolivia, Brazil, India, Ecuador, Taiwan, Hong Kong and others. Food for Peace school lunch programs are being used to support health and improve education. Currently, 35 million children in 90 countries are being served by our programs, an increase of about 50 percent over two years ago.

These and other phases of the Food for Peace program can be of invaluable aid in helping countries get on their economic feet and move toward becoming the dollar trading partners of the future. We have already begun to see this happen. To cite just one example, soybean oil was introduced to the Spanish trade through local currency sales in the early years of the Food for Peace program. Today, Spain is one of our good dollar customers for soybean oil. Japan, Italy and several other countries have "graduated" from Food for Peace to dollar markets.
On the other hand, there are real limitations to such programs. Many nations which most urgently need food aid lack the experience and facilities to distribute it effectively. Also precautions must be taken to prevent disruption of normal commerce or a deterrent effect on local agricultural development.

We have had enough experience with food aid to know that it is no substitute for managed abundance. It is a plain fact that if the productive capacity of American agriculture were unleashed output would exceed our ability effectively to utilize it at home and abroad, in commercial markets and in Food for Peace programs.

We have learned, therefore, that export outlets in all forms, no matter how strenuous an effort we make to expand them, are no substitute for effective supply management.

Finally, there are some activities that service all our export efforts.

Export Quality Control

The United States has the safest and most wholesome food supply in the world. We are constantly trying to improve its quality and its image in the eyes of consumers both at home and abroad. Again this is an area in which government and industry work hand-in-hand.

The mark of federal inspection that accompanies every shipment of U. S. poultry abroad is a badge of honor that promotes the role of the product. People abroad are coming to know and to appreciate--just as consumers in the United States do--what this label means in assuring them of a safe wholesome product.

Foreign markets are sometimes special markets, however, and require special efforts to tailor quality and standards to fit their demands. In their market development work our trade groups can often be helpful in doing this.

The time is past when export markets can be viewed as a dumping ground for periodic excesses. Competition is keen, often more so than at home. Sales will go increasingly to the supplier who studies the customers' needs, and adjusts his merchandising accordingly.

If I could cite just one example, it would be wheat. Europe is expanding wheat production. More and more the demand for imports is being limited to high quality strong gluten wheats that supplement their weaker varieties. Certain of our hard red winter wheats can fill this need. Present grades and standards do not accurately reflect the qualities the European buyer is looking for, however. This is why we are encouraging the use of a sedimentation test in addition to the normal protein test to more accurately indicate to the foreign buyer the baking quality of U. S. wheat.
Agricultural Intelligence

Along with programs relating to market access, trade promotion and sale-ability of our agricultural products, our government has long maintained responsibility for helping to provide the type of agricultural intelligence that is essential to sound export operations.

We believe that our Department's agricultural intelligence system is the best in the world. Its keymen are our agricultural attaches stationed in some 50 leading foreign countries. Together with their American and local assistants, they comprise a corps of some 164 overseas agricultural experts whose responsibility is to see that American farmers and agricultural businessmen get the information they need about foreign competition and foreign market opportunities. Under an expanded phase of this program, the Department is now stationing agricultural trade specialists in additional key market areas with particular responsibility for foreign trade contacts and reporting.

To summarize, the main efforts directed at expanding export markets are:

1. Constant effort to gain increased access to foreign markets on a multilateral basis through reductions in trade barriers.

2. Direct market development and promotional activities through the U. S. and foreign trade.

3. Food for Peace programs which expand exports to the less developed countries and assure that there will be demand for our commodities when the shift is made to commercial importing.


5. Research and coordination in the field of quality control.

6. Collecting, analyzing and disseminating information bearing on our current and future position in foreign markets.

This complex job merits the best thought that all of us can bring to it. Farm leaders, federal government workers, trade groups and the private trade all have an indispensable role both in getting the job done and in getting to rural people information about the issues of the day in this vital field.

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APPRAISAL: POLICIES TO MAXIMIZE AGRICULTURAL EXPORTS

by Sherwood O. Berg

The formulation of foreign economic policy and the conduct of foreign diplomacy is always fascinating. To have American agriculture and the American farmer occupy such a prominent part of the stage in which the drama unfolds is, to a degree, both disquieting and challenging. In his presentation, Dr. Hedges has given us an excellent overview of the agricultural trade policies which have served as guidelines for encouraging commercial exports and developing government-sponsored export programs for farm products. He has presented an excellent brief for the importance of agricultural exports at a time when we sorely need foreign exchange earnings; he has laid out the operating principles under which the government sees fit to intervene in international trade to promote food consumption and bolster economic development abroad; and he faces forthrightly some of the major problems facing American farm product markets abroad, especially with the emergence of regional trading blocks or custom unions. One cannot fault such a presentation, for Dr. Hedges covers an important area of our economy exceedingly well and comprehensively. If there is a shortfall, it lies in the fact that alternative policies of courses of action are not examined or even remotely expounded.

My comments will take the form of an excursion into three general problem areas: (1) the question of implementing our policy or "living up to" our policy pronouncements; (2) the operational considerations in carrying out specific programs, including some economic "side effects" of such programs and (3) the strategy and tactics of our foreign trade policy in the current situation. Obviously, each area which Dr. Hedges touched upon raises issues. Some of these are of a general policy nature; some are more specific. In my brief commentary, I am going to confine myself to a couple of selected points under each of the three major categories.

The Policy Considerations

On trade liberalization. Dr. Hedges lays great stress upon access to markets. He makes this one of the cornerstones of our present trade policy. Access is sought through multilateral nondiscriminatory action with goods moving across boundaries at "moderate levels of fixed tariffs." The term "moderate levels" has been with us for eons; the term "fixed", in this context, is of more recent vintage, growing out of our anxieties over the policies emerging from the newly-created European Economic Community (EEC). According to Dr. Hedges, trade liberalization can best be served (1) by relaxing non-tariff barriers in general, and (2) as far as farm commodities are concerned, by nations acting responsibly and developing national price support policies so as not to jeopardize international trade based on the principles of economic advantage.

1/ Dr. Berg is professor and head, Department of Agricultural Economics, University of Minnesota.
These observations raise some interesting questions. There are always problems when one moves from the concert auditorium of policy goals to the circus arena of actual programs implementing the goals. I need not reiterate the conflicts or the inconsistencies in our domestic farm policy and our international trade policy. However, at the very time that our government has made a strong, generally favorable, persuasive case to the countries of the Common Market against intensifying artificial barriers to trade, it raises the support price on corn and other feed grains. The effect may have been to dissipate the psychological advantage we had gained in plain speaking to EEC leaders and Western European nations. Thus, are we falling back on a policy that in effect states that international trade is at best a consideration of secondary importance in formulating national agricultural policy?

On international commodity agreements. I was somewhat surprised that no mention was made of international commodity agreements as one of the tools in the kit currently available to policy makers. We do give considerable homage to the concept of "freer" trade. But the facts of present-day life are that governmental intervention in foreign agricultural trade is substantial. Within our own experience, we have seen the adoption of the Agricultural Marketing Act of 1929; the AAA of 1933, with Section 22, which permitted import quotas when price support programs were threatened; and Section 32, which provided for a 30 percent tariff to subsidize farm exports; the Sugar Act of 1935; and, more recently, Public Law 480, a blunt instrument of bilateralism.

In the main, these are indicative of what has happened in many regions of the world. A new agricultural protectionism has shown itself in almost every part of the world since World War II as nations pursue farm income bolstering programs and seek food self-sufficiency. Prior to World War II, the main emphasis in government intervention in trade was on tariffs for regulating imports. In the post-World War II, we saw the creation of government export monopolies. The operations of our PL 480 program typifies our venture into the latter type of a program.

Dr. Hedges does state that one result of government intervention in trade has been that the export prices of farm commodities has been fairly stable in recent years. However, from an overall policy point-of-view, particularly in view of the Trade Expansion Act of 1962, are we prepared to accept government intervention in trade as an integral and more or less settled part of our foreign agricultural trade policy? Are we prepared, or do we contemplate, moving in the direction of international commodity agreements to achieve, at the expense of other policies or other possible programs, some of the stability in prices we desire? Some rebel at international commodity agreements; some press for more.

Our Program Operations

Market promotion versus market development. Considerable emphasis has been placed upon cooperation between government and trade organizations in the sale of American farm commodities abroad. There is an issue of the degree to which the costs of such trade expansion should fall upon the private sector, represented by business firms or trade groups, and the public sector, represented by the U.S. government.
Market development is looked upon as embracing general measures undertaken
to increase or forestall the decrease in the sale of our farm commodities abroad. On
the other hand, market promotion can be considered a part of the overall market develop­
ment process and consists of those activities which take place at or near the con­
sumer. The latter activities are largely persuasive in character and include advertis­
ing, promotion gimmicks and the like.2/

It would seem desirable that the government's responsibility should be concen­
trated on those activities in which the trade has no real incentive. Efforts might be
concentrated on areas in which initially substantial short-run losses might be involved
or on areas in which reorganization of the market structure is needed, such as the
adoption of new or revised export grades and standards. The activities might also in­
clude eliminating or minimizing monopoly profits (from lack of knowledge or other im­
perfections), and introducing "new" products which enhance the well-being of con­
sumers. The changes in the modified supply and demand relationships as a result of
market development should lead to greater overall benefits to both producers and con­
sumers.

The concept of market development extends back through the distribution, market­
ing and production process to the very farms on which commodities are produced. Too
little attention has been given to the "feed back" of our experiences among foreign
buyers to our producers here at home. "Feed back" of marketing information is needed
to develop sustaining customers. The soybean producer of Iowa should have an evalua­
tion of how the customer in Japan reacts to his product. Those of us in an academic
environment are conscious of the communication problems in the bureaucracy of the
present-day, large University. The problem of communication in a muted price mech­
anism operating in the area of international trade is even more acute, but not insur­
mountable. It is a real challenge to the United States Department of Agriculture and
the private trade organizations.

In the matter of sharing of costs in market development, I wish to add that the
government's contribution is generally greatly underestimated. How does one value
the loss in the agricultural attache's service in the individual countries abroad that
results from the added responsibilities these attaches have been forced to take on as
our market development work has expanded? Except for trade fairs and selected mar­
keting specialists, little of the regular government employee's time is credited as a
government contribution in this form of activity.

Local currency in economic development. At the present time, I am a little
confused in winnowing the chaff from the grain in the operations of PL 480 and the
Food-For-Peace program. There seems to be a tremendous amount of overlap in
program description and operation. Where one leaves off and the other begins de­
fies description. The situation is particularly confusing regarding the use of Title
I funds under PL 480.

Under agreements totaling $11.6 billions, the United States presently owns
or controls $5.2 billions in local currency equivalents (see Table 1.) However,
only about one-fourth, $1.6 billions, has been dispersed for economic development

2/ Learn, Elmer W. and James P. Houck, Jr., "An Evaluation of Market Development
Projects in West Germany under Section 104(a) of Public Law 480." University of
purposes. In other words, little has been done to put economic projects into operation so that the impact of the double-edged use of farm surpluses can make itself felt. Foreign currencies have been accumulating faster than development plans have been implemented. Perhaps the urgency, at least on the United States side, has been on disposal rather than on economic programming. 3

The lag in implementing development projects, the further accumulation of currencies, and the continuing practice of making the proceeds of PL 480 sales available on a repayable loan basis, bearing interest, will intensify our problem of international relations in the future. A study of our local currency operations in 19584 indicated that if we continued sales at approximately at the levels prevailing at that time for the ensuing three years and then stopped them, U.S. foreign currency holdings would reach $12.5 billions equivalent by 1970 and $37 billions equivalent by the year 2000 A.D. If our operations continued at the same levels, not for three years but until 2000 A.D., U.S. claims on world resources in the form of local currency would amount to over $150 billions equivalent.

The implications of large unused balances owned by the United States in the monetary-fiscal system of another country are obvious. When we have such huge holdings, how we handle these sums is of tremendous importance to the financial stability of the other country. The degree to which actions in our own self-interest might be regarded as internal involvement or intervention would place further stress and strain on international relations. For example, how would we react if some foreign country had a special dollar fund in the United States treasury equivalent to one-half of our annual budget?

Our past experience raises some questions regarding the desirability of continuing to give aid on a basis which generates local currency. Under certain conditions, it may appear desirable to make outright grants, particularly if there is little likelihood of payment in dollars for a reasonable period of time.

Strategy and Tactics

The challenge of the European Economic Community is made abundantly clear by Dr. Hedges. The challenge he discusses is raised, not by our enemies, but our friends in the NATO area. In the process of making internal adjustments, the Common Market is throwing up new external walls to keep out American farm products. What strategy do we use in meeting this formidable array of resurging economic strength? Do we say flatly that unless the EEC countries ease their restrictions against our farm products, this country will resort to economic reprisals against European products? Do we accept the barriers as a necessary price for the political and economic strengthening of a free Europe?

It can be argued that it is almost politically impossible to lower the German 
grain prices to the French level. Such action would have consequences on farm 
income that would be comparable to going to the free market in the United States. 
We have rejected, on a number of occasions, this alternative.

Thus, it seems unlikely that political considerations will permit the establish­
ment of a common wheat price level any lower than the present average of German 
and French prices. Moreover, in the face of impending wheat surpluses and rapidly 
expanding demand for feed grain, the common feed grain prices may be raised to the 
level that wheat will substitute reasonably well for feed grains as a livestock feed. 
Then, feed grains will compete reasonably well with wheat for the use of land. Pre­
sent discussions in the Common Market suggest that the feed grain prices will be a­
bout 85 to 90 percent of wheat prices on a comparable weight basis.

Do we retaliate by raising industrial tariffs on European goods? I hope not! 
This would merely set off a new round of protectionism in the realm of industrial 
commodities. Neither do we have to take the matter lying down and accept what­
ever policy is set by the EEC. Again, we should resort to a bit of Yankee ingenuity 
and good, hard horsetrading. First of all, we should get all we can for agriculture 
outside the obviously protected feed-livestock sector. This will take concerted 
effort and skilled negotiating. Secondly, we must get industrial concessions to 
offset the losses that we may have to take in grain and certain livestock products.

The ability to implement successfully the Trade Expansion Act depends upon 
having current and accurate information at hand regarding the producing areas of 
the world. Specifically, we must have information regarding the real comparative 
advantage for various commodities. And, just as important, we have to display 
our ability to determine and to maintain a negotiating position based upon such 
information. This means, for one thing, that we must be prepared to establish 
priorities and exchange trade concessions among various commodities.

Can any administration in a democracy such as ours accomplish this in the 
light of the tremendous pressure special interest groups can bring to bear? Does 
the administration have at its disposal the sort of objective appraisal that is 
needed? Given the complexities of our governmental decision-making mechanism 
at higher levels, could an administration effectively use such information to com­
bat the special interest groups? In other words, can we get away from the situation 
in which we have President Kennedy and Chancellor Adenauer arguing over the tariffs 
on chicken necks when Cuba is about to go up in nuclear smoke? In general, do we 
have the machinery to operate the Trade Expansion Act in practice as it is envisaged 
in theory?

After our involvement in two World Wars, we have tended to look back upon 
Western Europe as "the dead hand of the past." Suddenly we find ourselves in an 
era of new involvement, of forging new relationships, of confrontation with new 
problems, and of having within our grasp new opportunities. This promises not to 
be deadening, but most exciting.
Table 1

Status of Foreign Currencies (Dollar Equivalents), Title I, PL 480, 1954-61.

<table>
<thead>
<tr>
<th>Status</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorization through Dec. 31, 1964</td>
<td>15,750.0</td>
</tr>
<tr>
<td>Agreements signed, including ocean transportation a/</td>
<td>11,637.0</td>
</tr>
<tr>
<td>Commodity purchases transacted b/</td>
<td>7,651.6</td>
</tr>
<tr>
<td>Currency deposited following sales c/</td>
<td>5,239.8</td>
</tr>
<tr>
<td>Allocations by Bureau of Budget c/</td>
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</tr>
<tr>
<td>Transfers to agency accounts c/</td>
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</tr>
<tr>
<td>Disbursements by all agencies c/</td>
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</tr>
<tr>
<td>Disbursements for economic development c/ d/</td>
<td>1,666.6</td>
</tr>
</tbody>
</table>

a/ Estimated CCC costs through June 30, 1962
b/ Purchase authorization transaction through December 31, 1961
c/ Through December 31, 1961
d/ Includes loans to foreign governments, $1,399.2 million; grants for economic development, $196.2 million; and loans to private enterprise, $71.2 million.

POLICIES TO PROTECT FARM PRICES AND INCOMES

by John A. Schnittker

I. The Goals

The goals of U. S. agricultural policy remain today just about as they have been stated previously by Secretary Freeman:

A. Improved levels of food consumption and nutrition in the United States.

B. Increased use of food supplies from the United States to improve nutritional levels and support economic development in the under-developed parts of the world.

C. The adjustment of supplies, commodity by commodity, to these expanded demands, at prices which contribute toward parity of income for adequately-sized family farms.

D. Strengthened and improved agricultural services (e.g., credit, marketing, research and extension) to support and promote a family-farm structure of agriculture.

E. Reduction of poverty in agriculture through the successful operation of a general program of assistance to low-production farmers and rural people.

F. A pattern of land, water and other resource use in the United States that is consistent with our social goals and our national requirements (e.g., for recreation, parity income for farmers, economic development and water requirements).

My assignment relates particularly to the objective of supply adjustment — supply management. But it has implications also for domestic food consumption objectives, for the food used in foreign assistance programs and for land and water use objectives. Supply management or supply adjustment programs, far from being programs of scarcity, are aimed at gearing our apparently unruly farm output tendencies to all the demands of the market. These are demands which are both comparatively stable and predictable whether they arise commercially or out of public programs.

1/Dr. Schnittker is staff economist, Agricultural Economics, U. S. Department of Agriculture.
Objectives, however, are not policy; neither do policies by themselves often achieve results. Programs -- actions -- bring results. Objectives which are to be achieved must have, therefore, some basis in reality. They must seem plausible to those who will decide on the programs that are aimed at achievement of the objectives -- and they must lead to program proposals which can be enacted. Objectives and programs do well then to be directed toward the fundamental practical issue -- to what can be done to meet the most urgent public needs in a manner which will contribute to long run objectives -- not to indecision born of unattainable objectives.

Policy decisions are made in political situations. As an economist, I do not sell short the importance of economic analysis to intelligent political decisions. Yet it does no good (and may do immeasurable harm to the economics profession), to mourn the fact that some of the dearest abstractions of economists apparently have little practical appeal to many Congressmen. The beauty and simplicity of textbook "pure competition," for example, may continue to enable students to grasp certain issues. It may still be the choice of some economists for the economic organization of agriculture. But its appeal to those in public life who bear some responsibility for stable and satisfactory incomes to farmers is very limited.

II. Commodity Programs

Farm prices and the incomes of commercial farmers are protected -- that is supported -- largely by commodity programs. The fact that farm prices are raised, and the extent to which farm incomes are supported, by programs which limit output and stabilize prices is not now seriously debated. Farm prices would be roughly one-third lower in the absence of such programs. Aggregate net farm income would be reduced even more, and net income per farm would be reduced substantially. I mention only these broad aggregates because they are the crucial factors which influence broad policy decisions. There is of course, a large area for disagreement on the longer term effects of such a result, and on the wisdom of such a course of action.

One other general matter on supply management programs deserves mention. This is the question of the mechanics of supply management. The term "supply management" is self-defined. It refers to programs which are designed to limit the output of farm products to the demands of the market. This can be done and is being done in many ways. The voluntary acreage diversion program for feed grains since 1961 has reduced not only feed grain production; it has probably also reduced aggregate farm output significantly. The tobacco program, which has long been a mandatory program in which farmers who exceed their acreage allotments are subject to cash penalties, is also a supply management program. The point here then is that these programs are distinguished more by results than by techniques. I do not argue that the mechanics of programs are not important, or that there is not a significant basis for disagreement over those mechanics. I do insist, however, that the major distinction which is often made between the program of one group on the basis of procedure and mechanics, is a comparatively superficial distinction. Special uses of words and terms will not cover up the fact that the results of supply management programs -- to reduce the surpluses, to support farm prices at or near current levels and to reduce government costs -- are among the objectives and are in the program proposals of all major farm organizations.
Another major objective of these programs is to remove the government from the farm sector to the maximum extent possible consistent with maintenance of adequate stocks. Supply management programs for the grains, for example, will permit the Department of Agriculture to gradually reduce its new role. The feed grain and wheat programs of the last two years are tangible evidence both of this objective, and of progress toward the objective. As annual production is held equal to or less than utilization, acquisitions by the government will decline. The price support level will no longer be such a critical market factor when surpluses are not the usual thing. As surplus stocks are reduced, storage is becoming and will necessarily become a less important part of the total grain industry. Hence as a general statement, it seems clear that the grain business of the future will tend toward the functions which grain and feed men have traditionally performed -- the merchandising of grain.

Once the surplus of commodities has been removed, grain stored each year will represent supplies for the coming year, plus security and stabilization reserves. These are presently estimated at 600 to 700 million bushels of wheat, and 45 to 50 million tons of feed grains. Holding these reserves will involve some turnover of stocks -- some merchandising by CCC. But it should be on a much smaller scale than in the years when CCC was the residual claimant of a large portion of each crop.

**Feed Grain Programs**

By October 1, 1964 (after three years of the voluntary feed grain program) the feed grain carryover is expected to be reduced to 45 or 50 million tons. If the Agricultural Act of 1958 -- with unlimited production of feed grains supported at not less than 65 percent of parity -- had been in effect for those three crop years, the feed grain carryover by that time is estimated at around 120 million tons. When stocks must eventually be reduced from the high levels of recent years; when this can be done only at the rate of 10 or 15 million tons per year without undesirable dislocation of normal farming practices; and when it must be done by voluntary acreage diversion programs, the difference between 120 million tons and 45 million tons is very great indeed.

The voluntary acreage diversion program under which these results are being achieved has been a costly program, but it has cost far less than the program it replaced would have cost. Dr. Willard W. Cochrane showed in his paper of a year ago at this conference that both budget expenditures in the 1962 fiscal year and the long-term costs associated with storing surplus commodities were smaller under the 1961 Emergency Feed Grain Program than they would have been if the old program had operated in 1961. The major saving is of course, in future obligations -- obligations avoided by the feed grain program.

That Congress expects to consider feed grain legislation in the coming session is clear from the legislative history of the 1962 Act. If legislation is not enacted prior to the 1964 crop, there would seem to be no alternative but to reduce the price support level for corn toward the lower end of the price support range -- to 50 percent of parity or 80 cents per bushel -- since the Secretary is directed to avoid adding
to feed grain stocks. We estimate that in 1964 feed grain production, without acreage restrictions and with corn price supports at 80 cents per bushel, would fall between 165 and 170 million tons. Utilization would be a little less than that; corn prices would average slightly below the support level, and CCC would acquire several million tons of feed grains.

Discussions are being held, therefore, toward development of a feed grain program for the longer run. These discussions have been primarily -- almost exclusively -- of voluntary approaches to the feed grain program. Neither the 1962 approach under which market prices were 10 to 15 percent below support prices because of CCC sales, nor the 1963 approach under which the necessary differential between returns to co-operators and non-co-operators will be maintained through a price support payment, has been ruled out at this time. The Department of Agriculture has held a broad series of talks with advisory groups, with livestock producers and with others interested in the feed-livestock economy.

There are important differences in the way in which price support and CCC operations are handled under the two approaches. In the former, there is extensive CCC merchandising activity and co-operators can get the full effect of price support only by delivering their grain to CCC. In the latter, there will be less CCC activity because producers get price support payments even though they feed their grain. It is on the basis of these differences -- and on the basis of economic and political factors which will reveal themselves only in 1963 -- that decisions will be made within the Department and by Congress on the feed program for the longer run.

Wheat Programs

The 1964 wheat program is not a new idea. There is a history of nearly 40 years of discussion of programs of this type. The program is substantially the same program as was approved by Congress in 1956 but was vetoed at that time. It is in two parts -- one part dealing with production adjustment and the other with price support.

The production adjustment features of the program are familiar to wheat farmers and the grain trade. There will be a national marketing quota, a national acreage allotment, county acreage allotments and farm acreage allotments. The acreage diversion program is very similar to that now in effect for feed grains and wheat. The diversion payment levels authorized are comparable to existing law. The 15 acre exemption is terminated permanently, but small producers will receive acreage allotments based on recent plantings. A voluntary acreage diversion program is authorized at the discretion of the Secretary. Farm allotments will probably be at or near the 1962 level -- 10 percent below the long time level under the 55 million acre allotment.

Price Support. Instead of a price support loan on all wheat between 65 and 90 percent of parity, producers would be eligible for price support on a specified number of bushels of wheat, equal in the first year to approximately 85 percent of the normal production on the acreage allotment. Any additional wheat produced would be seeded, fed, or would be marketed at a price related to the feed value and the world price of wheat. The effect is to put a limit on the amount of wheat eligible for the higher price
support, and to provide a lower price support for any other wheat produced. Export subsidy costs will be reduced immediately under the program, and can be reduced substantially or eliminated under the program after a few years -- if farm income can be maintained at satisfactory levels even though U. S. farmers get only the world price for half their crop.

Two special provisions of the wheat program bear special mention. One would, for the first time, permit the Secretary to increase the acreage allotment of any class of wheat which would otherwise be in short supply. The other would, for the first time in a wheat program, provide for the production of wheat as a feed grain, in place of corn or sorghum or barley. This latter provision, however, was adopted only in principle in the Agricultural Act of 1962. It can become effective when an acreage diversion program for feed grains is enacted and is in operation. With both programs operating, farmers will, in effect, be able to consider their wheat allotments, plus any feed grain acreages, as "grain acreage," with complete flexibility to plant any combination of crops on the acreage.

Any program subject to a referendum raises the possibility of a negative vote. Farmers face an important decision in next year's referendum -- to choose to limit production with price supports at $2.00 per bushel, or to produce without limit with only nominal price supports (to producers who stay within their acreage allotment) at about $1.20 per bushel.

**Dairy Programs**

The present dairy price support program operates under Title II of the Agricultural Act of 1949. Milk and butterfat are included in the designated non-basic commodities, and the Secretary of Agriculture is required to support the prices of milk and butterfat between 75 and 90 percent of parity and at such level within that range as will provide an adequate supply. From September of 1960 through March 1962 milk prices were supported above 75 percent of parity -- at about 82 percent of parity during the last 12 months of that period. But during 1961 the amount of surplus dairy products acquired by CCC increased substantially. Program expenditures rose from less than $300 million to slightly over $600 million during that one year period. The increase was about equally attributable to increasing production and declining total consumption.

In the farm legislation sent to Congress in January 1962, the Administration proposed a new dairy program which provided for marketing allotments to reduce milk supplies on a national basis. But this dairy program proposal encountered strong resistance very shortly after it was introduced and was dropped from the bill in both the Senate and the House while still in Committee. The House later passed a greatly modified voluntary dairy program, but this measure did not gain acceptance in the Senate and dairy was dropped from the bill altogether before final passage.

The dairy problem is still with us and at present looms as one of our more difficult commodity problems. Butter stocks are continuing to accumulate and threaten to exceed the amount of freezer space available for storage. Domestic distribution
can utilize only about 50 percent of the amount of butter being purchased annually by CCC, and to this point it has been possible to program only minor quantities for foreign distribution.

Again the Department is studying alternative programs and will probably make a recommendation early in the next Congress. In view of the lack of enthusiasm for a national allotment program during the last Congress, the new proposal will probably be along somewhat different lines. Discussions to date have centered on voluntary means of reducing production, including features which might operate within the Federal Milk Orders, which regulate fluid milk marketing in some 80 metropolitan areas.

**Cotton Programs**

Cotton has some characteristics that are unique among major agricultural commodities. First, there are synthetic substitutes which compete in price and quality. Second, there is an extreme divergence in production efficiency among cotton growers. As a result, some growers would prefer that price supports be reduced substantially, to a level at which other producers would find themselves unable to compete. Third, we have had a large increase in imports of cotton textiles.

While the first two problems are perhaps most important, it is the third factor that has been dominant in developing a new legislative program for cotton. On May 2, 1961, the President announced a seven-point program designed to aid the textile industry of the United States. The fourth point of this statement was a promise to eliminate or offset the inequity to U. S. mills arising from the export subsidy for cotton. As a result, the Department of Agriculture requested the Tariff Commission to recommend the application of an offset fee on the cotton content of imported textiles that would be equivalent to the export subsidy. On September 6, 1962, the Tariff Commission ruled adversely on this request. On that same date, the President asked the Department of Agriculture to develop a domestic program for cotton that would eliminate the inequity of the present system.

Some interesting problems of economic relationships and measurements have arisen as we study the cotton problem. How much will U. S. imports of cotton textiles be affected by specified changes in the cost relationships for raw cotton to U. S. mills vis-a-vis their foreign competitors? Is price or performance the dominant factor in the serious inroads that synthetic fibers have made in markets traditionally reserved for cotton? How will producers in different sections of the cotton belt respond to possible opportunities to grow cotton at the world price?

We have consulted broadly with producers, trade people and mill interests. On October 9, 1962, the Cotton Advisory Committee recommended a "trade incentive" payment that would bridge the gap between the price that is necessary for cotton to be competitive in end-use markets and the price that is necessary in order to maintain farm income. This group also recommended that cotton growers be given a choice to plant additional acres to cotton at returns no higher than world prices if the individual farmer wishes to do so. This latter provision would be similar to the "blended price plan" which the Department developed but did not actually submit to Congress in early 1962.
III. Summary

Discussions of wheat, feed grains, cotton, and milk do not exhaust the commodity problems or the farm income problems facing U.S. farmers or the Department of Agriculture. The statements made in each case are only summaries. But they indicate briefly the basic situation, and they at least imply the alternatives facing farmers and Congress in 1963.
APPRAISAL: POLICIES TO PROTECT FARM PRICES AND INCOME

by D. Gale Johnson

In his paper Dr. Schnittker has concerned himself very largely with programs for supply management. He has not concerned himself with the relationship between the supply management program and certain other programs that are in operation. At a later point I shall comment upon certain problems of inconsistency in our agricultural programs. Most of my remarks, however, will refer to the supply management programs themselves.

There is one sentence in the early part of Dr. Schnittker's discussion of the commodity programs that merits quotation. "The fact that farm prices are raised and the extent to which farm incomes are supported by programs that limit output and stabilize prices is not now seriously debated." (Emphasis added.) There are two possible interpretations that may be put upon the phrase, "not now seriously debated." One is the fact that farm prices are raised and the extent to which farm incomes are supported have now been established so firmly that there is no room for debate or disagreement. The other interpretation is that in the present circumstance there is simply no discussion of the matter. The recent response of certain officials in the Department of Agriculture and certain members of Congress to the report on agriculture by the Committee on Economic Development support the second inference as much as it does the first.

There is certainly no question that if all of the price support and related programs were abandoned at the end of this year that farm prices would drop significantly and that net farm operator income would also decline.

However, I do not think that it can be claimed that we know what the level of farm prices or net farm income would be if the present programs were gradually eliminated over a period of four or five years. It is true that there have been a number of studies made that have attempted to tackle this issue.

However, I do not believe that anyone can claim that the assumptions made concerning the supply conditions for farm resources used in such studies have been adequately substantiated. In my opinion, economists within the Department of Agriculture and at our colleges and universities are equally at fault in not devoting more attention to an understanding of the supply conditions for agricultural resources, especially for farm labor and management. Implicit in most of the studies that have been made is the assumption that the elasticity of supply of labor to agriculture is very low. If this is the case then it is very likely that the elimination of the present programs over a period of say five years would result in a substantial decline in net farm operator income per farm. However, if the elasticity of supply of labor and management is fairly high, the gradual elimination of the programs could have little or no effect upon average income per farm.

1 Dr. Johnson is professor and Dean, Division of the Social Sciences, University of Chicago.
I do not wish to make the claim that I know what the elasticity of supply of farm labor and management is. I only make the plea that the assumption that the elasticity is very low is hardly based upon evidence so strong as to warrant a program costing $4 or 5 billion annually.

**Case of Canadian Spring Wheat Growers**

I would like to review with you very briefly some evidence which seems to imply that farmers are able to adjust to changing conditions without suffering substantial or even significant losses in income. The evidence that I refer to is based upon a comparative study of farm adjustments in the major spring wheat growing areas of Canada and the United States. The spring wheat areas of these two countries are separated only by a line on a map and by the fact that until very recently the governments of the two countries followed very different farm policies. The other bit of evidence is based on the performance of agriculture in tiny Denmark. Denmark has followed an agricultural policy that has involved the smallest degree of governmental interference in agriculture of any industrial country in the world during the past two decades.

Until 1958, Canada had an agricultural policy of very limited objectives. The policy was designed primarily to stabilize agricultural prices and was not used to a significant degree to raise the average level of prices. During the period from 1953 through 1957, on a relative basis, the cost of the farm price and income programs in Canada was between a quarter and a third of the cost in the United States. This is after adjustment for the difference in the aggregate size of the agricultures of the two countries. A large fraction of the Canadian costs were due to efforts to support the price of livestock products following the outbreak of foot and mouth disease in the early 1950's. Because of the outbreak of foot and mouth disease, exports of beef and pork to the United States were prohibited for a period of almost two years.

During the period under review, namely, 1953-57 the price of wheat in Canada was approximately 40 to 50 cents a bushel lower than in the United States. During the latter half of the 1920's wheat in the prairie provinces sold for approximately 10 cents a bushel less than in the three northern plain states of Montana, North Dakota and South Dakota. Thus, in a period of about two and one-half decades the price of wheat south of the border increased by almost 40 cents compared to the price north of the border. Very briefly I would like to review the effects of this important difference in the price of wheat upon the agriculture and income of farm operators over the period of time between 1925-29 and 1953-57.

First, despite the efforts in the United States to limit the production of wheat, total farm production apparently increased somewhat more in the U. S. spring wheat area than in the prairie provinces of Canada. In one
sense the greater increase in output in the United States was not very large. It appears to have been of the order of 5 to 7%. However, when it is remembered that the recent excess of production over the amount consumed at prevailing prices in the United States has been of the same order of magnitude, the difference in output response is significant.

Second, farm land prices increased substantially more in the three northern plain states than in the prairie provinces. This means that a substantial part of the higher wheat prices and the various payments made to wheat growers was capitalized into the price of land. Our estimate indicates that something more than half of the additional total income due to the program was capitalized into the price of land. The remainder seems to have gone for the purchases of additional inputs required for the somewhat greater increase in output in the United States than in Canada.

Third, we were unable to detect any difference in the return to farm labor between the two areas from 1925-29 to 1953-57. By that I mean that the increase in the returns to labor in the two areas appears to have been the same despite the fact that the price of wheat in the United States rose by almost 40 cents per bushel more than in the prairie provinces. In other words, the Canadian farmers were able to adjust to the much lower price of wheat without suffering any loss in labor income.

Obviously there are weaknesses in any comparative analysis of this kind. Perhaps all that one should say as a result of this analysis is that the results are inconsistent with the assumptions that are made in rationalizing the necessity of maintaining our current programs of price supports and supply management.

Case of Danish Agriculture

I shall comment only very briefly upon circumstances in Denmark. Because of their dependence upon export markets, farmers in Denmark compete with agricultural products from all over the world, including in some cases products produced by farmers who are rather heavily subsidized by their government. As noted, Denmark has done very little through its government to influence the price of its agricultural products or to subsidize its farmers. Yet, it seems to be true that the average income per farmer in Denmark is the highest in all of Europe and that the relative income of farmers compared to the nonfarm population in Denmark is at least as high as in any other European country. Here again the implication seems to be that Danish farmers have been able to adjust to the underlying economic conditions without the aid of expensive governmental programs.

Supply Management Programs

I shall now comment very briefly upon three of the supply management
programs — namely, the feed grain program, the wheat program and the dairy program. In my opinion there is little doubt that the feed grain program has resulted in a substantial reduction in the stocks of feed grain in the hands of the Commodity Credit Corporation. I feel that it is more than a little ironical that a significant part of the apparent success of the feed grain program has been and will be due to an operation of an economic force whose existence seems to be little recognized in the United States Department of Agriculture. I refer to the fact that over the past decade as the price of feed has fallen relative to the price of other resources used in agriculture, especially labor, that the amount of feed used per animal unit and per unit of production has increased significantly. Since the price of labor and other inputs is likely to increase relative to the price of feed, it is probable that during the next few years more and more feed will be used per animal unit and per unit of livestock production. Consequently, the adjustment of farmers to changing relative prices is likely to contribute substantially to the reduction of the stocks of feed grain.

Dr. Schnittker's discussion of wheat programs is entirely concerned with the 1964 program. My only comment here is that the use of the two-price system does not involve, as is frequently assumed, the separation of the wheat market into its domestic and foreign component. Actually the wheat program will involve splitting the market four ways. About 80% of the wheat sold in the domestic market will sell at the higher support price and about 20% at the lower.

Similarly the foreign market will also be split into two parts. Some of the wheat that will be exported will have received the higher support price while some of the remainder will presumably have been produced in response to the lower price. However, it seems clear that all wheat exported, or almost all, will have to pass through government hands because of our obligations under the International Wheat Agreement and because most of our wheat in any case is being exported under Public Law 480. Few of our farmers will be interested in exporting wheat to India, for example, since they will have little use for rupees.

In his discussion of the dairy programs, Dr. Schnittker notes that in early 1961 price supports for dairy products were increased. He also noted that governmental expenditures for price supports more than doubled in a period of a year, that production increased and that consumption decreased. I find it more than a little interesting that Dr. Schnittker did not note that there may have been some connection between the first of these events and the other three. It certainly must be true that the increase in governmental expenditures was in part due to the increase in price supports, and it must have also been true that part of the increase in production was due to higher prices, and that part of the decrease in consumption was also a result of higher prices to consumers. Other factors may well have been responsible for a part of the increase in output.
and a part of the decrease in consumption, but surely the higher support price must have played some role. I certainly do not know of any studies that indicate that the price elasticity of demand for dairy products is zero.

Inconsistency Between Programs

I would like now to comment on certain inconsistency that exist between the supply management programs and other programs that are carried out by the Department of Agriculture. Nowhere in his paper does Dr. Schnitiker note that there are some programs in the Department of Agriculture and other parts of the United States Government that have the effect of inducing farmers to increase agricultural output at the same time the Federal Government is spending billions of dollars to induce farmers to reduce output.

I will note only four such programs. One is the continued investment by the Federal Government in irrigation and reclamation projects. In the past 15 years more than three million acres have been newly irrigated under Federal projects. Thee projects have certainly added to the total agricultural output of the country.

Similarly the Agricultural Conservation Program and the Soil Conservation Service have resulted in a substantial increase in the productivity of farm land. Most of the payments under the Agricultural Conservation Program are for practices that have a rather immediate affect upon the level of agricultural output. Yet, in the programs of the present administration there appears to have been no recognition of the output effect of these activities. During the past decade more than $2 billion have been paid to farmers under this program and payments now seem to be stabilized at approximately $240 million per year.

It is more than a little anomalous that we continue to have a program that facilitates the importation of labor from Mexico and other countries. This program is continued despite the fact that one of the major adjustment problems in American agriculture is the transfer of labor from farm to nonfarm occupations. I should note that over the past four years the number of workers brought in under this program has declined substantially.

A final element of inconsistency is the use of higher price supports, especially in those cases where there is no effort to control or limit agricultural output. Clearly the increase in price supports for dairy products in early 1961 falls in this category. However, even where efforts are made to limit the output of individual commodities an increase in the price support negates at least in part the efforts to limit output since it induces farmers to use more inputs such as fertilizer on the area that they are allowed to seed or plant.

Most of the expenditures for our farm programs are required for price
supports and related efforts to induce farmers to reduce the output of a small number of agricultural commodities. Insofar as these programs have the effects of increasing incomes of farm people, almost all of the gains will go to a rather small proportion of farm families.

According to estimates published by the Department of Agriculture, 39% of all the farms sold 87% of all farm products in 1959. The mean income of these farm families, including their income from off-farm sources, was $7,763. This level of income was actually higher than the average of all nonfarm families in the United States in that year. Most of the remaining two and a quarter million farm families received only modest gains from the farm price support and supply management programs and were responsible only for a small part of the total cost of the program.

Problems of Hired Farm Laborers

I would like to close my remarks by commenting upon a large group in agriculture that seems to have been almost entirely neglected both in the farm programs themselves and in the discussion of those programs. I refer specifically to the hired farm workers who perform approximately a quarter of all the labor on American farms. Hired farm workers appear to have gained little or nothing from the price support and supply management programs and have undoubtedly lost in many cases as a result of the imported labor program.

Many of the hired farm workers are in an inferior position because they either have not had the opportunity or have not taken the opportunity to obtain a reasonable amount of education. Almost a quarter of all hired farm workers have had four years or less of schooling and only a little more than a third have had any high school education.

Data published by the Department of Agriculture for the year 1960 provide us with some very important and at the same time distressing information concerning the economic position of hired farm workers in American agriculture. The following tabulation summarizes some of this information:

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<th>Years of Schooling</th>
<th>% of total Workers</th>
<th>Average Days Worked in 1960</th>
<th>Average earnings per Day ($)</th>
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<td>168</td>
<td>Farm 5.00 Nonfarm 6.95 All Work 5.40</td>
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<tr>
<td>5-8</td>
<td>44</td>
<td>180</td>
<td>Farm 6.80 Nonfarm 9.00 All Work 7.25</td>
</tr>
<tr>
<td>9-11</td>
<td>14</td>
<td>207</td>
<td>Farm 7.85 Nonfarm 10.30 All Work 8.65</td>
</tr>
<tr>
<td>12 &amp; over</td>
<td>19</td>
<td>208</td>
<td>Farm 9.75 Nonfarm 13.20 All Work 11.45</td>
</tr>
<tr>
<td>Average</td>
<td>100</td>
<td>185</td>
<td>Farm 6.90 Nonfarm 10.40 All Work 7.90</td>
</tr>
</tbody>
</table>

These data clearly show that the amount of education or schooling has a significant effect upon the level of earnings in farm work. This is consistent with the information that we have on the relationship between earnings and education in nonagricultural activities.

The material also indicates that a large fraction of the hired farm working force does engage in nonfarm work during a part of the year. Thus, the hired farm workers are not entirely divorced from nonfarm economic activities. About 30% of all of the time worked was at nonfarm jobs.

The data on earnings in the nonfarm and farm jobs raise certain questions concerning the comparison of incomes in agriculture and in nonagriculture. On the average, each of the groups of hired farm workers earned about a third more in their nonfarm job than in their farm job. Does this mean that these workers considered these earnings to be equivalent or does it mean that the quality of the hired farm working force is such that they can obtain nonfarm work only during period of seasonal tightness in the nonfarm labor market? It may also be noted that the average daily earnings of $10.40 in nonfarm jobs was about 60% of the average earning of production workers in manufacturing and about 75% of the average for nonsupervisory workers in retail trade.

I have made these comments about the hired farm labor force for two reasons. First, to indicate that this large segment of the population that is concerned with agriculture and which has relatively low incomes is one that is not significantly aided by the supply management programs of the Department of Agriculture. Second, I wanted to indicate that in our concerns in agricultural policy about farm commodities and farm land we have not had any effective program for improving the quality and productivity of large segments of our farm population.
POLICIES TO PROMOTE BASIC ADJUSTMENT IN LAND USE

by M. L. Upchurch

The year 1962 will long be remembered as a most significant period in the affairs of agriculture in the United States. It has been the Centennial Year of the U. S. Department of Agriculture and the Land-Grant College system. More importantly for our present topic, it has been a year in which more people have given more thought and discussion to problems of land use than ever before.

In January 1962, The Secretary of Agriculture called a National Conference on Land and People. In the fall of 1962 regional "Land and People" conferences were held at St. Louis, Portland, Denver, New Orleans and Philadelphia. More than 10,000 thoughtful people participated in these conferences, heard the discussions, and expressed their views about land policy and related matters. During 1962 dozens of conferences and workshops have been conducted by extension and research people on land use problems. And thousands of local meetings of citizens' groups have focused attention on many aspects of land use and development. Now in December of 1962 we are participating in the Third Annual Farm Policy Review Conference, where we are again addressing ourselves to policies to promote basic adjustments in land use.

Moreover, 1962 saw the passage of the Food and Agriculture Act, which has some unique and significant features with respect to land use adjustment. These features were often overlooked in the heat of debate on the more controversial commodity programs in the bill. But they have given some new directions to land use policy and programs.

I deem it my task here today to review briefly the needs for basic land use adjustments in this country, to describe the policies now being followed and to point out problem areas that call for further and continuing consideration. In doing this, I shall try to avoid unnecessary overlapping with other topics on our agenda. However, consideration of land use and land use adjustments necessarily must take people and their opportunities for employment and income into account. It must take into account also our needs for the products and services of land and the prices these bring in the markets. And it must take into account the cultural and institutional environment that is the climate within which we work and play.

A couple of definitions may be in order before we go further. I shall use the word "policy" to mean a general course of action as distinct from "program," which means a more specific course of action designed to carry out a policy. Actually, I shall talk about both policies and programs.

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The phrase "basic adjustment in land use" that appears in the title of this paper connotes something of the quality of change in land use and some element of time. I take it that "basic" means a change in major uses of land, as from crop farming to grazing or forestry rather than from wheat to barley. To me it means also a long-term shift in use resulting in major changes in the type of product or service produced by land and in the relative combinations of land with other resources.

I use "land" to mean "water" too, for any consideration of land is only half done until consideration is given to water resources used with land. They are different, yet inseparable.

**Needs for Basic Land Use Adjustment**

**Cropland.** The outstanding fact that must underlie any thoughtful consideration of land policy is the tremendous present and potential capacity of our land and associated resources to produce the ordinary farm crops. Stories of the technological innovations that shrink our needs for cropland and farm labor have become commonplace. We need not dwell on these facts here because Dr. Fox gave the essential elements of the land use situation in his paper, "The Major Problem of Rural Society." However, three important points need to be recalled.

Our best projections at the moment indicate that by 1980 we will need only about the same acreage in harvested crops as we had in 1961 and 1962 despite an expected increase of approximately 45% in population from 1960 to 1980. Let us remember, too, that our 1961 acreage of harvested crops was the lowest since 1910. In 1961 -- and again this year -- we have had large acreages shifted out of crops by the Conservation Reserve, the Feed Grain and Wheat programs and acreage allotments on such major land users as wheat and cotton. Policies and programs to keep the acreage of harvested crops down to about 300 million acres will continue to be a necessary tool in the achievement of supply and price objectives.

The Conservation Needs Inventory, recently completed for the entire country, shows that we have about 640 million acres of Class I, II, and III land. This is land, by definition, that is suitable for continuous cropping with appropriate conservation practices. Only about three-fifths of this land is now considered as cropland; the rest is in pasture, forests and other uses. Only about three-fourths of even the cropland part of this is now in harvested crops. This means that we are now using for harvested crops less than half of the Class I, II, and III land in the United States. We could not use all of this land for crops under any conceivable circumstances. Moreover we need some of it for pasture and woods. But the potential capacity for crops that exists in our abundance of good land far exceeds the most pessimistic projections.
The third point to bear in mind is that of our present cropland, only about 75 million acres is in Class IV or poorer land; less than half of this is actually cropped at present. We are using for crops now a lot less poor land than we used 30 years ago. These lands, by definition, require intensive conservation practices or major shifts in use. Extensive programs for shifts in use and protection of such land probably cannot be justified on the basis of future need for the land for crops. Yet such shifts can be justified on the grounds of reducing the off-site damages caused by erosion and of providing better opportunities for people on poor land. An important point at present, however, is that if all of our Class IV and poorer land now in crops could suddenly be shifted to noncrop uses, we would not solve our problems of overproduction because the acreage of such land is limited and the production from it is too small.

The cropland situation summarizes about like this:

1. We will need no more land in harvested crops in 1980 than we have now.
2. We have a tremendous potential for production from good land.
3. The acreage of poor land now in crops is so small that we would not solve the overproduction problem even if we could shift all of it to other uses.

_Grazing land._ Grazing is the largest user of land in the United States. Projections suggest that we will need a somewhat larger acreage for livestock grazing in 1980 than we had in 1959. More people with better incomes will want more red meat. Potential needs for pasture land are harder to project than for crops. This is because our data on yields of grazing land are much less precise and the possibility of substituting one source of feed for another is great.

Nevertheless, within the framework of present projections, about 22 million acres added to our 1959 acreage would meet the needs by 1980. Such needs could be met easily by permitting grazing on land shifted out of crop use under the Conservation Reserve or future land use programs.

Actually the acreage used for pasture might very well be increased substantially more than 22 million acres because livestock grazing is something of a residual use of land not needed for more intensive purposes. Furthermore, a change in use of land from grain crops to grazing generally reduces the total livestock feed available and tends to shift production relatively toward feeders rather than fat animals. A greater supply of feeders in relation to grain might be healthy for both the livestock and the farming business.

_Forest land._ Forestry is the second largest user of land and present indications are that we will need to increase timber production somewhat to meet our needs beyond 1980. The outlook indicates a special need for an increase in soft wood saw logs relative to other major forest products. Better management of present timber lands, especially those in small private holdings, will have a far more important bearing on future supplies of timber than modest shifts in acreage to forest uses.
Recreation. Much has been said in recent years about the expanding needs for outdoor recreation. We now have something like 62 million acres devoted primarily to recreation and wildlife. And we use many millions of acres of farm, forest and range land for recreation of different types. Recreation is one of the multiple uses on much public and private land. Farms furnish much recreation for nonfarm people and could supply much more, even without a shift in land use.

Outdoor recreation is many things in terms of land use. It is wilderness areas, the apogee of extensive land use. And it is highly intensive parks, playgrounds and resorts. It is most difficult to generalize about the needs for land for outdoor recreation except to say that we need more and the recreation land we do have is very unevenly distributed in relation to population.

A projected increase of 23 million acres in land devoted to recreation by 1980 is shown in "Land and Water Resources--A Policy Guide." About one-fifth of this is estimated to come from cropland while most of the remainder comes from forest and pasture land.

Special uses of land. To round out the picture on future needs for land a word needs to be said on special nonagricultural uses. We have now about 147 million acres of land in urban uses, public recreation areas, public installations and miscellaneous uses. Our best projections are that we will need about 21 million additional acres in urban uses and about 5 million additional acres in public facilities in the next two decades. It is estimated that about one-fourth of this increase will come from present cropland. The remainder will come from pasture, forest and miscellaneous land uses.

Summary of projected land adjustments. In summary, our needs for basic adjustments in land use suggest shifts from cropland to more extensive grazing, forestry and recreation uses. In the interest of achieving and maintaining a balance of crop production with demand, we must strive to keep the total acreage of harvested crops at about present levels. Bear in mind that this year we have about 25 million acres of cropland in the Conservation Reserve and another 40 million acres diverted under the Wheat and Feed Grain programs.

Remember also that shifts in land use from crops to grazing or forestry changes the basic relationships between land and labor and capital. Herein lies one of the major problems in land policy. How do you make basic adjustments toward more extensive land uses without significant disruption of people on the land and how you help people make concomitant adjustments?

Goals for a Land Policy

A general goal of land policy is to encourage the uses of land and related resources that provide maximum benefits to people--all people, both on farms and off and over time. This means that we strive for economical production of
foods and fiber. We want assured supplies of high quality products now and in the future to meet both domestic and export needs. This means that we must continue to seek adjustments in land and water uses as relative needs for different products change and as technological innovations give us the opportunity to meet our needs more economically.

A second general goal is to achieve and maintain adequate incomes for rural people. Price policy and many other aspects of federal programs are involved here. Suffice it to say at this point that land policy and programs must be consistent with other programs in the achievement of this goal. Adequate incomes for farmers means reasonable prices for the ordinary farm crops. It means development of opportunities for use of land and labor in enterprises other than the usual crops. And it means development of farm and nonfarm enterprises on a scale that will provide acceptable levels of income for farm families.

Conservation of land and water resources is a continuing goal. Even though at present it appears that our supply of farm land is excessive in relation to effective demand for farm products, it does not follow that we can ignore the need for conservation. Our best projections of future supply and demand extend only a few short decades into the future. Even if these projections prove to be highly accurate, the time span is short in the life of a nation. We can ill afford the risk of unnecessary loss of soil resources simply because we have at present more wheat and corn on hand than we can sell. Protection of our land and property against the ravages of floods, the damages of dust storms, the siltation of water supplies, and the devastation of fire in forests is as urgent now as ever. The chief burden of conservation falls on individual land owners and operators. But society must stand ready to help achieve those conservation practices the land owner cannot afford to do because of his limited resources and his relatively higher time preference.

A third major goal of land policy is to achieve widespread distribution of income and opportunities for technical progress for rural people. The family farm is a basic institution in American agriculture and shows every indication that it will remain so. Price policies and land policies geared to the family farm are so much a part of our thinking that it rarely occurs to us to consider any other. We can afford to feel a bit smug about the achievements of our family farm system of agriculture, but we can ill afford to be complacent about the needs for continuing opportunities for family farm and nonfarm enterprises in rural areas. Development of the maximum number of economic opportunities consistent with efficient farms and nonfarm rural businesses is a continuing goal.

Programs for Achievement of Land Policy Objectives

Many programs of the Department of Agriculture have long been directed at improving the welfare of people in rural America through adjustments in land use. The long established programs of research and extension have had an important bearing on land use. The New Deal Programs of conservation and production adjustment affected land use directly through acreage allotments on some crops,
cost-sharing inducements for conservation practices, land purchase projects, flood control projects, education and many other devices. Many of these programs and techniques for land use adjustments are still important tools in the kit of agricultural policy.

Rather than to spend much time now on these familiar programs of agriculture, let us look at the new directions in land use policy that seem to be emerging. This has been a most significant year with respect to land use policy in this country.

Cropland use adjustment. The Food and Agriculture Act of 1962 provides some major new tools to help achieve basic changes in land use. Perhaps the most important of these, in the long run, is the cropland use adjustment program authorized by Section 101 of the act. This Section provides for long term agreements with land operators to shift use of cropland "... for the purpose of conserving and developing soil, water, forest, wildlife and recreation resources." At present the scope of a land use program under this authority is limited to not more than $10 million in any calendar year. Plans are now being developed to put this authority into effect.

Several features of the emerging land use program under Sec. 101 are worthy of special note. One is that the program intends to promote conservation and economic use of land, not to idle it. When land is forced to non-use, as it was under the Conservation Reserve program, there is strong likelihood that it will return to crop production at the end of the contract period. Indications are that about half of the Conservation Reserve lands are returning to crop use, mostly feed grains, in the first year after contracts end. However, if new uses are developed on land under a long-term agreement, there is a much greater likelihood that the new use will persist after the agreement period.

A second noteworthy feature is that efforts will be made to get a permanent shift in use of cropland that is not suitable for continuous cropping, and to get at least a temporary shift in use of cropland that is suitable for cropping. In effect, we will say this to the man who has land suited to cropping:

"We will offer you an inducement or an adjustment payment if you will shift the use of your land from crops to another approved use for 5 or 10 years. We will provide cost-share practice payments to help you put your land in shape for the intended use. But we will expect you to use this land in a conserving manner and not to increase your acreage of crops on other land."

To the man who has land not suited to continuous cropping we will say:

"If you agree to devote this land (which should not be cropped in the first place) to an approved use for a period of 10 years, we stand ready to assist you with cost-share practice payments for the entire period, if necessary. We will help you establish this new use and to put your land in condition for it."
This feature differs markedly from the Conservation Reserve. In that program, land was rented by the government to assure idleness. In many instances whole farms came into the program and farm operators retired or moved away. No special effort was made to put into the program cropland that was most in need of conservation practices or that contributed most to surplus production, although neither was excluded.

A third main feature of the cropland use adjustment program is that the changes in land use to be made and the conservation practices to be carried out on participating land must be consistent with conservation plans a farmer makes with his local soil conservation district. This helps to assure that conservation uses are made of the land and that technically adequate practices are followed.

The fiscal limitation now in Section 101 of the 1962 Act will permit the application of the cropland use adjustment program only to a few areas on a trial basis. Selection has been made of 41 counties in 13 states as places to start.

The Conservation Reserve. The Conservation Reserve took cropland out of production for periods of 3 to 10 years by agreement with land owners and operators. Approximately 28 million acres were in the reserve at its peak and contracts have already expired on about 3 million acres. This month contracts will be expiring on an additional 1.3 million acres.

Section 101 of the 1962 Act provides for a one-year extension of contracts expiring in December 1962. Offers have been made to land owners who are in this situation. This program for 1963 will give the land operator the choice of grazing his CR land, if he wishes, but with a payment of only 50 percent of what it would be without grazing. About 900,000 acres of the 1.3 million eligible are expected to be recommitted for next year.

Congress made the one-year provision for expiring Conservation Reserve land on the presumption that a policy to deal with such land as contracts expire could be developed soon. At present over 25 million acres remain in the reserve. Contracts will be expiring on about a fourth of this in December 1963. Some of the CR land will remain in grass or trees after contracts expire even without further programs on it. But some of it will return to cultivation, mostly to feed grains. Although the acreage that likely will return to production of surplus crops is not large in relation to total cropland, it is large enough to aggravate our problems of excessive production.

Present thinking is to provide opportunity for expiring Conservation Reserve land to come into the general cropland use program and to establish grazing, forestry, recreation or other uses that will (1) reduce crop production, (2) conserve the land and (3) keep it in an income producing use.

Resource conservation and development projects. The Food and Agriculture Act of 1962, among other things, amends the Bankhead-Jones Farm Tenant Act to
provide technical assistance and loans to state and local public agencies for a program of land conservation and land utilization. This section of the Act (Sec. 102) visualizes land use adjustments on a community or area basis, whereas the previous section provides for cropland adjustments on individual farms. This authority would make it possible for local units of government to make land improvements and to develop recreation and other economic uses of land. Loans for the purpose are to be made through the Farmers Home Administration and are authorized for 30 years with repayment to begin 5 years after they are made.

There is only one difficulty at the moment with Resource Conservation and Development Projects: Congress appropriated no money for them. There is authorization for rather far-reaching community land use and conservation work, but no way now to implement it. In the meantime, other programs are available to help achieve land use adjustment, conservation and economic developments.

Income producing outdoor recreation. There is strong interest in developing opportunities for outdoor recreation on farms to help meet the growing needs for recreation, to help provide employment and income to rural people and to provide an income producing use for some rural land not now needed for crops. Title IV of the Food and Agriculture Act now authorizes the Farmers Home Administration to make loans for a recreation enterprise in the same way it makes a loan for a dairy or a big enterprise.

The Soil Conservation Service has been directed to help rural people through technical assistance and planning to establish income producing recreation on farm land.

The Agricultural Conservation and Stabilization Service can help develop recreation on farm land through the old line ACP cost-sharing practices, at least to the extent of providing habitat for game and fish, and through the new cropland use adjustment program. Recreation is one of the approved uses for land shifted out of crops and cost-share payments for some recreation improvements will be provided.

The potential market for outdoor recreation opportunities on both public and private land is growing. Studies made by the Outdoor Recreation Resources Review Commission, projections by the Forest Service and National Park Service, and many other studies point to expanding demands for recreation. The Forest Service expects a three-fold increase by 2,000 in visits to forests for recreation. Other projections are comparable.

The extent to which demands for outdoor recreation will be met by farm people and on farms is a moot point at present. Examples of outstanding success can be cited--the Pennsylvania dairyman who traded his milk cows for a golf course, the New Hampshire farmer who developed a ski slope, and many farmers who provide hunting and fishing opportunities to paying guests. We do not know how much and what types of these activities and land uses will be successful as economic enterprises. Experience with the market and with the unique qualities of successful management is still too new to know.
While efforts are being made to expand recreational use of farm land, public recreation resources are expanding too. Careful thought needs to be given to the relationships between public and private sectors of the business. Public recreation can complement private ventures as well as the other way around. Public lands can provide extensive attractions for tourists while private venture provides the more intensive services tourists need. But public and private recreation resources can compete unnecessarily, if we don't watch out.

**Recreation on flood control and watershed projects.** Authority for federal participation in flood control and watershed protection projects has been broadened to include recreation as one of the authorized purposes of a project. The 1962 act permits federal cost sharing to acquire land needed for fish, wildlife and recreational development. Formerly local organizations had to bear all of the costs of rights-of-way. And the benefits from public recreation may now be included in cost-benefit calculations for justification of proposed projects.

The Department of Agriculture already has helped local agencies in the development of 425 small watershed projects. Another 366 projects are being planned and applications have been made for help on 969 more. Altogether these cover about 125 million acres.

Inclusion of recreation as part of the flood control and watershed protection work greatly broadens the scope of the Department activities in the land use adjustments.

**Rural renewal projects.** Closely related to rural land use adjustment is the adjustment, development and acceleration of economic activities in rural areas through Rural Area Development Committees and projects. Here again the Food and Agriculture Act of 1962 strengthened the tools to promote economic growth in rural communities.

Rural Renewal Projects are designed to meet the needs of rural communities that develop plans for economic growth including plans to increase employment and to improve, conserve and develop natural resources of the area. These things are to be done through technical aid and loans under the Farmers Home Administration. Authorized purposes for FHA loans now include such things as "shifts in land use and conservation," developing recreational uses and facilities, soil conservation practices and fish farming.

As with Conservation and Development Projects, funds are not yet available to implement Rural Renewal Projects even though the 1962 Act provides for them. But some help can be had from existing authorities and programs.

**Conclusion.** At the beginning of 1962, the Secretary of Agriculture asked the National Conference on Land and People: "First, how can we make better use of the land currently in farms which in the foreseeable future will not be needed for crop production? Second, how can we satisfy the rapidly growing demand for land for recreational, urban and other uses? Third, how can resources be used to generate new economic opportunities for the 1.4 million underemployed persons in rural areas?"
Now at the end of 1962 we have some partial answers in the form of established policies and ongoing programs. The 1962 act included more fundamental land use legislation than any act since the 1930's. It points new policy directions in several major fields.

The cropland use adjustment program establishes the principle of promoting proper use, including recreation, as contrasted to promoting idleness of land. A trial program within the fiscal limits provided is now underway.

The Small Watershed Program now includes recreation and wildlife as a purpose eligible for cost-sharing and for inclusion in project justification. This new principle has been incorporated in the ongoing program.

The idea of Conservation and Development Projects on a community basis has been established in law and will be applied in fact when resources are available.

The idea of Rural Renewal Projects strengthens the Rural Areas Development Program by providing a tool to organize and finance economic growth, including adjustments and development of land uses.

These and other developments mark 1962 as a banner year with respect to land policy and the achievement of basic land use adjustments. But the task is far from done.

We need to continue and strengthen our research on land and water utilization and our projections of future needs for land in different uses.

We need to implement on an effective scale the programs provided in the Food and Agriculture Act.

We need to continue to strive for improved administration of land use policies and programs.

And we need the continued scrutiny of land policy and of other aspects of policy that we get from this annual conference and from others having similar purposes.
APPRAISAL: POLICIES TO PROMOTE BASIC ADJUSTMENT IN LAND USE
by John F. Timmons

I enjoyed reading Dr. Upchurch's fine paper and my appraisal follows the two major parts of the paper.

The second one-half of Dr. Upchurch's paper deals with programs for achieving land policy objectives. I have three brief comments on this part of the paper.

The first one-half of Dr. Upchurch's paper rests heavily upon the findings and reasoning presented in the USDA report, "Land and Water Resources: A Policy Guide," published in January, May and September of this year. To this part of Dr. Upchurch's paper, I shall devote most of my time and effort since it contains, I feel, several intriguing contributions, some serious weaknesses and some serious omissions.

Programs for Achieving Land Policy Objectives

Returning to the second part of the paper, I have three rather brief comments.

1. Dr. Upchurch presents an excellent description of those parts of the Food and Agriculture Act of 1962 as the act applies to land resource use; namely, Sections 101 and 102 and Title IV.

2. Dr. Upchurch exaggerates a bit when he states that "The act included more fundamental land use legislation than any act since the 1930's ... They mark 1962 as a banner year with respect to land policy and the achievement of basic land use adjustments." This statement sent me scurrying back to reread the last eight pages of the paper and a review of the sections and titles in the 1962 act with the expectation that my second reading would reveal considerably more than my first. However, I conclude that if "the act included more fundamental land use legislation than any act since the 1930's" then there hasn't been much important land use legislation since the 1930's and, second, that the terms fundamental and basic in this context may be a slight exaggeration.

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For example:

a. The cropland use adjustment feature provided in Section 101 is an extension of the Conservation Reserve for a longer period and into forest, wildlife and recreational uses without much thought given to the demand for these resources from a kind, quality or locational viewpoint. However, this feature of Section 101 is limited to 41 counties in 13 states with a $10 limitation of outlay. So I fail to see how this is either fundamental or a basic achievement.

b. The renewal of acreages expiring under the Conservation Reserve under Section 101 to the extent of 1.3 million acres this month and the 6 million acres one year hence plus the 50% reduction in payment penalty for pasturing the Conservation Reserve land would hardly qualify as a fundamental or basic land use adjustment.

c. The resource conservation and development project feature authorized under Section 102 of the act hardly qualifies as a basic or fundamental change in land policy since no funds were appropriated to implement the authorization.

d. The "income producing outdoor recreation" feature under Title IV of the act using the loan authority of FHA, the technical assistance of SCS and the cost sharing practices of ACP hardly sounds like a fundamental or basic break with the past.

e. The "recreation on flood control and watershed projects" feature enabling recreational cost sharing on PL 566 Watersheds is scarcely a basic or fundamental change.

3. Dr. Upchurch concludes his paper suggesting that the task is far from finished and emphasizes the need for further research, continued appraisal, improved administration and changes emanating from this research and appraisal such as provided at this conference and the series of land and people conferences.

Land and Water Resources Study

Now I return to the first part of Dr. Upchurch's paper, which rests heavily upon the department's land and water resources study. My appraisal here deals with (1) the strengths, (2) the weaknesses and (3) the omissions of this part of Dr. Upchurch's paper and the policy guide that must be recognized if we are to address our efforts to basic structural changes in land resource use.

Throughout the past four decades the "farm problem" including land resource has been treated policy-wide as a problem (1) largely confined within the agricultural sector and (2) characterized as temporary, albeit urgent. This has led to many proposed panaceas seeking solutions largely within agriculture. Likewise, this has led to a series of program expediencies seeking amelioration on the basis of temporary and emergency measures. It is indeed gratifying and refreshing to read the USDA's report "Land and Water Resources - A Policy Guide" as referenced by Dr. Upchurch which holds that agriculture's problems (1) possess interactions throughout the economy and (2) are chronic and continuing, demanding for their amelioration, planning horizons of decades rather than years.
Certain challenging and constructive ideas implicit and explicit in the report and Dr. Upchurch's paper should be emphasized as the New Frontier ventures further to solve our land resource problems. Their approach recognizes, as I interpret it, that this nation does not now have a land resource policy consistent in its elements and varied to fit different sections and interests. They place high priority on building a land policy recognizing the task as a long-run effort and not merely as a series of emergencies. The nucleus of this policy embraces land and people and their interdependencies plus the idea that land resources are to be used rather than idled.

This policy implies that land presently committed to agriculture is not irrevocably imprisoned within the agricultural plant but should be available for any use that will contribute most to the welfare of the nation and its people. Thus, land in agriculture, but presently underemployed or unemployed in this use, is the reservoir from which uses outside agriculture may be fashioned. It is a reservoir in which all citizens have a stake and from which all citizens may derive satisfactions.

This philosophy implies that farm policy is more than a policy for farmers. It projects farm policy into the national perspective of economic growth and national well-being. It is in keeping with the motto etched on the Department's edifice, "Dedicated to agriculture in the public interest." In pursuing this philosophy, we are confronted with a legacy of programs which contradict it. The philosophy demands a flexibility of land uses which permits land to move from one use to another in the public interest, which is a dynamic concept. Likewise, it demands mobility of labor which permits and encourages people to move to positions of employment where they may receive increased wages and satisfactions from their increased productivity.

Instead of mobility and flexibility, programs have tended to create immobilities and inflexibilities. The use and application of historical bases for output control, the minimum allotments for all producers of a product, public investments in rural areas which do not possess the economic resources to support them, the capitalization of expected program benefits into land values—all of these practices tend to immobilize both human and natural resources in place and contradict the philosophy of full employment of resources toward the end-in-view of maximizing the kinds and amounts of goods and services the people want.

The report represents a valuable study as emphasized by Dr. Upchurch. I would like to address these remarks to our congressmen in particular. In light of the numerous assumptions stated, the analysis meets adequately the criteria expected of research. However, serious questions may be raised if the conclusions are used as the exclusive basis for land and water use policy in the United States. Other assumptions equally valid would yield materially different results. The point is that a valid research study is not necessarily a valid basis for policy, although the study may well be an important contribution to the basis for policy. In my view, the report becomes a starting point rather than a point of conclusion for policy formulation into the future with all the implications such policy holds for land and people.2

Harry A. Steele and Mark M. Regan in an excellent article "A Review of Current National Plans for Land and Water Use," J. Farm Econ., December 1962, treating alternatives to the assumptions used in the report.
The conclusion of "50 million excess crop acres by 1980" remains in the area of a hypothesis subject to testing through research rather than a fact which is beyond serious question. Research required to test this hypothesis remains to be done as part of the entire analysis of agricultural adjustment. Certainly, neither logic nor fact permits us to draw implications from an interesting hypothesis to any region. Rather, intensive studies within regions carried out as parts of regional and national models are required to provide the insight, facts and logic for national aggregative conclusions.

In large measure, the report seeks to answer the question, "How much land do we need to retire (unemploy) from farming in order to lessen or eliminate the excess supply of farm products at support prices?" I would suggest we address our research to the question "How should our land be used over the long pull if land is to make its maximum contribution to economic growth and to what extent will this utilization help solve the imbalance problems within the farming industry?"

In recent decades, land policy has been tied increasingly to price and income objectives within farming without adequate regard for long-run opportunities to adjust the components of the resource mix. Implicitly, we have made land resources carry the burden of agricultural adjustment attempts, but this policy appears incompatible with the economic use of our land resources from a national viewpoint. Land use geared to economic growth of the nation cannot be specified without involving labor and capital inputs and their alternative uses. Land should be allocated among alternative uses on the basis of how much and in what way it adds to the national income. Allocations should not be related merely to the size of the imbalance in farm output and demand for farm products.

May I suggest certain limitations in the methodology? The estimates and assumptions used in the report leading to the end-in-view of 50 million excess crop acres by 1980 necessitate considerable refinement and continuing study. The use of projected crop yields to 1980, based on trends of the last decade, is open to question in light of weather effects alone. Professor L. M. Thompson of Iowa State University is engaged in a study which indicates that on the basis of a 27-year weather period (1935-1961), over 50 percent of the increases in corn yields in the five major corn-producing states during the 1950's may be explained by favorable weather. Despite the well-known hazards of long-range weather prediction, the report does in effect predict weather through 1980 on the basis of weather through the 1950's if the conclusions are used as the basis for policy. Possibly alternative assumptions embracing various coefficients of change would be useful. During the early 1950's USDA officials suggested the fifth plate derived from population growth would alleviate the surplus productive capacity of the agricultural plant. Research might well inquire into what went wrong with this prediction.

Further refinements in the report findings are needed in the regionalization of the productivity estimates, by uses, if the findings are to be made the basis for land policy toward the future. Furthermore, the analytical model must have the ability to accommodate change on a continuous basis whether the change emanates from technology, changing consumer preferences, population growth, weather cycles, or international affairs. Thus, the formulation and implementation of land resource policy becomes a process which is sufficiently dynamic to accommodate the dynamic components from which it is fashioned. A report limited to national estimates from the vantage point of one year, 1962, obviously becomes only a start in a long and arduous journey of research, education, legislation and administration toward building land resource policy.

Inasmuch as the science and art of predicting needs for lands well into the future are imperfect, the probabilities of uncertainty warrant the concept of a "contingency reservoir" of cropland which does not get committed irrevocably to other uses. Of the land not presently needed for agricultural production, a to-be-determined amount, kind and location of land might be assigned to and kept within the contingency reservoir. Such land might be used as uncertainties give way to certainty through changes as they unfold in population growth, technology, weather, international affairs and the like.

Land not needed either for current and prospective demands or for the contingency reservoir would be eligible for other uses yielding increased value products and services. Public payments for land idled in the farm plant mean that such lands yield zero product to the public. Idle resources make no contribution to economic growth from other segments of the economy. Sectors yielding positive value productivity must provide funds to induce landowners to idle agricultural land with the net consequence of diminished economic growth for the nation. If payments to landowners are based on agricultural uses producing products for which there is no demand, or if the payments are above the value productivity of the land in other than agricultural uses, the payments in themselves constitute an obstacle to land-use shifts and tend to freeze land within the agricultural plant.

Several critical considerations are not treated in the report. We shall mention and briefly discuss several of these considerations as emphasized by Professor Schultz yesterday. Payments to improve farmers' income conditioned on the recipients' rights in land (i.e., acreage allotments), or the right to produce or market (i.e., quota or franchise) tend to become capitalized into the land or other rights. To the extent that expected benefits from farm programs get capitalized into lands or other rights to produce or to sell, the intended income benefits are denied future owners of these rights unless benefits spiral upward by at least the amount of the annual increment of the capitalized value. A recent study published by the Virginia Agricultural Experiment Station estimates that the average price of an acre of flue-cured tobacco allotment alone in Greene, Wilson and Pitt Counties, Va., was capitalized into a value of $2,500 in 1957. Thus, the buyer of this acre of allotment was actually buying

future expected program benefits, which had become capitalized into the current land value. The important point is that the purchaser of the land including the right to income benefits under the program had paid for expected program benefits. This means that the program benefits as current income raising devices had been preempted by previous owners of the rights. Ownership transfers of farmland at an annual rate of 5 to 8 percent reinforce the importance of this point.

This subtile but positive means of negating the intended beneficial income effects of farm programs taking place through income transfers would appear to be diffused throughout agriculture. Of course, the effects with respect to corn, wheat, cotton, milk and other commodities may be less pronounced than in the case of tobacco in the Virginia study. In the process, an over-intensification of land use may arise with resultant increases in the average unit output costs of farm products with important implications for domestic consumers and international trade. In terms of land-use shifts, the effects may well tend to further freeze the land into certain uses of excess products and services and effectively prevent the land from shifting to another use with a greater value productivity.

Shifts of land from the agricultural plant have special and profound implications for soil conservation. Conservation expenditures, representing current investments with the anticipation of future returns, inherently assume continued uses of the land for the purposes for which the conservation expenditures were made. Conservation needs for land that is to be put into the contingency reservoir will be considerably different than for land that is to remain in crops. If the land is destined for recreation, urban, forest, or grazing uses, conservation investments will likewise be affected.

Conservation funds which are limited and in competition with other uses of public funds might best be allocated in terms of expected future uses of the land and the attendant needs for conservation investments. This reasoning leads to the necessity of identifying specific areas of land likely to shift to other uses in the years ahead as suggested earlier. Otherwise, the nation may experience serious sunk costs in conservation investments without realizing the benefits for which the investments were made.

Public use of the spending power alone has not and will not achieve and maintain needed land-use shifts once these shifts are identified by uses and by areas. There are many other ways and, I feel, more important means for guiding land-use adjustments in the years ahead. Aside from possible uses of easements, the report scarcely mentions techniques other than those involved in the use of the spending power.

Agriculture might benefit from methods used in urban areas in their guidance of land use toward long-run objectives. Urban land-use shifts and objectives have been achieved largely without the spending power and in its stead the regulatory and tax powers have been exercised by state and local government agencies. Possible uses of zoning ordinances, land-use regulations, permits, easements,

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purchases, and a host of related institutional tools and techniques for guiding land uses toward desired objectives remain to be developed, fashioned and applied to agricultural land. If public funds for agriculture become scrutinized more closely as competition for public funds increases and as the ratio between rural and urban populations widens, land-use shifts and adjustments within agriculture and between agriculture and other uses may well be expected to draw more heavily upon institutional means and less upon the spending power of the federal government.

State and local governments are important if not senior partners with the federal agencies in designing and putting into effect the kinds of land-use institutions needed for guiding land uses toward long-run objectives. If the modus operandi of future land-use adjustments shifts from almost exclusive dependence upon the spending power to increased use of other public powers as I feel will come about, state and local governments will necessarily assume increased responsibilities in achieving and maintaining land-use objectives.

Secretary Freeman in his paper at the Land and People Conference in January 1962, mentioned by Dr. Upchurch, concluded that the only sensible answer to the problem of underemployed labor resources in agriculture is to devise means for bringing new resources to the people of rural America. Continuing this reasoning, Assistant Secretary Baker estimates that well over 7,000,000 new or improved opportunities are needed for "... inadequately low income rural people over the next 10 years." In light of the inelastic nature of demand for farm products and the continuing substitution of capital for labor in using technology, the Freeman-Baker reasoning must assume that most such opportunities would involve other activities than the production of the usual farm products. This would appear necessary in the interest of achieving economic growth of the nation and improved economic well-being of people remaining in agriculture.

There are without doubt industrial development potentialities within rural redevelopment. There are also greater possibilities for part-time employment by farm people in industrial areas brought about by improved transportation facilities. But the largest potential employment opportunities for farm people remains in new and old industrial urban areas. Whether these people live in urban, suburban or rural areas is another question. But the answer to employment opportunities for farm people appears to rest for the most part in industrial, trade and service industries which tend to concentrate in urban complexes. With this, I rest my appraisal of Dr. Upchurch's excellent paper. Thank you.
Before I launch into a discussion of policies to improve earning opportunities for low income farmers let me identify in a general manner the farmers I believe are affected by these policies.

I believe it will suffice to establish the magnitude of the problem by reminding you that when Secretary Freeman published his Food and Agriculture Program for the 1960's last spring he pointed out that the 349,000 farm families on commercial farms with sales under $2,500 had average net cash incomes from farm and off-farm sources of less than $1,000, and that the 618,000 commercial farms with sales ranging between $2,500 and $4,999 had average net cash incomes from farm and off-farm sources of $3,365. There are nearly a million farm families in these two groups. The Secretary has also pointed out that underemployment on farms amounts to an equivalent of 1.4 million unemployed people.

These figures certainly establish the low-income position of a substantial segment of the farm population. But they are at best a rough index.

In administering our supervised loan programs, we have found, as you might suspect, that general income figures present only a crude picture of reality.

For example, in today's competitive agriculture, many families are turning to us for assistance in spite of sizeable gross farm incomes. In terms of production and physical plant they certainly do not appear to be in the low income category, yet their margin of profit is so low they as owners are unable to build a reserve for capital replacement. Or as tenants, to accumulate enough capital to make a down payment on a farm of their own.

Here in brief are the major groups that turn to us for assistance. Generally speaking they all fall in the lower income category.

For example, the average operating loan borrower who paid off his loan in fiscal 1962 had, at the time he came to us for assistance, some five years ago, a gross farm income of $5,800, off-farm income of $600 and farm operating expenses of $3,600--a yearly net income of $2,800.

First, among those who use our supervised credit are the established farmers who face the alternative of growing or going out of business.

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1/ Mr. Bertsch is administrator, Farmers Home Administration, U.S. Department of Agriculture
Second, there are the young farmers who are trying to get established.

Third, there are those on small units who rely heavily on off-farm income but also want to strengthen the farm side of their operations.

Finally, there are the folks who because of age or other limitations are unable to make major adjustments in their farming operations but do need our supervised credit assistance to get the most out of the resources they command.

Each of these groups face widely differing problems in searching for additional employment opportunities.

If time permitted I would like to outline the policies and the programs that are pertinent to the several categories.

However, recognizing that this treatment of the subject would be too detailed I have selected broad policies that are related to the needs of all groups in varying degrees.

In my opinion the main, overall policy we should pursue in seeking to improve earning opportunities for low income farmers is a policy of developing, to the greatest extent possible, additional earning opportunities in rural areas.

Now I am fully aware that the lure of the city is great, particularly among young people, and that opportunities in too many rural areas are limited. I am aware that we have become an urban-oriented society and that farm people are an ever-shrinking, minority group. I know that the size of the rural population, about 54 million, has remained static while the big cities and their satellite communities have grown. And I am sure that the flow of farm-bred and small-town-bred young people to the cities will continue to a considerable degree.

But I believe our policy should be to do all within our power to strengthen the rural side of our economy. I believe that a nation should seek to develop itself in a well-rounded manner. I do not believe that farm people or rural nonfarm people have any monopoly on the ingredients that make good citizens in a democratic society. But I do believe the nation will be stronger if as a matter of public policy it seeks to develop and improve its rural communities as well as its urban centers. Surely our metropolitan areas with their heavy concentrations of unemployed, their endless lanes of commuters, problems of core congestion, and a variety of social problems do not offer the ultimate in living and working conditions. If we fail to make every effort to see what can be done to develop our rural communities we will be as short-sighted as if we were to put all our reliance in planes for transportation and rockets for defense.

Moreover, I believe the economic environment of the 60's will be much less favorable to continued large scale off-farm migration than was that of the 50's. I would list four reasons:

1. The entire economy, urban as well as rural, will have the burden of absorbing the large number of new labor force entries resulting from the sharp upturn in birthrates after 1940.
2. Automation and new technology will put a premium on young people with good training to the disadvantage of those with less education and skill. Unfortunately, urban young people have access on the whole to better schools.

3. The experiences of the large ex-farm population in their new environment may discourage those still residing on farms from leaving.

4. There are many in urban areas who will resist the increased cost of the social overhead that accompanies the transfer of low-income families from rural to urban areas.

In developing earning opportunities for low income farmers I would place first the idea of developing additional employment opportunities on farms.

Here again I sense a rush of protest. We have surpluses of farm products. Farmers with higher incomes have yet to reach their potential in the production of agricultural products. The trend is towards off-farm employment.

I know all this to be true. But I believe we turn so quickly for the answer to off-farm employment and out-migration that we do not give on-farm sources of employment the attention they deserve.

I believe the policy should be to look first at the low income farmer's opportunity for increasing gainful employment on his farm. This does not mean that opportunities for full employment can be created on all low-income farms any more than that opportunities for all low-income farmers can be found in rural areas. However, the two aims stem from a common point of view. Namely, that it behooves the nation as a whole to seek to develop to the maximum all of its various employment opportunities. I expressed some doubt about the perfection of life in the developing megalopolis. I also have some doubts about the advantages of living and working on the large farms. I do not reject bigness. I simply question the acceptance of bigness as the ultimate ideal for all forms of enterprise.

We know, of course, that 71 percent of the sales of farm products now come from farms that have gross sales of more than $10,000. I also know that 8,600 operating loan borrowers in 1962 who paid in full their debts to FHA continued to farm and graduated to other financial institutions had gross sales that averaged approximately $10,000. Nevertheless, these farmers are able to maintain an adequate level of living. They are in sound financial condition, as their debt paying ability and standing with private credit sources indicate.

Having gone as far as we can go in developing additional employment opportunities on farms, we should then turn to the development of off-farm rural area opportunities for employment.

What I am attempting to do, really, is to establish a priority among policies, to put first things first.

I would not flatly say that we can find more employment opportunities in rural areas than in urban areas, or that in rural areas we can find more opportunities for full-time employment on farms than we can find off farms.
I am simply resisting what appears to me to be a tendency among many people to ignore farm and rural area potentials as a means of increasing employment opportunities.

**Specific Policy Needs**

Now within the framework of these general objectives suggested above, what specific policies do we need?

It seems to me there are seven:

1. **We must effectively bring the multitude of private and governmental rural development aids to bear on the problem of increasing opportunities for low income farmers.** We have essayed such a device in the Rural Areas Development Program. You all know its basic ingredients: RAD committees enable rural people to work together in seeking opportunities for increasing employment opportunities. In support of these committees are technical action panels to funnel the assistance available from governmental sources.

   The Food and Agriculture Act of 1962 has added long-needed tools to this program by authorizing rural renewal projects. In implementing these projects, rural communities will be able to obtain from the Department of Agriculture technical assistance in the form of trained personnel who can devote full-time to helping rural communities develop complete plans for revitalizing their economy. In addition, loan funds will be available from private and governmental sources for rural development projects.

2. **We must make certain that existing private and governmental programs are used to their fullest in creating additional employment opportunities for low-income farmers.**

   We have made considerable headway in implementing this policy in the Farmers Home Administration. Recent legislation has eliminated the barriers that previously blocked our efforts. For example, we now are able to make real estate loans to help landless farmers gradually acquire the land resources they need. Previously we could only help a tenant farmer acquire a farm if the farm at the time acquired and initially developed would be large enough to adequately support the farm family. Now we can help him buy a smaller tract that he can operate as his own while he rents the additional land resources he needs.

   Other institutions have made similar improvements. But much still needs to be done. As an example let me mention an area in the field of credit that has never been sufficiently explored. The investment in the average farm has climbed from $6,200 to $47,600 since 1940. The need for capital reflected by these figures presents a real problem to the low income farmer attempting to climb up the financial scale. I would estimate that not only low income farmers but farmers with higher incomes would benefit if we could do away with the concept that every man that buys a farm has to pay for that farm in his lifetime.
In the 1930’s when the Farm Security Administration started making 40-year loans payable on a variable repayment plan for the purchase of farms, we moved a long step toward recognizing the burden that the conventional system of purchasing a farm puts upon the purchaser. I would hope that in the near future all of us who finance farms would seek ways of adjusting to a concept of farm financing that would recognize that once a mortgage was paid down to a reasonable level a farmer might well pay only the interest on the debt and use the income thus released to enjoy the fruits of his labor even to the extent of financing an adequate education for his children.

3. We must help low income farmers develop all of their resources. Here again allow me to use the approach of the Farmers Home Administration as an example. When a low income farmer applies to us for assistance and we counsel with him and his wife as to the best course they should pursue, we take into consideration all aspects of their problem. We help them consider their needs in terms of land, equipment, livestock, water and buildings. We help them determine the cropping systems, the livestock management methods needed to make the best use of the resources they have or can acquire. We counsel with them as to ways of improving their tenure and managing their debts. We help them seek solutions to health and educational problems. We also help the families we work with determine if there are talents that exist or can be developed among the members of the family that can be gainfully used in off-farm endeavors.

Recently FHA was empowered by the Congress to help low income farmers and other farmers as well develop a non-farm source of employment on their farms. I refer here to our authority to make loans for the development of income-producing, recreational enterprises on farms. You may be certain that we will help each farm family that chooses to do so explore this field to the fullest extent in preparing their farm and home management plans. We also may now make loans to associations of farmers and other rural people to finance shifts in land use. This includes the shift of farm land to recreation uses. Here again, job opportunities will be opening up for low-income farm people in construction and development and maintenance work.

4. We must encourage the development of additional industries, services and trades in rural areas. The amount of off-farm income currently received by farmers is remarkable. Off-farm income of farmers with sales of less than $5,000 is five times their net farm income. This group of course includes a large number of elderly farmers who are doing very little farming and receiving social security payments. But even families on commercial farms with sales over $10,000 are averaging nearly $2,000 a year from off-farm income.

But there are still thousands of communities, farm and rural, that need the development of more off-farm opportunities. And thousands of communities that have some such opportunities, but need more.

The Area Redevelopment Administration, the Small Business Administration, state and private agencies and business organizations are doing much to stimulate the growth of rural industries.
5. **We must make rural communities liveable.** If we are to attract industries to rural areas and thus provide employment opportunities for low income farmers, we must equip our rural communities with the schools, hospitals, clinics, water systems and the type of modern housing that meets modern-day standards.

We are making some headway in this direction too. For example, we are now able to provide Farmers Home Administration loans to construct and improve homes in small rural communities and to develop rural community water systems. Recent legislation also enables us to finance housing especially adapted to the needs of senior citizens in rural areas and to lend funds to nonprofit organizations in rural communities for the development of community recreation facilities. Other agencies of the Federal government, such as SCS, ARA and CFA, also are making a contribution. The policy is being emphasized.

6. **We must provide facilities to help low-income farmers obtain training in the skills they need for farm as well as nonfarm employment.**

I have touched upon the assistance we give farm families who turn to us for credit in making full use of their talents. The Manpower Retraining Program recently put into operation by the Departments of Labor and Health, Education and Welfare has special features for low-income farm families who wish to acquire skills needed in nonfarm employment. And we have assumed the responsibility of calling the attention of the underemployed members of the families we work with to the benefit of the retraining program.

However, the Manpower Retraining Program still does not meet and is not designed to meet the needs of rural youth coming into the high school and college age bracket who are forced to discontinue their education for economic reasons.

We stand appalled at the number of high school drop outs in our rural areas. However, we have not yet faced up to the fact that many of these drop outs are due to financial problems faced by the student and his family. Entrance to college and other post-high school training also is blocked to many farm and other rural youth because they simply can't afford the ever increasing tuition charges, the board, the travel and other expenses.

These youngsters need credit assistance for college expenses on terms adapted to their needs and repayment abilities.

This is a problem the administration and Congress must face, even if no other provisions are made for a general scholarship program or other form of student aid. The educational needs of rural youth are critical; they are very closely associated with the critical national problem of low farm income and depressed rural areas.

We must also, if our rural communities are to thrive, do everything within our power to encourage the development of local leadership.

This will be, I am confident, a definite result of the encouragement we are giving rural community leaders to accept responsibility under the Rural Areas Development program. We must exert all of the imagination and ingenuity we possess to bring this about. All of our other efforts will be in vain if local leadership does not rise to the challenge presented.
7. Finally, if we are to improve earning opportunities for low-income farmers we must continue to strengthen and preserve the family farm.

Basically the importance of this policy rests on the point that only if the family farm remains the foundation of our farming system can a low-income farmer hope to work his way up as a farmer through the income ranks.

But this policy also has broader implications.

To survive the family farmer must receive an adequate return for his labor. It is frequently pointed out that the price a farmer receives for his products is of less importance to the low-income farmer than it is to the farmer who markets substantial quantities. This is true. So far as the low-income farmer is concerned the acquisition of additional resources and management skills must take place before he can market enough to make price a substantial element in his success or failure.

Nevertheless, let us not deceive ourselves as to the value of farm prices to low-income farmers. As we have worked with low-income farmers through the past quarter of a century, we have been impressed by the realization that all we can do to help a farmer step up his production is of little or no avail if he can't get a decent price for what he produces.

We are also very much aware that certain proposals recently being discussed in farm circles to strengthen family farms -- proposals for example, that would limit all government programs to family farmers, that would place farm real estate taxes on a graduated scale in a manner to give advantage to the family farmer -- conceivably could benefit the low income family farmer in a relatively greater way than his higher income counterpart. We are very much interested in and concerned about the future of such proposals.

In addition, we believe that technological improvements in the production and marketing of farm products should always be accompanied by research in adapting these improvements to the needs of family farmers.

Conclusions

In closing, permit me to restate my position regarding the overall policies that should prevail. As a nation we should seek to solve socio-economic problems of rural areas in rural areas before we throw low-income people on the mercy of the urban economy. We first should look to farm improvement as a means of employment and then to off-farm opportunities. I seek only to place our thinking in what seems to me to be the proper perspective.

I know there are limits as to how far we can go in pursuing these policies. I am well aware that some outmigration -- particularly of young people -- will continue.

However, I do not believe we have tried hard enough to test these limits. I sense in much of what I read and hear these days that we are more and more inclined to let the economic forces of the market place have their way with our farm population in a manner that has not been permitted among our urban labor population since before the Wagner Act. We are being urged to deny to the family farm operator the protection and control over his resources that we give to the mechanic and the carpenter.
I think that not only for the welfare of the families concerned but also in the interests of the national welfare, we should resist forcing farmers to play the 19th century game of unbridled competition in a 20th century society whose other members are generally pretty well protected from the slings and arrows of the free market and the individualistic society.

And I feel strongly that these observations apply with particular poignancy to the low-income farmers and other rural dwellers who among all our population have been offered the least protection, the least assistance, and the least understanding.
APPRAISAL: POLICIES TO IMPROVE EARNING OPPORTUNITIES FOR LOW INCOME FARMERS

by James S. Plaxico

Administrator Bertsch's assignment was a difficult one. Depressed areas, industries and firms within our economy constitute an economic problem of long standing which presents one of the continuing policy challenges of our age. Mr. Bertsch has observed problems of low income farmers from a unique vantage point. As administrator of the federal agency most directly concerned with financial problems of the low income farmers Mr. Bertsch's comments are particularly relevant to this conference.

In his introductory statements, Mr. Bertsch outlines the magnitude of the low income problem and indicates that about one million farm units are involved. Clearly the low income farm problem involves a large segment of our farm population. In evaluating solutions to the problem, it should be recognized that the problem is not equally distributed over the nation. Rather, although there are pockets of low income farms in each state, low production-low income units are concentrated in the Southern states. Further, the South's "share" of the problem appears to be increasing.

Census data suggests that four Class VI farms would be required to make one Class III size farm. Based on the same data, the resulting consolidation apparently would approximately double the gross product. Similarly, research in Oklahoma and Missouri implies that to raise the average labor-management income of low income farmers to modest levels of from $2,000 to $2,500 would require a 70-80 percent reduction in farm numbers. This would suggest that each low income farmer, adjusting to the specified income level, would require the land resources now occupied by four or five. Thus, four would need to seek employment elsewhere.

Studies in various commercial areas indicate, given current prices, that to raise average labor-management income of commercial farmers to a level enjoyed by factory workers would require an approximately 50 percent reduction in farm numbers. These results are rather well supported by the census data and by other secondary sources.

In view of the degree of consolidation required to yield even minimum incomes on low income farms and particularly to equate farm and nonfarm earnings, one is led to the conclusion that productive on-farm employment opportunities, providing adequate income levels, are limited.

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Diminishing relative importance of the farm labor force is a prerequisite to a viable growing national economy. It is well known that numbers of workers in the farm labor force has been declining rapidly in recent years. Various income support and credit programs which have been in effect appear to have had little effect on the rate of adjustment. Given traditional natural rates of population increase in rural areas, it appears unreasonable to expect the farm work force to absorb any significant share of anticipated population increase.

The notion that small farms are desirable has, in many respects, not met the test of time and the challenges of technology. Thus, one would question the propriety of suggesting that small farms have the potential to provide adequate incomes for today’s standard. The farmer with a gross income of less than $10,000 may indeed be in sound financial position as measured by conventional financial ratios. I doubt, however, that many such units produce incomes or living standards equivalent to those enjoyed in other segments of our economy, or generate capital for future adjustments.

The fact that low income farms tend to be geographically concentrated tends to suggest that the basic problem is not an individual farm problem. Rather it is an area problem. This being the case, one might question whether remedies administered to the individual unit can correct the basic problem. Certainly, supervised credit can and does ameliorate certain problems faced by certain low income farmers. Further, small segments of the low income farm group are assisted in making the step into commercial agriculture. I doubt, however, that we can realistically expect any credit program to make a really significant dent in the problem.

Mr. Bertsch makes the point that product prices are important to low income farmers. Nevertheless, it might be argued that prices are relatively more important to larger scale farmers because production per unit tends to be higher on larger units. Therefore, higher prices probably do not put the low income farmer in a relatively better position to compete with other farmers for productive resources.

The notion of perpetual loans for agriculture is rapidly coming to be generally accepted as being both desirable and inevitable. The idea is usually supported by citing the fact that many corporations make little effort to retire all bonded indebtedness. This is in fact perpetual indebtedness.

One might question the relevance of the corporation argument to agriculture as corporation loans usually are for purposes of creating new capital in the form of plant and equipment rather than outbidding other corporations in the same line of activity for existing plant or equipment.

The perpetual debt idea has many characteristics of long-term leases. The difference is that the owner absorbs windfall losses and gains. As a renter he is subject only to gains and losses arising from operations. Perhaps it could be argued that the interest of the human resource in agriculture could better be served by institutional arrangements which would allow land resources to be owned by non-farmers but made available to farm operators through a better functioning rental or leasing mechanism or market.
Little is known about possibilities and probabilities of providing off-farm employment opportunities in low income rural areas. Certainly, some progress has been made in recent years. Yet the data available seem to indicate that employment opportunities are growing at a slower rate in rural than in metropolitan areas.

Certainly the potentialities of recreation enterprises deserve further consideration and investigation. Recreation may be developed in rural areas as an enterprise on individual farms under private entrepreneurship or on an area basis through community action, the Soil Conservation district framework, etc. The organizational form and the institution needed for successful ventures of this sort need further study.

Research indicates that the rate of migration from agriculture to non-agricultural employment has been insensitive to agricultural product prices. On the other hand, migration rates have been extremely sensitive to and inversely correlated with the unemployment rate in nonfarm industries. Thus, it is obvious that a full employment economy and an efficiently functioning labor market are essential prerequisites to providing adequate employment opportunities for low income farmers. Low income farmers simply cannot afford slow growth rates in the economy. More will no doubt be said relative to these considerations later in this conference.

It is generally agreed that farm youth in our society are educationally disadvantaged. Further, the agricultural skills of commercial and low income farmers are not readily transferable to the nonfarm sector. Thus it is clear that even given rapid growth and full employment in the economy, relative improvement in educational facilities available to the farm youth and farm operators, particularly on low income farms, must be accomplished. The relative returns to investments in different sectors of our educational plant may be debatable at this stage. Nevertheless, it is generally agreed that any investment in education in low income areas makes exceptionally higher returns to the individual and to society.

As Mr. Bertsch indicates, out-migration is inevitable in a great many agricultural areas, particularly areas of low income farms. Generally static or declining population is associated with low levels of public and private community services and generally low living standards. Considerable attention could well be directed toward ways of achieving vitality in communities in the face of static or declining population. Perhaps loans for rural housing and rural community water systems along with rural renewal authorities recently delegated to FHA have a great deal to offer in this area. I would be most interested in Administrator Bertsch's comments on the potential contributions of these programs.
NATIONAL POLICIES FOR FULL EMPLOYMENT

by Lee E. Preston

On the wall of my study is a drawing by Saul Steinberg that shows a peacock labeled "Inflation" pierced by the arrow of "Statistics," and a lion labeled "Unemployment" impaled upon the arrow of "Semantics." It sometimes seems to me that this drawing about sums up our national economic policy. We assemble and process large collections of data on prices and price changes. We develop new terminology and measures of unemployment. And we come close to allowing semantics and statistics to become substitutes for thought and action.

Taken as a description of our national economic policies over the past couple of years, the drawing confronts me with a dilemma: I believe it is not entirely accurate, and yet -- at least in the case of the peacock -- I almost wish that it were. Inflation has been halted, at least temporarily, but not by the wayward arrow of statistics. It has been halted by a pervasive economic lethargy that Walter Heller, the chairman of the Council of Economic Advisers, has recently diagnosed as "tired blood." And unemployment, although somewhat reduced from its recession peak, has not been conquered at all.

The Kennedy administration took office almost two years ago with a commitment that has become a cliche -- to get the country moving again. And the economic front -- the rate of economic growth, the level of economic activity, the level of unemployment, the state of material well-being -- was one area in which, the administration stated at the outset, progress was required. Fortunately for the makers of campaign promises, from the post-inauguration month of February 1961 most indicators of aggregate economic activity have improved considerably. The result is a record over the past two years that the administration can point to with some measure of satisfaction. Gross national product, personal income, the number of people employed, the level of unemployment, the amount of wage earnings, the level of profits and other general indicators of economic activity have improved over the period.

The satisfaction with which this record can be viewed, however, is tempered by two facts: first, the fact that this improvement can be traced only in a very general and indirect way -- and perhaps only by administration partisans -- to any particular acts or policies of the present administration. And second, and

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true, unemployment has declined from its recession peak of 8.1 percent of the civilian labor force to a current rate between 5.5 percent and 6 percent. But this is still well short of the goal of 4 percent which the administration accepted a year ago as "an interim target" for the reduction of unemployment. According to latest estimates, only about 83 percent of manufacturing capacity is now being utilized. As a result, employment and income are still below full-production levels, and profits are leveling off $8 or $9 billion below the levels that full employment would provide. The total gap between our potential production and the current level of consumption, investment and public demand is now estimated at about $35 billion, down from a $50 billion figure of two years ago, but still much too large for comfort.

Thus, "National Policies for Full Employment," the topic assigned to me this afternoon, remains an important and even pressing subject for discussion by all citizens concerned with the welfare of our economy and of our nation. In addressing this same conference last year, Jim Tobin spoke of "The claim on our conscience of the poverty and insecurity we have not yet conquered." This claim is still unmet and our failure to meet it has but increased its urgency.

Before turning to a specific consideration of the national policies for full employment put forward over the past couple of years and the prospects for the immediate future, I would like to sketch out the matrix of alternatives which face the policy-maker in developing full employment policy. To begin with, we might distinguish between the alternatives of action and exhortation. By these terms I mean to contrast a decision of the makers of national policy to take specific action to increase employment opportunities and to promote the fuller use of productive resources as against a decision to exhort or persuade the private economy to accomplish these same purposes. The action programs available may be distinguished by their relative emphasis on increased expenditures on the one hand or on the adjustment of governmental receipts -- that is, tax reduction -- on the other. Spending programs may be further separated into those which have direct employment effects and those which provide general economic stimulus from which the employment effects are, at best, diffused and indirect.

We may further distinguish among action programs, both those involving increased expenditures and those involving tax reduction, as follows: (1) programs requiring a single, lump-sum adjustment in the level of spending or tax collections -- that is, the kind of action program that used to be described with the term "pump-priming"; (2) programs requiring permanent changes in the amounts or rates of expenditures or collections within existing operating procedures; and (3) programs requiring the establishment of new and continuing procedures and arrangements designed to effect a long-term improvement in income and employment opportunities. This matrix of policy alternatives is
three-dimensional: action-exhortation; expenditures-taxation; one-time adjustments, permanent modification of existing programs, and new programs. Evidently, there are fine lines of difference between the squares of this matrix, and over the course of time a particular program may shift from one category to another.

I think it is perfectly clear that the present administration is committed, at least in its public stance, to a program of action rather than one of exhortation on the full-employment front. (On the labor-management front it is rather another story.) It is also clear that in reaching decisions on the types of action to be taken, the administration has faced and continues to face hard choices between spending and the reduction of public receipts, between one-shot and continuing programs, and between the adaptation established programs to meet new needs and the establishment of new programs for specific new purposes.

Decisions in this last category, that is, the establishment of new programs to meet new needs, are in my opinion the most important decisions that the administration has taken on the domestic economic front. But these are the subjects which my colleagues on the panel this afternoon are going to discuss. The Manpower Development and Training Act and the Area Redevelopment Program constitute, I think, the most significant responses of the federal government to the problems of unemployment, underemployment and inadequacy of economic opportunity since the early Thirties. These two programs embody new ideas and, expanded and adapted on the basis of experience, they may profoundly alter the shape of our economy. Their relatively small achievements to date only indicate the enormity of their tasks.

The other major piece of economic legislation put forward by the administration thus far, the Trade Expansion Act of 1962, is also a measure directed at long-term and fundamental change in our economy. It represents a milestone in national and international economic relations. However, it cannot be described as having particularly desirable short-run employment effects, and indeed both its short-run and long-run employment effects are very difficult to forecast.

III

Having acknowledged these long-term programs as being the primary achievements of the Kennedy administration to date in the economic sphere, I shall deal in the remainder of my comments with economic policies and proposals directed toward increasing the level of employment and income in the shorter-term, the period during which, although we may all be dying, we are not yet dead.

Text book terminology describes this period as the period of the cycle, and the economic policies appropriate to this period as "counter-cyclical" policies. However, I think that the short term economic proposals of the present administration have contained, in fact, two elements. One can properly be described as a
counter-cyclical element. For want of a better term I will call the other a
counter-lethargy element. (I forbear to use the term "counter-stagnation"
since Chairman Heller has strongly disclaimed the charge of "neo-stagnationism.")

Whatever the terminology adopted, the present lack of expansion of the
economy has been widely recognized for a considerable period of time. It was
a campaign issue two years ago and the administration has been quite frank in
acknowledging a continuing malaise even as it points to improvements during
its period in office. Indeed, it is impossible to comprehend the current
economic program unless one understands that "tired blood" is a malady, and
a malady that cannot be relieved by either a nap or an aspirin.

Anti-lethargy medicine must contain a more fundamental and continuing
stimulus, because its purpose is not simply the relief of a temporary indisposi-
tion, but a significant acceleration in the pulse rate -- that is, in the level
of economic activity and the rate of economic growth. Anti-lethargy medicine
is frequently described as growth medicine, but this description is accurate
only if the growth involved is clearly understood to be the growth of the normal,
healthy organism. Anti-lethargy medicine is intended to restore the normal
conditions of growth, not to alter the fundamental conditions of economic
development. Anti-lethargy medicine is intended to take effect tomorrow, or
perhaps next quarter, or almost certainly next year, not just in that very long
run when we will all live in redeveloped areas and be equipped with useful
skills. That long-run will, indeed, take care of itself.

The proposals put forward by the administration in 1962 contained about an
equal mixture of anti-lethargy and anti-cyclical elements. On the one hand,
there were the investment tax credit and the revised depreciation guidelines
which the Treasury put into effect. These two measures were designed to have
impact in the near term and over long term on the rate of investment in machinery
and equipment, and thereby upon the total level of investment spending, the
efficiency of production and the rate of economic growth.

Although these proposals were not received with any great enthusiasm by
the business community when they were first put forward, they now appear
to have gained some acceptance. One can now read in the business press of
decisions being taken as the result of, or at least partly influenced by, the
more favorable tax treatment of new investments. Indeed, I am told that there
are some at the Treasury who like to claim full credit for the fall up-turn
suggested by some of the economic indicators.

Another portion of the administration's economic program in 1962 was directed
at more specifically anti-cyclical goals. The three-part program for economic
stability set forth in the President's Economic Report of last year contained the
following proposals:

(1) Stand-by presidential authority to spend up to $2 billion on federal, state,
and local public works in times of high and rising unemployment.
(2) Stand-by presidential authority to reduce taxes by up to 5 percentage points.

(3) Strengthening of the unemployment compensation system and extension of the system to cover more workers and longer periods of unemployment.

These proposals reflected a concern with short-term economic instability. They reflected a conception of 1962 as a period of recovery that might, in the normal course of things, be followed by a period of recession. They represented attempts to prevent such a recession and were advertised under the copybook maxim, "The time to repair the roof is when the sun is shining."

The fate of these proposals was a parody of their theme. The stand-by tax reduction authority and the strengthening of the unemployment compensation system did not find effective sponsors in the Congress. The public works spending proposal received a modest endorsement in the Senate, although with significant changes and a reduction in the volume of expenditures authorized. But the House chose an immediate public works spending program, and at length appropriated some $400 million for this purpose. Some of these funds are now being expended, and I imagine that somewhere in the relevant agencies there are individuals who would like to say that the fall up-turn is due to these expenditures.

I doubt that any serious student of the national economic scene would attribute the fall up-turn -- even if it proves to exist, or to have existed -- to either the small amount of additional investment that has been generated by the investment tax credit or the small amount of additional wages and profits that have arisen out of these public works expenditures. This is not to say that both of these programs may not have beneficial effects. It is simply to say that they are totally incommensurable with the unemployment problem and the underutilization problem that exists in our economy at the present time. I strongly suspect, though I cannot demonstrate, that if the failure of the summer slow-down to develop into a fall recession can be traced to any federal actions, these actions will be found to be associated with the Cuban crisis, arms for India, or the continued expansion and acceleration of existing federal programs, particularly the space program.

I would like to digress for a moment on the subject of public capital expenditures as an element of employment policy. It may well be that the expenditures made under the "Public Works Acceleration Act" of 1962 will be recorded as one more so-called example in the long history of so-called examples of "the failure of public works spending to mitigate unemployment problems." It will be unfortunate if this is so, because it would be more accurate to say that this program constitutes only one more example of the failure to try public works spending as a solution to an unemployment problem. The sums spent under the 1962 Act should have some direct impact on the level of unemployment in the communities in which these expenditures are made. But we cannot hope that these expenditures will have a significant impact upon the nation wide problem of unemployment. The disparity between the magnitudes is too great, the number of leakages and diversions too numerous. But this does not demonstrate in any way that a large-scale long-term
program of public capital expenditures might not have an important and continuing impact on the reduction of unemployment and on the promotion of other worthwhile economic objectives as well.

It seems to me that the ineffectiveness of public spending as a corrective for unemployment has not resulted from the inappropriateness of the medicine to the disease -- and not from the slow speed of starting, long time of completion, or uncertain employment requirements of public works expenditures -- but rather from the narrow scope that public expenditures for full employment purposes have been allowed to take. When we consider the appropriate areas for public expenditures to alleviate unemployment, we consider primarily highways, post offices, dams, and reclamation and conservation projects. However, when we consider public expenditures outside of an unemployment context, we are quite willing to advance money to examine the bottom of the ocean floor, send a man to the moon, and do all manner of projects which by some standards, at least, might seem somewhat less useful -- or certainly no more useful -- than many of the activities viewed as inappropriate lines of public spending for full-employment purposes.

There is no doubt that our economy receives a substantial stimulus from the present high level of government spending on a variety of programs. But there is also no doubt that the over-all stimulus, and especially the employment stimulus, could be increased if our interpretation of the proper scope of public expenditures in periods and areas of general unemployment were more imaginative. This need not involve the usurpation by the federal government of activities now carried on by state and local governments, or by the private sector. It might well involve the expansion of activities now relatively dormant or only partially accomplished by other governmental units or by the private economy.

I think, for example, of the pressing -- indeed nightmarish -- problem of urban transportation. As you are probably aware, the very modest program which the administration put forward to deal with urban transport problems -- or, in fact, to assist states and local governments in dealing with these problems -- was not received with any great enthusiasm by the last Congress.

It would be tempting to develop a long list of areas in which public expenditures could be substantially expanded to improve my view of the general welfare. Many of these expenditures would improve private profits as well. But it seems perfectly clear that for the present the employment program -- and indeed the general economic program -- of the administration is going to be directed away from any increased expenditures. Nowhere in the proceedings of the recent Conference on Fiscal and Monetary Policy held under the auspices of the President's Labor Management Advisory Committee can I find more than the most passing reference to expenditures as an important element, or even a potentially important element, of an expansionary fiscal policy. On the contrary, some of the foremost supporters of administration policy -- and some of its absolutely essential supporters in the field of fiscal policy -- have been very outspoken about the need for curbs, and even retrenchments, on public expenditures. And promises of expenditure control appear to have been the most popular items in the President's New York speech of last Friday.
On the other hand, tax reduction in 1963 seems well nigh inevitable. President Kennedy promised to request such a reduction in his television address to the nation last August, and this promise was repeated -- although with some uncertainty about the effective date -- only last week. The principle of reduction has been endorsed by President Eisenhower, the U. S. Chamber of Commerce, the AFL-CIO, the Advisory Committee on Labor-Management Policy, the Committee for Economic Development, and virtually everyone -- with the exception of Raymond J. Saulnier -- who can find a forum in which to express his views. Indeed, speaking as a taxpayer, I take this opportunity to endorse tax reduction myself.

The exact form which the tax reduction proposal will take is not known at this time. Nor can we know exactly what Congress will do with the proposal once it is put forward. However, it is apparent from the public discussions thus far that the forthcoming proposal for tax reduction will take a form designed to arouse a minimum of controversy. That is, there is likely to be something for everyone. The proposal may well involve a relatively greater reduction in personal income tax rates on the highest income brackets, a reduction justified in terms of its allegedly powerful psychological effects and its almost negligible cost in terms of lost revenue. The proposal will almost certainly involve a reduction in the corporate income tax to something less than 50 percent, although certainly not much less.

One would have to be either very wise or very naive to think that he knew what the effect of a particular tax reduction would be on the aggregate level of economic activity and the level of employment. Certainly much depends on the timing of the reduction, on other developments in the economy between now and the time the reductions take effect and on the final form of the reductions themselves. Reductions of 3 to 5 points in all brackets of the personal income tax and 3 to 5 points in the corporate tax as well would involve gross federal revenue losses of something like $10 billion. If we estimate the GNP Multiplier at something like 2-1/2, we can easily project a $25 billion addition to GNP as a result of such reductions. A $25 billion increase in GNP would do a lot to close the currently estimated $35 billion gap between actual and potential levels of economic activity, and it might be hoped that the momentum generated by such an expansion would carry the economy a very substantial way toward the goal of full employment and the higher long-term growth rate.

This is, of course, an extremely rosy picture, and it would be easy to put forward a number of qualifications which might make the picture less rosy. It is more to the point, however, to consider the effects on the economy of smaller tax reductions and of the increasingly popular multi-stage plans for tax reduction.

The possibility that taxes might be reduced in more than one step has always been a part of the discussion of tax reduction alternatives within the administration. Current optimism about the economic outlook has greatly increased the enthusiasm for a step-by-step reduction, tied to other changes in the tax structure generally referred to as "reform," as against a one-time revision of tax rates. The CED has recently come forward with a proposal for a $6 billion initial reduction; other proposals for $4 to $5 billion reductions in 1963 and equal amounts in 1964 are receiving wide currency.
There are two critical tests to be applied to these proposals. One is the effect of the size of the reduction on the size of the relevant multiplier. The second is the relation between the total economic stimulus anticipated from any proposed reduction and the total need of the economy for stimulation. Current discussions of the magnitude and timing of tax reductions have stressed the first issue, the critical amount of reduction necessary to obtain specific multiplier effects. Clearly, the size of the reduction and its relevant multiplier are correlated, and it is conceivable that some very small tax reductions could involve no multiplier effects whatsoever under present conditions.

But this is an issue of secondary importance when the contemplated reductions are clearly too small -- even with the most optimistic multiplier assumptions -- to push the economy even halfway to full employment. Whether a tax reduction of $5 billion would be associated with a GNP multiplier of 1.5 or 3 is an interesting intellectual speculation; but the important point for public policy is that a $5 billion reduction, even with a multiplier of 3 is hopelessly inadequate. If we accept the current data on the rate of capacity utilization, then a $10 billion reduction with a maximum multiplier is certainly none too large.

The contention that we should take the necessary amount of medicine in more than one dose is even more difficult to take seriously. There is no reason to think the expansionary effects of tax reduction will be increased by two-stage action, and even if the total impact were the same under both one-step and two-step reductions, the selection of the two-step alternative implies the desirability of prolonging a certain amount of under-capacity operations in some sectors as long as possible.

I see nothing to recommend either half-measures or procrastination. A maximum tax reduction, effective as soon as possible, cannot be guaranteed to cure our ailments. Taking our anti-lethargy medicine in small, slow doses will simply compound our problems and leave us with both the medical expenses and the indisposition to plague us in the future.

The general enthusiasm by which the prospect of tax reduction has been greeted may seem somewhat surprising in view of both its uncertain magnitude and the uncertain character of its effects. The rosy picture of an expanding economy moving toward full employment when "freed from the burden of confiscatory taxation" accounts, I think, for a large part of this enthusiasm. In addition, of course, there is the enthusiasm of every income-earner for the thought that his own share of his private income is going to be increased. But further, I think, important support for tax reduction in 1963 is coming from sources in fundamental disagreement with the idea that tax reduction should be the sole or even primary element in an expansionary economic policy.

The view that the expansion of public expenditures -- not tax reduction -- should be the primary vehicle for economic stimulation is widely held by many individuals and groups. It is, therefore, somewhat surprising to find these same individuals and groups providing strong support for current tax reduction proposals.
There are two reasons, I think, for this seeming about-face. One is the purely pragmatic one of settling for what you can get. The record of the past Congress and the promise of the next one would not seem to indicate any marked enthusiasm for public spending on a large scale, and indeed this may reflect not only Congressional opinion but the opinion of a large majority of the electorate. Under these circumstances, fiscal stimulus can come only from the maintenance of spending programs while tax collections are reduced.

There is a second and more subtle reason for the support of tax reduction at this time, even by those who feel that the expansion of public expenditures would make a greater contribution, both to the need of our citizens and to the long-run growth of the economy. Tax reduction in 1963 implies, and indeed forces, public discussion and acceptance of two important ideas. First, that the economy is indeed lethargic and that the federal government has an important responsibility to counteract this lethargy and to stimulate a more rapid expansion. The second idea is that budgetary deficits can be incurred voluntarily and can be expected to have beneficial effects on the economy. One might presume that both of these ideas were widely accepted, especially with the Eisenhower tax reduction of 1954 in the background; however, only a week ago Eisenhower's last economic adviser dubbed the possibility of tax reduction under present circumstances "distinctly bizarre." There is still a long way to go.

The acceptance of these two ideas can have very important long-term consequences. If the analysis of the determinants of actual and potential production -- an analysis that has been put forward most strongly by the Council of Economic Advisers but that has come from many other sources as well -- is accepted as correct, then the analysis itself becomes a vehicle for public thinking and public policy formation in the future. Suppose the decision is taken that a lethargic economy, an economy in which there is a significant and persistent gap between actual and potential levels of output as revealed by such analysis, requires federal stimulus. Then such decision also becomes a significant element in future economic policy.

The decision to seek rather than simply accept a deficit in the federal budget, to incur a deficit voluntarily in order to stimulate the economy, represents an important departure from traditional patterns of thinking about economic policy. It is even an important departure from the campaign pronouncements and early policy statements of the present administration. Thus, even if tax reduction is a second-best form of economic stimulation, the acceptance of second-best when best is considered unattainable may lay the groundwork for the adoption of stronger, more imaginative and more effective policies in the future.

The omission here of a third idea very prominent in tax reduction discussions may be sufficiently conspicuous to require comment. The idea, of course, is the cyclically-balanced budget or, more generally, the idea of divorcing budgetary analysis from any single calendar year.
There are two questions to be raised about this idea. The first is factual: Will any specific tax reduction in 1963 lead to sufficient expansion in incomes and tax revenues to yield a balance in the federal budget in some future period, say 1964 or 1965? The second is the policy question: Is there any time period over which the question of balance in the federal budget as presently constituted should be a primary focus of national policy? The second question, in other words, is "Does the first question matter?" My answer is that, however significant the future budgetary impact of tax reductions may be for federal financial management, this is not a matter of prime importance in public policy formulation.

Those who are advertising tax reduction as a route toward budgetary balance profess to be taking a "long-term view." Perhaps they are, but from my own perspective on the long-term view, I should say it would be preferable to abandon the proposed tax reduction altogether than to obtain support for it as a means of bringing the federal budget into balance.

Whether budgetary balance is achieved or not -- and if not, those who promised it will be accused of deception -- the advertising of budgetary balance as a highly favorable feature of the proposal simply reinforces the power of accounting systems and decision criteria that have become obsolete, if indeed they were ever appropriate. The mystique of the balanced budget has repeatedly been shown to be a powerful barrier to an effective full employment policy. Reinforcing this barrier in order to obtain a short-term palliative is, I believe, the wrong answer to the dilemma of ends and means. Some tax reduction in 1963 might contribute to budgetary balance in some future year. I seriously doubt that we can make anything other than educated guesses about the magnitudes, dates or probabilities involved, and so far as I am concerned, the matter is not of sufficient moment to justify the effort.

VI

If tax reduction is the only, or certainly the major, economic proposal for 1963, how can we appraise it as an element in full employment policy? In the first place, it is clearly not an employment policy at all in any direct sense. The employment effects of tax reduction will depend on the private spending stimulated, and it is clearly the spending of people who already have jobs and incomes. People who are unemployed, or who are extracting only marginal incomes from the economy, will not be affected directly by any change in the tax structure, and some of them may be very little affected even indirectly. This, of course, is a fundamental difference between a tax reduction program and an expenditure program. In the latter we can be certain of the stimulation of the first-round spending, and if this spending involves the employment of previously unemployed people we can be certain of the short-run direct employment effects.
Tax reduction is not an employment program, nor can the tax reduction proposals lurking between the lines in current administration pronouncements be described as a full program of any sort. The tax reductions being suggested for 1963, even at their maximum, can scarcely guarantee to close completely the gap between actual and potential production, nor to eliminate completely the problems of unemployment, underemployment and undercapacity in our economy. The possibility that the tax reduction will be effected in small steps and that expenditures will be curtailed or simply fail to rise to meet needs which expand because of the reduction, simply reduces further its potential impact and increases the disparity between current proposals and a full program of economic stimulus.

But in spite of these strictures there is much to be said on the positive side. The acceptance of tax reduction at this time would be an important new development in the national consensus on economic policy. Tax reduction is an expansionary program and apparently the kind of expansionary program which the public and the Congress seem to want. Unlike many other expansionary programs, it does minimum violence to the market system; indeed, we might say it represents an expansion of the market system by leaving income in the hands of income owners. It allows maximum flexibility for private decisions over the use of resources, a principle to which our economic system is dedicated.

It will be interesting to see what these decisions are. Some skeptics believe that the greatest pent-up demand in the economy is for saving. If so, the proponents of full employment through tax reduction are in for a bitter disappointment. Although the stimulating effect of increased savings on the economy, through reduced interest rates and expanded investment, is a theoretical possibility, there is no reason to anticipate such an effect under present circumstances.

Others would have us believe that the major impact from tax reduction will be on expenditures for travel, education and other attributes of the good life. Such expenditures, however desirable in themselves, will generate very little in the way of employment effects or investment spending in the relatively inexpressive sectors of the private economy. (It will not escape your notice that many of these potential growth industries in an affluent society require a considerable amount of public investment, investment made no easier by tax reduction.)

Still others, of course, are of the optimistic school and hold that a major reduction in taxes will produce a significant burst in consumer spending for housing, for durables and for other commodities which will provide the basis for sustained economic expansion. The optimists have a good deal of prior experience -- particularly the 1954 experience -- to cite in support of their views. If the future is substantially like the past they will prove to be right.

VII

I do not want to close these comments without making a specific reference to the impact of full employment policy, and particularly the policy of economic expansion through tax reduction, on the agricultural sector. I am sure there are
divided opinions here on the subject of the CED's recently proposed "Adaptive Program for Agriculture." However, I doubt that these disagreements extend to the statement, to be found on page 32, that "The maintenance of employment opportunities in non-agricultural industry and services is an essential condition for the most satisfactory agricultural adjustment." Certainly it is easier to transfer resources from one use to another in a high production, high employment economy than in an under-production, high unemployment economy. For this reason alone, national policies for full employment are intimately connected with national policy for agriculture.

Looking at the question more narrowly, what can the agricultural sector expect to gain from the economic stimulus promised by tax reduction? Taking the period 1953-1961 as the basis for a shirt-sleeve projection, one notes an increase in personal consumption expenditures per capita of 12.8 percent (from $1638 to $1847). This increase in consumption expenditures included an increase of 2.9 percent in food expenditures per capita (from $381 to $392) and 7.6 percent on clothing and shoes ($144 to $155). The result was an increase in consumer expenditures per capita on food, clothing and shoes of 4.2 percent (from $525 to $547). If we use these factors as the basis of estimation (I believe they are somewhat high) and we take the optimistic assumptions of a $10 billion tax reduction and a $25 billion increase in Gross National Product, we would project a $16.25 billion increase in Personal Consumption Expenditures, an increase of 4.8 percent. From this we could project an increase of slightly over 1 percent in food consumption expenditures per capita and almost 3 percent increase in clothing and shoe expenditures per capita for a total increase of 1.6 percent in total consumer expenditures for food, clothing and shoes. This is the same order of magnitude as the increase in food, clothing and shoes consumption expenditures resulting from the increase in population from one year to the next in recent years.

That is, of course, not an increase to be scorned. However, you will note that these estimates are extremely rough and optimistic, and that they simply illustrate again the well-known inelasticity of demand for agricultural products. These increases are far short of those that would be required to make an important contribution to the solution of our present agricultural problems. I think, therefore, that it is fair to say that although tax reduction may contribute some benefit to the agricultural sector in its income earning and tax-paying activities and may provide some stimulus to the consumption of agricultural commodities in the economy, its primary impact on the agricultural sector will depend upon its general expansion of economic opportunities outside of agriculture, and thus on the ease of resource transfer from agriculture to other employments. As to the probable magnitude of these effects, although I have been heavily exposed to the lessons of the optimistic school, I confess that I remain agnostic.
There are relatively few points in Dr. Preston's presentation with which I disagree. I assume that his summary of the administration's fiscal policy is correct, although the President's talk in New York December 14 suggests that future policy is somewhat ambiguous. Cutting taxes and expenditures by equal amounts will not stimulate demand in the economy.

I agree with Preston that the government has no employment policy, but unlike him I consider this to be a good thing. I believe that it is appropriate for government to try to achieve an equilibrium value for gross national product such that if money wages do not rise faster than labor productivity, unemployment would not exceed a given figure. But to do more than this could involve government in wage and price controls or in support programs for many commodities -- not just agricultural ones. This can be very costly in terms of economic efficiency.

However, in the context of what ought to be done in the current situation, this difference in our points of view is not important. We agree that the current gross national product is too low -- by $30 to $35 billion at an annual rate -- and that any substantial increase is highly unlikely without government actions that differ from those of the past two years. The economy is lethargic because of government rather than in spite of government.

First of all, federal cash payments to the public and receipts from the public would be about equal at a gross national product not very much larger than that which we will have during the fourth quarter of 1962. At levels of gross national product above that at which the budget balances, the fiscal system exerts a "drag" on the economy from a fiscal standpoint. Thus the present gross national product isn't very different from the equilibrium one.

Secondly, until very recently there has been very little increase in the money supply during 1962. Within the past few months reserve requirements for time deposits of commercial banks were reduced, thereby increasing total reserves and the money supply. This change was made to reduce the competitive disadvantage of commercial banks in bidding for savings accounts rather than as an expansionary measure. But its impact is in the right direction. With the exception of this change, the other expansionary actions have been temporary. Liberalization of depreciation allowances changes in the time pattern of tax receipts -- not the total tax liability -- and the tax credit for new investment will not be a permanent feature of the tax system. (we hope!)

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There are many ways by which the equilibrium value for gross national product can be increased by government. A cash budget deficit of $10 billion at a gross national product of $560 billion eventually would raise the GNP to about $590 billion. If it were achieved by cutting taxes, interest rates would rise and consumption would be encouraged relative to business investment. If the deficit were brought about by increased governmental spending, interest rates would also rise and the governmental sector would be pushed somewhat at the expense of investment. (In both cases it is assumed that the deficit is accompanied by increased interest bearing government debt.) The budget could be left untouched and the money supply increased with a consequent reduction in interest rates and encouragement of business investment.

Increasing the money supply as a means of encouraging economic expansion has been considered "out" because of our balance of payments problem. It is believed that either we must reduce drastically foreign aid (including military procurement abroad) or maintain high interest rates or devalue -- a possibility which usually will not be discussed. Consequently, the budget must be our expansionary vehicle.

Personal tax reduction is not popular with everyone as a means for getting a budget deficit. It means pushing consumption relative to investment, and investment is held to be the key to economic growth. I am not one of those who believes in economic growth for its own sake. However, if it is desirable, the increased saving required to provide the additional investment for, say, a growth rate of 4 percent per year rather than 3 percent is large. If the elasticity of output with respect to the stock of capital is one-third, the capital stock is three times income and saving is 9 percent of income, the saving rate must be doubled to achieve the required growth rate increase through investment. In my view, elimination of certain resource misallocations brought about by restrictive labor practices, the agricultural program and mandatory retirement at a given age, for example, would be much more effective.

Tax reduction, however, could be tailored primarily toward increasing investment. This would mean such things as cutting business rather than personal taxes and substituting an expenditures tax for personal income taxation. Neither step is likely to be acceptable because of its expected impact upon the income distribution.

In summary, a tax cut can raise the gross national product. Such a cut should be made to increase demand without mixing this objective with tax reform or steps to promote economic growth. These other factors can be taken into account later. Packaging them with the needed expansion may result in no action.
AREA REDEVELOPMENT PROGRAMS AND RURAL COMMUNITIES

by Harold L. Sheppard

Introduction

A little more than eighteen months ago, President Kennedy signed the Area Redevelopment Act. Briefly described, the program is directed to assist in the economic development of approximately 1,000 labor market areas and counties marked by chronic high unemployment or low rural income. Such assistance is in the form of long-term, low interest industrial and commercial loans, loans and grants to communities for public facilities determined as necessary for economic development, technical assistance and training.

As a prerequisite for such assistance, however, designated areas must first organize local committees with community-wide representation for the purpose of preparing an Overall Economic Development Program. For most of the communities we deal with, such an experience in economic analysis and planning had never taken place before, or at least not in recent times. Properly accepted and properly helped, this one facet of the Area Redevelopment Administration's activities might well turn out to be the principal contribution to be made in the course of ARA's history.

Before coming directly to the main topic in this paper, I would like to make a few comments regarding area redevelopment and economic growth.

First, despite all the attention and discussion that preceded the final passage and signing into law of the Area Redevelopment Act, there still seems to be--among many economists, not only in academic but in governmental circles--the belief that if the national economy as a whole improves (as measured by total aggregate statistics) then obviously the problem of depressed areas is solved. It follows from this belief that the solution to the problem of area unemployment and low income would lie in the direction of overall fiscal and monetary policies applicable to the economy as a whole.

Unfortunately, the facts do not back this up. We know that even when national aggregate statistics have shown improvements in demand, production and employment, the nation still had in its midst countless urban and rural pockets of high unemployment.

In other words, a general increase in demand does not automatically, either in the short or long run, employ a coal miner in Kentucky or West Virginia, raise the sales of a druggist in the Upper Peninsula of Michigan, nor the income of a

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family farmer in Georgia. To be sure, out-migration from distressed areas is likely to rise as a result of increases in general demand, but like every other solution, migration is not a total solution. Too frequently, however, we hear from a variety of social scientists that this is the solution. "Let 'em move out" is the modern-day equivalent to Marie Antoinette's "let 'em eat cake."

My main point here is that specific problems require specific solutions, and that area redevelopment, just like manpower training and accelerated public works, is a direct, specific attack on a specific weakness in our society.

Too many generalizations or inferences are made without any empirical investigations of how rates of unemployment respond within areas of changes in gross national product, or national consumer demand, etc. Overall, aggregate improvements in employment or family income, as a result of improved GNP and related factors, do not necessarily mean that corresponding improvements take place in the depressed areas of our country.

Of course, it is obvious that if we were enjoying a dramatic expansion of demand nationally, the tools made available through ARA would have a much greater chance of being utilized. Nothing that I have said here should be construed as a denial of that proposition. But in two major respects, the positive role of an ARA-type program must be articulated:

1. In times of very high national demand, many areas would still need governmental investment assistance in order to make possible the private and public facilities required to take advantage of the increased demand.

2. As an independent variable, and not merely as a dependent one, the increased employment made directly possible under an ARA program is one additional factor in a number of policies and programs contributing to an increase in demand. That is, an increase of, say, 100,000 direct jobs made possible with the help of ARA financing--jobs which otherwise would not have been generated--is in and of itself a direct contribution to increased demand.

I will not discuss here in any detail the arguments centering on "structural unemployment" vs. "inadequate aggregate demand." Suffice it to say that there does exist the paradox of shortages in various occupations in the midst of a surplus of unemployed and underemployed workers with obsolete skills, or poorly utilized skills. We in ARA believe that programs aimed at alleviating structural unemployment are a supplement to, and not in opposition to, programs aimed at increasing aggregate demand.

I am sure that a critical evaluation of the potentials of a national training program--an evaluation along the lines of Theodore Schultz' concern with investments in human resources--will show its role in contributing to economic growth.

II

It is much too early to judge the success of the Area Redevelopment Administration. The figures I want to present at this point merely indicate trends, although we prefer to believe that they are portents of what can be accomplished on a much larger scale, as the program becomes more widely known and accepted by the public at large.
As of May 1, 1962, one year after the program began, ARA had pending on its books 202 project applications for both industrial-commercial projects and public facility projects. Six months later, on November 1, 1962, there were 408 applications. On the earlier date, in May of this year, we had announced approval of a total of 40 projects, involving the direct employment of nearly 11,000 jobs. Six months later, 94 additional project approvals had been announced, which will involve another 13,000 jobs. Thus, in the first twelve months only 40 projects were approved, but, in the six-month period after that, 94 had been approved. It is idle to speculate on whether future progress should be estimated on a rate-of-increase basis or on an absolute increase basis, but I do think it is safe to predict that on the second anniversary of ARA, we will have approved at least another 100 to 120 projects, employing roughly an additional 20,000 workers. If this turns out to be correct, and I have projected on the conservative side, we will have approved a total of approximately 250 projects within two years, with a direct employment total of about 50,000 jobs.

A slightly less conservative estimate calls for 350 approved projects involving about 70,000-80,000 new jobs.

But all of these estimates must be judged against some hard facts. For example, there are at least 1 1/4 million unemployed or underemployed persons in our designated areas, and to reduce the unemployment rate or its equivalent in rural areas to 4 per cent (which is still beyond what I would consider as "normal") we would have to do much more than we are doing. But ARA was not intended to solve the entire problem by itself.

III

In earlier discussions of the potentials of a program of area redevelopment, concern was expressed that small communities would lose out in competition with the major industrial areas. James S. Brown referred to this possibility at the Iowa conference two years ago. It is true that in certain rural areas, especially those with the characteristics described by Professor Brown, the prospects for growth look pretty dim. But there are other features that tend to offset his general doubts.

For example, the population in our 5(b) areas--the non-urban, non-industrial areas eligible for ARA assistance--constitutes only 38 per cent of the total population in all ARA areas. But the number of direct jobs made possible through direct ARA loans for industrial and commercial projects in rural areas constitutes 44 per cent of all our direct employment figures. If you take the number of industrial and commercial loans approved as of November 1, you will find that more than one-half of these loans were in the 5(b) areas. Furthermore, most of the approved loans were in our historically non-industrialized parts of the United States, that is, outside of the Northeast and Lake States regions.

The figures for all pending project applications show an even greater distribution among our 5(b) areas. Out of 272 applications for industrial and commercial loans (as of November 1), 64 per cent were from 5(b) areas. Equally important, if not more important, most of these projects were for non-agricultural industries.
As for public facility projects needed for the creation and expansion of private employment enterprises, three-fifths of our applications and approvals are located in the traditionally non-industrialized areas of the country.

Another feature might tend to be neglected in considering the relative prospects of large urban vs. smalltown rural areas for development under ARA type programs. It belongs in the realm of sociology: large urban industrial centers experience greater difficulty in organizing and stimulating effective community action for economic development. They contrast sharply with the more numerous smalltown "rural" communities, where communication, coordination, and consensus are easier to achieve and where problems of leadership are less complicated and less aggravated by such obstacles as conflicting community power groups and difficulty in mobilizing community support.

These and other data suggest that, at present, rural areas are sharing significantly in the total national effort to develop and redevelop the economic well-being of areas suffering from chronic unemployment and/or low income. They suggest that for many if not most rural areas, salvation can be found through more than migration and death. It can be found through integration into the mainstream of American economic growth, i.e., through industrialization and the tertiary activities that accompany a high degree of industrialization. It is not just a coincidence that one of the largest categories of applications for financial assistance from ARA is tourism and recreation. I should point out, in addition, that ARA is prohibited by law from financing plant relocations. In other words, the progress being made by rural areas under ARA is not at the expense of existing industrial areas.

Industry is moving into previously non-industrialized areas. Employers are not merely waiting for rural migrants to move to large, urban industrialized centers.

I have not mentioned any of the dozens of technical assistance activities of ARA which, if successful, will benefit many of the rural areas of the country, nor the many training programs taking place in rural areas, nearly all of which are for non-agriculturally related occupations.

IV

I would like to devote this part of my paper to a brief recitation of some basic problems and topics of discussion relating to area redevelopment.

1. First, one issue that I am afraid will always be with us is "priorities." Is it really possible for a federal agency to determine in advance which specific counties have zero probabilities of success and therefore should not be helped? Even if it were possible, and I am not sure that it is, I am sure it is not desirable. In any event, the ultimate decision is a product of many forces, including the initiative and organization of the local area, economies of scale, the willingness and interest of the individual entrepreneur or corporation, market factors, etc. Moreover, each project application is gone over with a fine tooth comb by several waves of government financial investigators to determine its feasibility for the local region and/or the national economy.
The problem reminds me very much of the controversy over the actual or potential intelligence of individual human beings as measured by the standard I.Q. tests. Shall we seal the fate of an individual whose I.Q. is judged to be low when tested at an early age by excluding him from any opportunities to improve that allegedly sacred and unchangeable I.Q. score? We now have sufficient evidence to conclude that, short of physical brain damage, special, concentrated programs of education and therapy can raise I.Q.'s. And, for that matter, there are some experts who seek to remedy brain damages.

2. Another problem that we are dealing with on a pragmatic basis so far has to do with a number of proposals for the active encouragement of regional planning. While no one in ARA would deny that inadequate and disjointed economic activity can result if regional aspects are neglected, there still remain some serious questions, such as: Shall the federal government do this planning, and if so, how does it get such planning accepted by the regions concerned? How does a regional OEDP (Overall Economic Development Program) become effectively incorporated into the thinking and behavior of the ultimate prime movers in ARA's program, individuals in counties and urban metropolitan areas and their local governmental representatives? We have the distinct impression that such prime movers will be less likely to act if some more encompassing entity, such as a state planning or development agency, submits a general plan as a substitute for a locally conceived and locally written OEDP. Would it not be wiser to hope for and work at local acceptance of a regional approach in the course of experiencing success and failure on concrete projects and through such intermediate stages as multi-county economic plans? And shouldn't such local institutions as universities and utility companies, labor unions, and farm organizations—in addition to the field representatives of ARA and RAD—be taking the responsibility for blending the local area plan approach with the approach of regionalism?

3. As many of you know, ARA's statute requires that for every industrial or commercial project it helps to finance (a maximum of 65 per cent of the project cost for as long as 25 years at 4 per cent interest currently) a minimum of 10 per cent of the cost must be contributed by the local community or by a quasi-public industrial development body, and this 10 per cent cannot be repaid until the federal loan has been completely repaid. In this respect, Professor Brown's concern is a real one. The requirement for this type of local participation is laudable and should not be eliminated, but we already have several dozen cases in which a small community has been unable to gather such funds. Many of our projects for rural areas run into the millions of dollars each, and it is obviously impossible for such communities to raise as much as $100,000, not to mention larger amounts in the case of larger projects. One solution is the establishment of state government development funds, but so far only a handful of states has seen fit to establish such funds. We hope that more states will do so in the future, however. Another path—which would require Congressional action—would be to allow for quicker repayment than the law now allows. There is a possibility that such an amendment will be introduced in the next session of Congress.

If this problem is not solved, the truly significant development of rural areas under ARA can be thwarted.
4. I want to raise another question, possibly more delicate than any of the others, and that is: Are there conditions under which a uniform application of the current "save-the-family-farm" policy actually does harm to the at least equally valuable goal of economic development--for the benefit of a given area, as well as the national economy and society? Here is something for economists and sociologists to grapple with. There might be instances in which opportunities for substantial increases in income are denied in the name of this policy despite the fact that average farm family income in such instances is far below any decent standard of adequacy. There are instances in which farm family income has to be meagerly supplemented through employment in far-removed, low-wage activities. Neither of these is a satisfactory, long-run solution to the basic problem of underemployment. There is need to shift rural inhabitants from low-paying agricultural to higher-income agricultural arrangements and/or non-agricultural occupations in a meaningful manner.

What I am saying is that long-standing policies which had a positive function in the past should be evaluated in terms of the overriding task today of all the agencies and organizations involved. That task is the fight against long-term unemployment, rural poverty and general economic stagnation. In other words, rural poverty can be perpetuated, in certain circumstances, under a rigid application of uncritically accepted policies in the nation's agricultural program.

5. Another vital question to be asked about and by rural communities is, will they be ready for an expansion of non-farming industrial and commercial prospects? I mean the necessary conditions for modern industrial society, which include adequate public facilities, the right kind of educational and health institutions as well as the general community attractions that often make a company decide for or against location in a given community.

I have no way of judging how well this aspect of rural area development is generally recognized and acted upon. But I can report that within ARA alone 50 per cent of all our approved public facility projects (as of November 1) were in the 5(b) areas, and that among the pending applications 70 per cent were from such areas. The figures do suggest that many rural communities are acting to provide, with federal assistance in the form of loans and grants, such facilities as adequate water and sewage, port developments, access roads to industrial parks, etc. I should emphasize here that ARA makes no loans or grants unless there is a commitment from a specific employer to create additional employment as a result of such new or expanded public facilities. These figures do not include any developments under the new Public Works Acceleration program.

If we view rural communities as being on the threshold of a new era, as entering a stage of early urbanization, then it seems to me that urban planning and urban community development concepts must be incorporated into their thinking and actions. Also there must be a recognition of what constitutes genuine economic development for the nation as a whole (including the desirability of building upon growth and not upon economic cannibalism through luring industry from other areas).
Two years ago at this conference, Frank Fernbach, an economist with the AFL-CIO and a member of ARA's and of RAD's advisory committees, pointed out that "expansion into acreas outside metropolitan centers should occur for wholly legitimate economic, social and security reasons." He went on to say:

Many people in our rural labor force may conceivably prefer to live and work in communities where they have their roots. Land and other production costs may often be lower than in the impacted cities. From the standpoint of national security, too great a concentration of people and industry is clearly hazardous and should be avoided....Perhaps those of us who spend weary hours battling through the city traffic to our workplaces and home again, who suffer from inadequate recreational facilities, urban slums, and a score of other ugly aspects of city blight, are most aware of the value of a more remote and restful place in the sun.

If we mean what we say about making rural communities such idyllic places in which to work and to live, then it is imperative that urban development techniques be made a part of rural area development programs.

All of us should be motivated by the primary goal--the creation of jobs capable of sustaining a decent standard of living, jobs in industries that will contribute to the general economic growth of each area and of the nation as a whole. There is much that university economists and sociologists could be doing. For example, a great deal of professional work on depressed area development (and here the old line between rural and urban becomes blurred if not invisible.) They could educate adult membership organizations about conditions for economic growth; they could devise methods to prevent or mitigate the errors of omission and commission made by old urban areas as rural areas become urbanized; they could create inter-university regional centers for economic development similar to the 19th century and early 20th century state land-grant colleges and experiment stations.
APPRAISAL: AREA REDEVELOPMENT PROGRAMS
AND RURAL COMMUNITIES

by Ben T. Lanham, Jr., ¹

The paper presented by Mr. Sheppard focuses on the objectives, accomplishments and problems of the Area Redevelopment programs with which he is closely associated. This appraisal will consider some of the same points made in Mr. Sheppard's paper. In addition, it will consider a number of related points not mentioned in his paper.

The history of America has been a story of economic growth and development; it has been a story of change and adjustment. In no phase of American life has this been more evident than in American agriculture. Throughout the history of this country, and particularly during recent years, we have seen a tremendous growth in U. S. population, a rapidly increasing production capacity of both agriculture and industry, widespread advances in science and technology, a shift from a predominately rural economy to an agricultural-industrial economy, a relatively high standard of living for many segments of the population and a present-day demand for even higher economic and social benefits for all of our citizenry.

During recent years, expanding business and industrial developments and activities have both aided in solving old problems and in creating new problems in many areas of the country. This has been particularly true with respect to the development and use of the basic resources in rural areas.

Recent changes in American agriculture have been influenced by both farm and nonfarm factors. The effects of these changes have been reflected in both farm and nonfarm sectors of the nation's economy.

The fact that all segments of the economy and all areas of the country have not shared equally in their contributions to or the benefits from this recent economic growth and development provided part of the basis for the establishment of the present-day Rural Area Development and Area Redevelopment programs.

We now have behind us about six years of experience with Rural Area Development programs. Originally, RAD was established with three major objectives:

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1. To help families that have the desire and ability to stay in farming to gain the necessary tools, land and skills.

2. To expand industry and industrial opportunities in these areas and to widen the range of off-farm job opportunities.

3. To help the people in these areas to enjoy better opportunities for adequate education, vocational training, improved health, higher incomes and higher levels of living.

From the very beginning, emphasis in RAD work has focused on the second objective -- expanding industry and off-farm job opportunities. Two years ago, an Area Redevelopment program was initiated with the objective of helping low-income communities and areas obtain loans and grants to develop new industries, to build community facilities and to carry out training programs to teach new skills.

Based on recent and current administrative operation of RAD and ARA programs, it appears that a major effort is under way in this country to industrialize rural America. Such programs, when soundly conceived and effectively administered, deserve support. There is a danger, however, that if all objectives of these programs are not kept in balance, such programs may create one kind of problem while attempting to solve another. For example, one of the original objectives of RAD was to help families that had a desire and ability to stay in farming to gain the factors and meet the requirements for success in farming. In many RAD areas in this country, we could ask what has happened to this objective? What is being done along this line? Or, are RAD programs and efforts in these areas concerned primarily with industrial development and training programs, to the almost complete exclusion of agricultural development?

At the National Agricultural Outlook Conference in Washington last month, it was emphasized by one of the speakers that "we no longer need to worry about our ability to grow food." This would appear to be strictly a short-run view. If we are committed, however, to subscribe to this kind of philosophy in the long-run, then we can in fact industrialize rural America and ignore any further agricultural development. On the other hand, if we look objectively and realistically toward the future we will obviously need to concern ourselves with both industrial and agricultural development programs.

Since the establishment of both RAD and ARA programs it has been continuously emphasized that if these programs are to succeed they must be based on doing what local people want to do. If this is true, then we should raise the question: How do we find out what the people want to do? And, whose job is it to find out?

If we agree that this is a problem for research, then we can assume that it can best be handled by trained and experienced research personnel. This would mean that programs of Area Development and Area Redevelopment should be research-based. In those communities, counties, areas and states where such programs are under way how many of them are research-based? In RAD and ARA what is the current role of research?
In regard to the wants and desires of local people we could raise this question: Suppose we find that, because of any number of different reasons, the people in an area are satisfied with their present conditions, are not aware that they have serious low-income problems, are not interested in changes and adjustments, are not concerned about Area Development or Area Redevelopment and have no particular wants or desires that can be satisfied by organized Area Development or Area Redevelopment programs.

Do we leave these people alone? Or, do we, through organization, education and action, attempt to stimulate and motivate these people? Do we make them aware of their problems and opportunities? Do we, in fact, make them dissatisfied, make them problem-conscious and make them unhappy, thus creating an awareness of needs and desires that have to be met before satisfaction and happiness can be restored to them?

Thus far in both RAD and ARA work we appear to have devoted far too much attention to defining areas in terms of needs rather than in terms of potentials for development. In those few cases where potentials have been examined and evaluated the efforts made have been largely in terms of potentials for developing physical or natural resources. The human resource has been largely ignored.

Area Development or Area Redevelopment work should be based on the recognized interests of people in their own situations and problems and their willingness, desire and ability to do something about them. It involves research, study, education and organized action.

For any county or area that is contemplating the initiation of a development or redevelopment program there are certain basic factors that should be recognized. Among them are these:

1. The program to be developed, whatever it is, should start from the present resource base. This emphasizes the needs for a complete, accurate and current inventory and analysis of currently available resources -- both physical and human.

2. The program to be developed should take into account the present use of resources -- both physical and human.

3. The program to be developed should be realistic in terms of the quantity and quality of potentially available resources -- both physical and human.

4. Finally, the program to be developed should take into account the attitudes and opinions, and the wants and desires of the people involved.

If an Area Development or Area Redevelopment program is conceived to be entirely a program of education and action, and if it is developed on this basis, it will have a very difficult road ahead. On the other hand, if it relies on research and other agencies and organizations for cooperative assistance it offers one of the best opportunities currently available for helping rural people to make the most effective use of their resources, to increase their over-all productivity and to raise their levels of income and levels of living.
Successful Area Development or Area Redevelopment is based primarily upon local leadership and action. But local groups often need outside technical assistance and guidance. This can be provided by both public and private institutions.

Although the primary concern may be with rural resource development and use, a successful program cannot be developed by working in rural areas alone. The solution to many of the problems now in existence in rural areas can best be found outside of rural areas -- in urban areas. As resource data are collected and interpreted, therefore, both rural and urban areas must be considered. This is true both for problem identification and for problem solution.

Experience has shown that we not only need to collect adequate data on resources. We also need to accurately interpret these data. Both of these tasks are basically research jobs. Once these two jobs are completed, then the needs, limitations and goals of the county or area can be established. Problems can be identified. The people can then join together on a program of education and action.

Unless the individuals involved at the local level are aware of their opportunities and problems, are interested in solving these problems, are willing to work toward problem solutions and are able to assume responsibilities and to exert the proper leadership, area economic development or redevelopment, resource adjustment and factor mobility at the local level will be difficult to achieve. This means that one of the major efforts needed is in the area of education, training, motivation, stimulation and guidance of local people.

The kinds of Area Development and Area Redevelopment programs that we have seen develop during recent years have very broad and general but worthy objectives. Thus far we have heard and read a great deal about the philosophy of these programs, about the objectives and potentials of these programs and about administrative organization for and operation of these programs. We have heard much less about results. The obvious reply to this is that these are long-time programs and that we cannot expect to see immediate results from such programs. This, of course, is true. But, Rural Development, as a pilot program, was started more than six years ago. Its name has since been changed to Rural Areas Development. Certainly, after more than six years of operation, this program should be producing results (particularly in the original pilot counties and areas). Actually, in many instances and in most states, this program was moving ahead and there were some signs of real progress up until about two years ago.

It was about this time that ARA (Area Redevelopment Act, PL 87-27) came into being. The AP dispatches originating in Washington, D. C. in July, 1961, indicating the counties and areas over the country that were eligible for ARA funds and the announcement that the first grant and loan had already been approved for a small community in Arkansas dealt a severe blow to progress being made with RAD programs. Local communities, towns, counties and areas immediately became interested in ARA grants and loans.
At the same time, most of them became less interested in RAD programs and in using local efforts and local resources to solve local problems. Pressures from these groups for assistance and guidance in interpreting ARA provisions, policies, regulations, requirements, etc., were so great that even at the state level personnel in most agencies, organizations and other groups shifted both their interests and their efforts from RAD to ARA. As a result, for nearly two years there has been little RAD work carried out in many states. There has been, during this period, a great deal of ARA work (preparing OEDP's, loan applications, grant applications, etc.), area (ARA) organization work (also largely on paper), and area (ARA) educational work.

Despite these efforts on ARA during recent months, there has not developed an outstanding record of accomplishment -- either in Area Development or Area Redevelopment. Under ARA very few loans or grants have been approved. Even fewer technical assistance contracts have been approved. Progress on previously active RAD programs in many cases has been reduced or completely stopped.

The development of this situation leads us to ask this question: When do we again begin doing productive work that will lead to the attainment of our original objective -- Area Development and Area Redevelopment? Planning, organization and education are always necessary ingredients for success in programs of this type. But somewhere along this line, some work has to be done!

Mr. Sheppard's paper indicates that during the first eighteen months of the ARA program, 134 projects were approved which provided 24,000 additional jobs in the areas involved. This represents about 180 new jobs per project. It has provided job opportunities for about 4 per cent of the 1.2 million unemployed and underemployed people in the areas that have been designated as eligible for service and assistance from ARA. Any kind of projection based on this record of accomplishment would indicate that ARA currently is moving far too slow to attain its objectives in any reasonable length of time.

It has also been pointed out that a major part of the projects approved by ARA to date has been for new or expanded industries, that more than half of these have been approved for non-agricultural industries in non-urban areas. Since traditional patterns for industrial location continue to persist throughout this country, serious questions can be raised in many instances as to the wisdom of ARA approval and support of non-agricultural based industries in non-urban areas. By working against what appears to be a fixed principle of location for non-agricultural industries, success in decentralizing such industries will be difficult to achieve.

Mr. Sheppard makes no qualitative nor quantitative reference to technical assistance activities of ARA. And yet this phase of the ARA program could be one of the program's best features. To realize this goal, however, the requirement that the use of technical assistance funds must result in a direct
increase in employment should be rescinded by ARA. This requirement, in effect, prohibits the approval by ARA of requests for technical assistance for many research projects. Such projects, depending upon their findings and results, will usually contribute only indirectly to increased employment, or to decreased unemployment and underemployment.

On three of the questions raised in Mr. Sheppard's paper, which he termed problems of ARA, some comment appears to be in order:

First, Mr. Sheppard states that a basic problem of ARA is in terms of the question: "Is it really possible for a federal agency to determine in advance which specific counties have zero possibilities of success and therefore should not be helped?" I would assume, first of all, that there are no counties with zero possibilities for success. I would assume, secondly, that there are positive possibilities for success in every county.

The real problem is to identify the direction and rate of adjustment or change necessary to achieve this success. It should be a function of ARA to assist in doing this. This could be exercised through the technical assistance provisions of ARA. But, to do this, ARA would have to recognize that research is necessary and that such research will not usually provide a direct solution to unemployment and underemployment problems. Thus far, ARA has not been willing to extensively approve and support technical assistance projects of this type.

Second, Mr. Sheppard indicates that ARA is concerned about what appears to be the current policy of saving the family farm. I would comment that there are a great many people today who are alarmed by the growing size of our farms. They fear that the "family farm" is doomed. Others view this trend as a sign of progress and no different from the trend of other businesses. They view present trends as a logical outcome of more farming knowledge due to research and education and of more skill in management.

Commercial family farms are not doomed, but they are growing in size. To stay in the business of farming in the future and to expect a reasonable income from farming, full-time farmers of today will need to keep their businesses growing in size, in productivity and in efficiency if they expect to remain as "full-time" farmers.

Our principal concern in RAD, ARA and in other kinds of development programs should not be how to stop the decline in number of farms or how to slow up the increase in the size of the farms that remain. Instead, we should be concerned with (1) doing the very best job possible on those farms that have adequate resources to support farm families and (2) making possible a transfer or combination of resources on those farms that have inadequate resources to support farm families.

Our task is to define this problem of readjustment both on and off the farm, to discover the alternative ways in which the adjustment can be accomplished and to develop our research, educational, training, credit, service and other action programs as an aid in the adjustment process.
In the future, any material increases in production and income for farm workers in America will largely depend upon (1) providing more land, livestock, machinery, fertilizer and other capital items per farm worker, and (2) providing more opportunities for nonfarm work for the young people who grow up on farms but who will not be needed in farm occupations and for the workers who will be released from agriculture as mechanization and other improvements gain momentum. To accomplish this, we must be concerned not only with industrial development but with agricultural development as well.

If the job facing American agriculture is to be done, remaining farms must become even larger in size, more specialized, more highly mechanized and more efficient. This raises important public policy issues. One of the most important is whether future policy programs will make it easier for farm people to choose between continuing in agriculture or accepting employment in other sectors of the economy. This, too, calls for policy programs that include consideration of both industrial and agricultural opportunities.

Third, Mr. Sheppard states that ARA questions the readiness of rural communities for industrialization in terms of adequacy of public facilities, health and educational institutions, and other locational factors. Many rural communities are not ready and are in no position to do the job alone. To assist such communities was one of the reasons for the creation of ARA in 1961. Since that time, ARA has assisted some of these areas and communities. Many others need and can be helped by ARA. Two major factors, however, limit or prohibit the assistance that ARA can provide in some of these cases. (1) The statutory requirement of ARA that no loan or grant can be made unless there is a prior commitment from a specific employer to create additional employment as a result of the new facility often cannot be met. Some prospective employers and industries are just as insistent as ARA but in the opposite direction. They will not commit themselves to a location until there is a prior commitment that the facilities are (or will be) available. (2) The statutory requirement of ARA that, for industrial and commercial projects, a minimum of 10 per cent of costs must be borne locally and repaid only after the federal loan is repaid, in some cases, works against industrial location and development. In some of these instances, local communities do not have and cannot obtain this type of local participation under any condition. In other cases, local participation is denied because of ARA repayment requirements. Amendments to ARA legislation and regulations could solve both of these problems.

At last year's Farm Policy Review Conference in Raleigh, North Carolina, RAD policies and programs were discussed with little reference to ARA. In Mr. Sheppard's paper at this conference ARA policies and programs have been discussed with essentially no reference to RAD. By now you have observed that in this appraisal reference has been made to both RAD and ARA. Although these are two different programs, they are closely related. It appears that they can be better understood, more objectively appraised and better discussed when they are considered together rather than separately. It also
appears that the personnel involved in administering the two programs and the potential recipients of benefits from these programs would gain more by a closer coordination of the planning, operation and administration of the programs than has been apparent from last year's and this year's program at this conference.

In his concluding statements, Mr. Sheppard implies that rural communities may be on the threshold of a new era -- entering a stage of early urbanization -- and that urban planning concepts should be incorporated into rural thinking and community actions. We agree with this general statement, but we would add that it is equally important that rural planning concepts should be incorporated into urban thinking and community actions. We would suggest further that if maximum economic growth and development is to occur, the urban and rural segments of society should be thoroughly integrated through a process which might be called environmental planning and action.

This process could operate on an area or regional basis. Local urban and rural people could operate through RAD, the states through their respective land-grant institutions, the federal government through ARA. Through environmental planning and action a major contribution could be made toward stimulating, promoting, and achieving economic growth and development in many areas and regions of this country. In attaining these objectives, the local people -- urban and rural alike -- would both contribute to and share in the nation's economic growth.
I appreciate the invitation to participate in your conference. My visits to Iowa State University have always been enjoyable, and I welcome the opportunity to renew old friendships. But I am especially grateful that you have asked me to discuss some of the programs on which the Department of Labor is embarking in an effort to resolve the knotty manpower problems confronting agriculture. An exchange of ideas in meetings of this kind should lead to worthwhile improvements in the work we are undertaking.

The Farm Labor Problem

Over a brief span of the last few decades we have witnessed an almost unbelievable change in farm labor requirements. At the turn of the century about one out of every three workers was engaged in agriculture. Today this proportion has become about one in eighteen. Equally significant is the fact that these changes have gained momentum in recent years. Of all the important sectors in the American economy, agriculture has shown the greatest increase in productivity over the past decade. The two-thirds increase in farm output per man-hour during this period resulted in a 25 percent drop in average farm employment and a 20 percent drop in hired farm workers.

In addition to declining employment opportunities, it is common knowledge that farm workers are at the bottom of the scale by almost any measure of economic well-being. The 2.2 million persons who worked on farms for wages in 1960 earned an average cash income of only $1,125 from a combination of farm and nonfarm jobs. This is only one-third the average annual income of unskilled, nonagricultural laborers. In addition to low hourly earnings, employment for most hired workers is extremely seasonal. Fluctuations in seasonal employment range from a low of 300,000 in January to 1,300,000 at the harvest peak in October. It is estimated that underemployment from all causes has resulted in a hired farm working force of about 4 million performing the work equivalent to 1.2 million year-round farm jobs.

Unemployment among agricultural workers is also cause for grave concern. While a 5 percent unemployment rate among nonfarm employees is considered a problem, annual unemployment rates for agricultural wage and salary workers ranged from 8 to 10 percent during the four-year period 1958-1961.

1 Mr. Freeman is regional director, U. S. Employment Service, Kansas City, Mo.
While we might continue almost indefinitely outlining the vexing manpower problems facing agriculture, it is already apparent that some of them are exceedingly complex and of long-standing origin. I should like, therefore, to turn our attention to some of the plans that are being developed by the Bureau of Employment Security in our search for solutions to these problems.

Ever since its inception, the U. S. Employment Service has tried to provide farm operators and growers with qualified help to meet their particular needs. We have also been engaged in rather extensive programs aimed at providing year-round employment to hired farm workers, particularly the migratory laborers. Although our discussion might center around the steps that are being taken to improve these basic functions, I have chosen to confine my remarks to the newer programs in which we are engaged.

Service to Rural Areas and Small Communities

One of these programs is designed to extend a broad range of manpower and community services to certain rural areas and smaller communities that lack local job opportunities. The economic life of these areas is characterized by persistent unemployment, low-income, subsistence farming and an underutilized labor force. In most instances, these communities have not evaluated their economic assets and resources, and have made no sound approach to attracting new industries.

The first logical step in area economic development is the accumulation of reliable information pertaining to the resources of the community. Hence, one of our major objectives is to stimulate the preparation of an economic base report for each of the areas covered by the program. In addition to comprehensive manpower data, including an inventory of potential skills, this report will include many other types of information that are relevant to the location of industrial plants. The collection and interpretation of these data will require the cooperative efforts of qualified personnel representing various professional fields. It is expected, therefore, that universities and other governmental and private organizations will participate in this undertaking.

It should be noted that in many cases the communities selected will already be included in the Rural Areas Development program. In these instances we shall coordinate our efforts with the Department of Agriculture and other interested agencies. Many of the counties will also be eligible to share in the benefits provided under the Area Redevelopment Act, as outlined by Mr. Sheppard earlier. This will be taken into consideration as we work with other groups in developing plans for these areas. One of the chief deterrents to industrial development in rural communities is the lack of skilled workers. The training provisions of the Area Redevelopment Act will help to overcome this deficiency.

We recognize that a necessary ingredient for economic adjustment is local leadership. People in the community must understand that the ultimate success of the program depends largely upon their efforts to help themselves. Personnel of State Agricultural Extension Services have had considerable experience in marshaling
community support to carry out worthwhile projects. We shall look to them for leadership and guidance in attaining this objective.

Pilot projects have already been completed in a few areas with rather gratifying results. The establishments that have located in these communities have already provided new jobs to hundreds of farm families. No doubt a great deal more can be done to increase employment opportunities in rural communities.

Nevertheless, it would be futile to assume that enough jobs can be developed in rural areas to absorb the entire supply of unemployed and underemployed farm workers and operators. It must be recognized that the possibilities for industrial expansion in rural areas are limited. But even though considerable economic development is achieved, the surplus labor force in agriculture is so great that a large number would still be forced to migrate to urban centers if our manpower is to be utilized effectively. If all of them remained at home they would simply be obliged to share a smaller and smaller slice of an already thin economic base. One of our most perplexing problems is to make this transition from rural to city life as rational and as meaningful as possible.

Restrictions to the mobility of the agricultural labor force are not easily overcome. The lack of specialized skills, the lack of seniority and inadequate finances are factors that inhibit movement from the farm to the city. Furthermore, many of the people who reside in rural areas know very little about the world of work outside their own "back yard." They have never been given an opportunity to learn much about the kinds of training that are required to equip a person for various lines of work. They lack specific knowledge about job opportunities in different localities, and they are generally unfamiliar with urban and industrial ways. Equally important, they have no way to appraise their interests and potential skills, or to relate them to given fields of work.

As a consequence, multitudes of rural people have simply drifted to the cities. This mass migration has not been orderly or well planned. In all too many instances the motive has simply been to find a new job - just any kind of a job. The least that might be said is that this aimless sort of migration represents a tremendous loss of human resources.

We, in the Employment Service, are deeply concerned with this problem, and to the limited extent that our resources permit, we are bending our efforts to help resolve it. We are, for example, extending our vocational counseling services to some of the local communities that are not within easy reach of our local employment offices. We are striving to help the residents of these areas, especially the young folks, to evaluate their interests and potential abilities and to learn more about the kinds of jobs in which they are apt to be successful. Through our labor market information program we hope to provide them with more facts about the nature of specific occupations, the outlook for work in various occupational fields and the training avenues that lead to different kinds of jobs. Even more ideally, we hope that over the years we will be able to inform more and more agricultural
workers about specific job offers that are open to them in the cities where they wish to move. As these programs are expanded and become better perfected they should help considerably to bring about a more orderly migration from the farms to the cities.

**Manpower Development and Training Act**

Another new program which is especially deserving of our attention is the Manpower Development and Training Act. Passage of this act in the spring of 1962 represented the first direct attempt by Congress to find a longer range solution to the unemployment problem. Two facts about unemployment were largely responsible for the action taken. First, the level of unemployment has been comparatively high in recent years and, secondly, there has been a marked increase in the duration of unemployment.

While there is a direct relationship between the level and duration of unemployment, it is the duration aspect that has become especially troublesome over the last few years. In 1953, for example, the number who were out of work for more than 26 weeks averaged less than 100,000. In September of this year, which was a relatively prosperous month, nearly 470,000 persons in the labor force had been out of work for over half a year.

Labor market analysts have indicated that this growth in long-term unemployment is due primarily to increased immobility in the job market. Industrial and occupational immobility are major factors in widening the gap between jobs. During the period from 1957 to 1960 there was a net decline of over 2 million jobs in the basic industries producing food, clothing, and shelter. Yet, during the same period there was a net gain of nearly 3 1/2 million jobs in those industries serving the American people as consumers. Due to a variety of factors many workers experience difficulty in transferring from one kind of industry to another.

Within many industries there have also been striking occupational shifts from blue collar to white collar occupations. Between 1957 and 1962, for instance, there was a net layoff of nearly 1 million production workers from manufacturing establishments. During the same interval the number of office jobs in manufacturing industries increased by more than 325,000. The occupational immobility in this case arises from the fact that most plant workers are not qualified for office jobs.

The outlook calls for a continuation of these trends. The projections made by the Bureau of Labor Statistics indicate a further shifting to professional and technical occupations, to sales and clerical work and to service jobs. At the same time, there will be a further decline in unskilled jobs, both on the farm and in industry.

These occupational changes create serious problems to the workers who are displaced. This is particularly true for heads of families who have reached middle age. Very few who fall in this group can return to school to qualify for a profession. Nevertheless, nearly all of them are capable of learning a new occupation if afforded the opportunity.
The Manpower Development and Training Act is based on the premise that unemployed workers can and will find jobs when they are qualified to hold them. The act also implies that there are jobs in our economy that are going begging because there is no one qualified to fill them. Although refined, quantitative data are lacking in many communities, sufficient evidence is available to demonstrate that such jobs do exist. Through labor market surveys and normal employment service operations we know that shortages are to be found in many localities for qualified stenographers, clerical workers, automobile mechanics, welders, appliance and farm machine repairmen, tractor operators, year-round farm hands and a number of other occupations for which only a reasonable training period is necessary.

Title I of the Manpower Development and Training Act requires the Secretary of Labor to undertake a comprehensive economic research program in regard to the changing job market. While this research has many far-reaching implications and is an important feature of the act, it seems more appropriate at this time to stress the training aspects of the law.

In selecting individuals to be trained under the act, priority must be given to those who are currently unemployed. It is intended that the law will be especially useful in reducing the volume of hard-core unemployment. One of the act's key provisions is that farm families with less than $1,200 annual income are to be considered as unemployed. It is estimated that the income of 1.5 million farm operators falls below this standard. Members of these families will have the same top priority as fully unemployed workers in being selected for training.

Other persons eligible for training are the underemployed, those who are working below their skill capacities and those who are likely to become unemployed because the need for their skills is rapidly diminishing. Special programs may also be provided for the occupational training and schooling of youth between the ages of 16 and 22.

The federal government will bear the cost for vocational training of the unemployed through June 30, 1964. Following that time, states which continue to participate will bear one-half the cost. The amount required to train other than unemployed persons will be shared by federal and state governments throughout the program.

In order to qualify for regular training allowances, all individuals, farm and nonfarm alike, are required to meet three criteria:

1. They must meet the definition of unemployment as defined in the act.

2. They must be heads of families or households.

3. They must have a minimum of three years experience in gainful employment.

A small amount of funds will also be made available to unemployed youth over 19 but under 22 years of age who do not qualify for a regular training allowance.
Generally, the weekly training allowance for members of farm, as well as nonfarm families, will be an amount equal to the average unemployment insurance payments in the state for total unemployment. For the nation the current average is about $35. In no case, however, will a trainee eligible for unemployment insurance be penalized financially for enrolling in a training course. Unemployed youth between the ages of 19 and 22 who do not qualify for regular training allowances will be entitled to a maximum weekly payment of $20.

In addition to the regular allowances, a trainee is entitled to subsistence and travel expenses when training facilities are not located within commuting distance of his home. The maximum subsistence payment is $35 per week, at the rate of $5 per day, and the travel allowance cannot exceed 10 cents per mile. A trainee who is not entitled to a regular training allowance may still be eligible to receive travel and subsistence payments. This provision is important to those residing in rural areas since most of the training courses will be located at a considerable distance from their homes.

The length of the training period will vary greatly, depending upon the skills to be taught. In no case, however, will training allowances be permitted beyond 52 weeks.

The law specifies that before training can be undertaken, it must be determined that there is a reasonable expectation of employment in the occupation for which the training course is designed. For this reason, the Employment Service will conduct labor market surveys in a number of communities to determine current and future job requirements. In addition to these surveys, other economic research pertaining to employment trends will be taken into account in determining training needs.

The Employment Service will also ascertain the number of individuals who desire training in various occupational fields and who are likely to benefit from the kinds of training to be offered. This will require a thorough appraisal of their interests, capabilities, and aspirations. In some instances tests will be administered to supplement other information in judging an individual's likelihood to benefit from a particular kind of training course. Following completion of the training the Employment Service will have primary responsibility for placing the graduates in satisfactory employment.

It is important to bear in mind that the Manpower Development and Training Act is designed to train individuals in rural areas for both farm jobs and nonfarm employment. For example, it would be possible to train rural workers in one area for year-round farm jobs in another locality. Such training might cover machine operation and maintenance, soil fertilization, chemical weed control, the care and feeding of livestock, and the repair and maintenance of farm buildings. In fact, Missouri has already submitted this kind of a training proposal. Residents of rural communities might also receive training that would equip them for jobs as auto mechanics, welders, electronic data processors, stenographers, practical nurses or any other nonfarm occupation that falls within the scope of the act.
I must not leave you with the impression that the Manpower Development and Training Act offers an immediate opportunity to train large numbers of farm workers. It is doubtful whether the total number of individuals who can be trained this fiscal year will exceed 50,000. When the ratio of farm to nonfarm employment is taken into consideration, it becomes clear that the program will not accommodate a large volume of rural people over the next year or two.

The law does, however, offer hope and a challenge to those who are resourceful and imaginative and who are determined to improve the economic well-being of all our citizens whether they reside on the farm or in the city.
In his paper Mr. Freeman emphasized the low returns for labor in agriculture and the persistent unemployment and underemployment of labor. He reviewed some of the provisions of the Manpower Development and Training Act and plans for future activities by the U. S. Employment Service.

Freeman is correct in tying the problems of manpower training and development to the problems of economic growth and to structural change in the economy. The agricultural problem also is importantly related to economic growth and structural change. Economic development makes its impact upon agriculture through changes in technology and in the organizational structure of the industry. Initially, changes in technology increase output per worker and give rise to capital accumulation.

As a consequence, the price of capital decreases relative to the price of labor. This provides incentives to substitute capital for labor in the production of farm commodities. It also causes intensification of research efforts to develop new techniques which make possible still further substitution of capital for labor. As this process accelerates, changes occur in the demand for labor, with increases in the demand for skilled labor and decreases in the demand for unskilled labor. Unemployment and underemployment, therefore, occur largely among unskilled workers.

Underemployment becomes intensified as economic development proceeds, except during periods of slow technological change and in periods of rapidly rising employment in the nonfarm sector of the economy.

Economic progress in agriculture, therefore, involves changes in the demand for resources in agriculture. It increases the demand for machinery and equipment and the demand for skilled labor while it decreases the demand for unskilled labor. Additional investment in people is required to provide them with the skills necessary to take advantage of the technological progress made possible through the mechanization of farm production.

Economic progress in agriculture also creates a need for adaptability and occupational mobility of labor no longer needed on farms. Often this adaptability and mobility may be possible only if new skills are acquired by the labor no longer needed.

Economic progress does not occur as a heavenly mist with uniform

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Dr. Bishop is executive director, Agricultural Policy Institute, North Carolina State College
impact upon all areas. It is especially characteristic of industrial growth and development that it tends to proceed outward from centers of progress. Because of the variation in industrial geographic development, occupational and geographic mobility are essential aspects of economic progress.

Since migration has costs and returns associated with it, it should be viewed as an investment which is made with a view to increasing the productivity of labor. It should be recognized that the returns from migration depend upon the education and training of the labor involved. Weisbrod has pointed out that in addition to the direct financial return, additional investment in education may provide returns in the form of increased formal and nonformal education which may be available to the recipient. Also through the flexibility to hedge against changes in technology through the choice of alternative occupations.

Title II of the Manpower Development and Training Act is weak in that it emphasizes a local orientation to the training of the labor. In the development of training programs priority is given to the needs of the local labor market and, then, to the needs of the labor market in the state concerned. One cannot help but be concerned that greater emphasis is not placed upon the training of people for employment irrespective of current residence or geographic location of potential jobs.

A well trained, mobile population is a valuable national asset. The studies of Denison suggest that the returns on educational investment in people account for approximately 23 per cent of economic growth during the period 1930-57. More and more of our national capital is being accumulated in the form of human beings. Professor Schultz estimates that the stock of human capital increased from $180 billion dollars in 1930 to $535 billion dollars by 1957.

The farm population has not received as much formal education as other residence groups in our society. Nevertheless, the farm population has been highly mobile. During the 1940's there was a net migration of 9.5 million persons from farms to nonfarm residences, and during the

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1950's a net migration of 8 million. I have estimated that during the 1960's we may expect between 5.8 and 7.1 million additional net migration from farms, depending upon the level of employment in the general economy.6

Net migration, however, tells only part of the story. During the period 1920-60 more than 68 billion persons left farms and 41 million migrated in the opposite direction. Not all of these were the same people, but it is obvious that there was a great deal of movement back into agriculture by people who were unable to obtain suitable employment in nonfarm occupations. This heavy back-migration emphasizes the need for better guidance and counselling of potential migrants and for investment in farm people to prepare them for nonfarm employment. Many of the migrants were ill-prepared for migration and possessed no marketable skills.

Better job market information is needed to reduce the waste now apparent in migration. Much of the migration which has taken place has been long distance migration. The sources of information which are available to potential migrants concerning jobs over such long distances are not very reliable. Several studies have indicated that relatives and friends are by far the most frequent sources of information. Obviously, information which is distributed by relatives and friends is biased by the range of experiences of these people. Consequently, one observes well-established patterns of movement of migrants from areas to particular communities. It is to be hoped that in the future the Employment-Service will provide more general information relative to job opportunities throughout the nation.

In assessing the training programs which are to be provided under the Manpower Development and Training Act there is a need to analyze more specifically the future demand for labor in various occupations. Studies of this type are to be encouraged under Title I of the act. Research workers should devote additional efforts to estimating the future demand for labor in agriculture. Particular attention should be given to the number, type, size and location of farms. Emphasis should be upon the number of farms which can provide people in agriculture with a reasonable return for labor and other resources.

Some rough estimates of this nature already are available. For example, we know that only farms which are family operated and which produce $10,000 or more of products for sale annually are increasing in number.7 There were 680,000 of these farms in 1960. It is estimated that 150,000 of these will become available to new owners during this decade through death or retirement

of the present owners. On the other hand, there were 1,500,000 rural farm male residents in the age group 10-19 in 1960. It appears, therefore, that there will be good farming opportunities for fewer than one of ten of the rural farm youth who are potential new farm operators during the decade.

In 1960 there were 1.6 million small farms selling less than $10,000 of products. If combination of these farms into larger units continues at the same rate as during the 1950's, we could expect about 1,000,000 of these farms to be combined into 660,000 units producing sales of $10,000 or more by 1970. This would leave approximately 600,000 small farms in the nation producing sales of less than $10,000 in 1970. In order for this to be accomplished, however, it would be necessary to create nonfarm jobs for 1.6 million farm operators and potential young farm operators during the decade plus jobs for some persons who are now employed as hired farm workers and some who are engaged in part-time farming. This feat will not be easily accomplished.

One of the major difficulties encountered in finding nonfarm employment for low income farm families is the age of the farm operators. More than 2/3 of the farmers who now sell $10,000 or less of products are over 45 years of age. The rate of migration for people in this age group is nil. These people are largely dependent upon economic conditions in agriculture. Their problems are largely problems of social policy and not of resource allocation. They have few, if any, practical alternatives to farming.

From the above discussion, it may be concluded that the problems of labor adjustment in agriculture must be viewed in a long-run context. The characteristics of the people who are underemployed in agriculture dictate that the problems cannot be solved in the short run. The agriculture problem is destined to continue for a period of at least 10 to 15 years. It is indeed important, therefore, that the Manpower Training and Development Act be considered as a long-run venture and that it not be carried out as a crash program.

If training and retraining programs are to be most effective in solving the nation's economic problems, they must be viewed in long-run context and should be appraised in terms of returns from investment in people. There is a growing body of literature which suggests that returns from investment in human beings is comparatively high. Estimates of returns from investment in education at the elementary level, for example, indicate a return of 35 to 54 percent; at the secondary level 14 to 17 percent; at the college level and in on-the-job training, 9 to 12 per cent.

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8Bishop and Tolley, op. cit.
9B. A. Weisbrod, op. cit., p. 112.
It should be emphasized, however, that formal education is prerequisite to effective on-the-job training. Returns from on-the-job training increase as the level of formal education of the recipient increases. In short, the potential payoff from investment in elementary education seems to be especially high in the United States.

Mr. Freeman emphasized that the funds which have been provided for the Manpower Development and Training Program are small in relation to the size of the job to be done. He indicated that not more than 50,000 persons could be trained during the current year. In view of the limited funds and the magnitude of the job to be done, serious consideration should be given to the question of where the nation can receive the greatest benefits from the use of these funds. I seriously question whether large benefits will be derived from the use of MDTA funds for agricultural education programs. The recent report of the President's Panel of Consultants on Vocational Education presents the following data on enrollment in vocational education programs. This same report shows that more than 805,000 persons currently are enrolled in vocational agriculture education programs. A very high percentage of the youths of high school age who are enrolled in high school are currently enrolled in vocational agriculture. Many schools require all freshmen to take vocational agriculture. In addition, other agricultural agencies provide educational services to farm people. In view of the already heavy investment in agricultural education and in view of the apparent necessity to train many farm youths for nonfarm occupations, the allocation of

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substantial additional funds under the MDTA programs to agricultural education would appear questionable.

In summary, the Manpower Training and Development Act represents a milestone in social responsibility in coping with a serious problem in the development and allocation of the nation's manpower resources. However, the funds which have been provided for the program are meager indeed in relation to the magnitude of the job to be done. Whether the program will be effective in solving the problems to which it is directed remains to be seen. This will be determined in large part by the support given to the program and by the effectiveness of allied programs. Clearly, the Manpower Development and Training Act cannot succeed in achieving its objectives unless the nation makes greater progress toward full employment. The attainment of full employment is the central problem of the U. S. economy. There is a growing tendency to argue that investment in people should be made on the basis of what the labor could earn, not what it will earn or produce. While it may be desirable to invest in people merely to "develop capacity to be mobile," it is obvious that the return will be exceedingly low unless jobs are created to employ this labor.
AMERICA'S NEWEST MINORITY --

THE IMPACT OF CHANGING PUBLIC OPINION ON FARM POLICY

by Samuel Lubell

For some years I have been making an annual swing through the midwest to see how public feeling is changing. On my last such trip I was impressed by how many farmers have decided that they have become the newest minority in the nation.

Repeatedly farmers I talked with complained, "we're less than ten percent of the population now" or "no one cares what we think. Business and labor run the country."

Some went further to say, "we farmers need a public relations man to tell our story." This comment on the need for better publicity was repeated in six different counties that I visited last spring.

Remarks like those are evidence, of course, of how deep runs the concern among rural people over agriculture's future standing.

I assume that similar fears inspired the choice of the subject assigned me for my talk tonight--"The Impact of Changing Public Opinion on Farm Policy."

Whoever picked that subject, I suspect, was wondering will rural people be able to protect their interests in a society that is growing steadily more urbanized? As farmers shrink in numbers, will the cities and suburbs continue to subsidize the production of surpluses? Or will a taxpayer revolt to kill all farm legislation?

And what will happen to rural interests as reapportionment changes the representation in the legislatures of state after state?

Those are some of the questions, I was asked to discuss tonight.

That's pretty tall corn to ask a fellow to pick.

I'm not sure I can give you the answers but I'll make a try.

Mr. Lubell is a public opinion analyst and writer.
On the whole I am not overly pessimistic about farmers' political future. I appreciate that some observers feel that time has all but run out on the farmer. Secretary of Agriculture Orville Freeman, for one, has warned that farmers are too few in numbers to remain divided, that they must unite and speak with a single voice (I guess he means his own) on farm legislation.

The next session of Congress may prove him right. Still, I doubt that the farmers feeling in the rural midwest has so simple a choice. Also, up to now, at least, the division of the midwest has been a source of political strength to them. Farmer disunity has been one of agriculture's prime beef political assets. I doubt that it is likely to change abruptly.

In saying all this I am not belittling the significance of the decline in the political importance of the rural population. This loss seems to be quickening its pace. It comes at a critical time.

In the redistricting of Congress that followed the 1960 census, eleven predominantly rural districts were eliminated--six in the midwest and five in the south.

This is the sharpest redistricting loss that rural areas have suffered in any ten year period in this century.

More important perhaps than the extent of this loss is its timing. The Supreme Court's decision requiring the state of Tennessee to reapportion its legislature coincides with a crisis in state government in much of the nation.

In state after state expanding populations have had to be provided with schools, roads, hospitals and other services. In the face of these needs, bitter resistances have developed to paying higher taxes.

Nearly every taxpayer group is on the verge of revolt. Everyone is looking for a tax that someone else will pay. This tax struggle is bound to intensify the conflict over reapportionment.

Nationally, the loss of rural representation comes at a time when we are moving ever more deeply into a managed economy. Group interests are being elevated steadily higher at the expense of the individual. Economic decisions are being influenced ever more strongly by political considerations.

We should also bear in mind the fact that the loss in farm population is only one of the results of the astonishing revolution in farm technology that still tractors on. It is this technology that is forcing the really big changes in agriculture's place in our society.

Last year I did some interviewing down in a southern Iowa township that had lost a third of its population since the 1950 census. The farmers who were left had enlarged their land holdings and were much better off economically than they had been ten years earlier. But community life in this township was as dreary as a drought.
I remember asking one farmer how it felt to lose a third of your neighbors in ten years. He grinned and replied, "I like the weekdays but I can't stand Saturday night."

"What do you mean?" I asked.

"On weekdays" he explained "I do the farming and it makes a man feel good to have all the land he needs. But on Saturday night we visit the neighbors. I'm just tired of seeing those same three faces every Saturday night."

The end of agricultural adjustment is nowhere in sight.

In the course of this conference you have heard a good deal about the importance of stepping up the rate of economic growth in the United States. I happen to be pretty skeptical about the statistics of economic growth that are being tossed around. I think we need a better diagnosis of our economic ills. In any case economic growth— which means technological advance—is a giant whose left hand often operates in conflict with his right hand. Economic growth makes new jobs but in the same process it renders obsolete old skills and old jobs.

It threatens constantly to push people and even whole communities out of the economy as factories move away or people desert the land.

In short, the point I am trying to register is that agriculture's main problems are not primarily political. Nor can one look to public opinion to solve these problems. The shrinking down of its political weight of rural America may sharpen agriculture's difficulties. But this political loss is not the real unsettler. Public opinion, at best, can exert only a moderate influence.

Still given all their troubles it is hardly surprising that farmers and townspeople should feel they are misunderstood and yearn for the services of Madison Avenue in telling their side of the story.

On this last point a word of warning might be sounded. Up to now, as I analyze the situation, support for farm legislation has rested largely on ignorance and confusion among urban dwellers as to what the farm problem is all about and on the fact that urban interests are divided on the issues involved. If clarity were suddenly introduced into this picture it's difficult to say what might happen. If I were a representative of a farm organization I know I would hesitate before deciding to tell the whole truth and nothing but the truth.

II

Just what is the picture or pictures of the farm problem that city dwellers have in their minds?

I wish I could present you with some neat statistical tables showing what percentage of the urban population favor each of the more important features of the farm program and what proportion do not.
But interviewing urban people on the farm problem is a frustrating experience. Twice in the last two years I have tried it. Each time I found that well over a third of the persons interviewed had no real opinion on the subject. Some confessed, "I don't know anything about farming," or "I once tried to figure it out but gave up." Others hesitated and fumbled before giving vague replies.

For most of the urban population the farm problem just doesn't come into focus. It's just one blurred image after another.

Mainly, I believe this can be traced to two things—a general feeling of futility that anything effective can be done about the farm problem and second, that urban people find it extremely difficult to identify personally with the farm problem.

There are two direct interests in the farm problem that urban people share—the price of food and the cost in tax dollars of farm subsidies. Most city people would like both of these reduced—but this seems like a pretty futile hope. Food prices go their supermarket way regardless of what the government does. Both political parties have promised to cut farm subsidy costs and have wound up raising them.

Beyond these two interests—of food prices and taxes—most city people lack any real emotional link with agriculture. Two generations ago a considerable proportion of the urban population was either born on farms or had relatives who did some farming.

Today it is relatively rare to meet someone who even knows anyone who does any farming. Many agricultural phrases sound like a foreign language.

When asked questions about farmers, many city dwellers will fumble about and try to reshape the questions to fit concepts that they are familiar with in urban living.

Last summer, for example, I asked city people what they thought of the NFO—the National Farm Organization—trying to hold back production. Many persons replied, "why shouldn't farmers be able to go on strike if workers can?" To many city dwellers the NFO "strike" was just another labor dispute.

Another survey question that I have asked was—should less efficient farmers stay on farms or would it be better to get them to quit farming?

Most of the replies reflected how people saw the farmer in urban terms—whether they viewed him as a business man or a factory worker.

Those who thought of the farmer as a businessman tended to be harsh about helping the farmer. A life insurance salesman in Chicago voiced a wide-spread view when he said, "Farming is a business like anything else. Inefficient farmers should quit. Let them find their own level like other businesses. If they gain or lose that's their affair."
Those who thought of the farmer as a worker tended to equate the problem of the inefficient farmer with industrial unemployment.

Some typical replies ran:

"Inefficient farmers should not be forced out—there are lots of inefficient factory workers but they have unions to protect them."

"They deserve to live as much as a city worker."

Often, farmers would be described as "victims of automation."

A 42-year-old marine engineer on Staten Island said, "Inefficient farmers are the same as workers in the city. Automation is causing people to be squeezed out everywhere. The people being squeezed out should get help."

Generally people feel that farm surpluses have a value. A common remark runs, "It's better to have too much food than too little."

Quite strong support is also voiced for using our food surpluses to help needy and starving people abroad. Many persons urge "let's give people food instead of money as foreign aid."

Often they add, "that way we'll know it will get directly to the people."

Against this the strong resentments are voiced that farmers "are being paid to do nothing and to let land lie idle."

This aspect of the farm program seems to stir more resentment among city dwellers than any other feature.

The 29-year-old editor of a book publishing house asked, "why should farmers get so much for doing nothing?"

A teacher in Milford, Conn., protested "a farmer should not be paid for crops that he has not raised."

To many persons the farm program has the connotation of a welfare operation. They become even more resentful when this welfare "handout," as they see it, is linked to the waste of food.

In New Orleans one aged pensioner burst into profanity when he talked of "these Maine farmers sell potatoes to the government—what does the government do? It dyes them and throws them away."

To sum up all these fragments of feeling:

The net balance of public opinion in the country, I would say, favors some kind of farm program. Certainly it is disinclined to cut off the program abruptly.
But our farm policy is not popular.

While there is no evidence of a real taxpayers revolt against farm legislation, one does find a quite high potential for indignation. This indignation could build up into an explosion.

What could touch it off?

An abrupt increase in food prices might do it. During the 1958 recession food prices rocketed suddenly and I remember how bitter were the feelings of housewives and workers I talked with.

Currently price resentment is relatively low, although older persons on fixed incomes often complain of having to buy cheaper cuts of meat.

Incidentally, I might add that city dwellers generally do not accept the thesis that food is really a bargain because it has not gone up in price as much as other things. You may remember Secretary Freeman's publicity stunt in going to a supermarket and telling housewives how cheap groceries really were. I did some interviewing in several cities right after that. The general reaction to Freeman's stunt was summed up by one comment, "He should ask his wife what she pays for groceries."

The second thing that might cause an explosion of public indignation against farm legislation would be an all-out political battle aimed at reducing farm subsidy costs. The next session of congress could bring such a battle. The big issue next year seems likely to be the struggle of those who want to reduce taxes without a cut in government spending, against those who want government spending cut before there is a tax cut.

In the course of this battle every major federal spending program is likely to come under attack. Certainly farm subsidies whose costs are estimated from four to six billions--depending on how the figures are juggled--will be in the thick of it.

Since I am not a war correspondent I won't venture any prediction how this battle will come out. Still we might ask why have previous efforts to reduce farm subsidies failed.

Two points stick out from my own efforts to answer that question.

First, the writing of farm legislation has become a conspiracy against public understanding.

The closest equivalent that I can think of is the way the tariff legislation used to be written back in the 1890's and 1900's. In fact I am tempted to say that drafting farm legislation is the old tariff log-rolling resurrected.
In the writing of tariffs a great many speeches would be made on the principles of free trade versus protectionism. But the changes in the legislation that really mattered were always changes in the technical formulas by which import duties were lifted, a phrase about sanitary regulations for this commodity, a shift to ad valorem rates for another commodity and so on.

Similarly with the writing of farm legislation, Congress, as you know, does not set any dollar ceiling on the cost of the farm program. Instead the agriculture committees juggle these complicated formulas of support prices, acreage bases and more or less controls. These maneuvers can't be followed by the public--often the press doesn't even report them. Sometimes even members of Congress are fooled by the country slickers on the agriculture committees.

In recent years many Congressmen have voted for farm legislation which they thought would reduce the total cost of farm subsidies. Only after the accounting was in did they realize that they had actually voted for higher subsidy costs.

This, you will recall, happened in the old tariff days, as well. Congress would be called into session to lower tariff rates and would wind up increasing them.

The second main reason why subsidy costs have not reduced has been ideological. As you know the raging conflict has pitted on one side those who want to move agriculture back to a free market against those who want to bring agriculture under full supply management.

Up to now at least this ideological battling has produced compromises which have been both curious and expensive.

The free market boys start out wanting lower price supports and loose or no controls. The supply managers start out demanding higher price supports and tighter controls. Congress, in its own many billion wisdom, takes something from each side. It takes the higher price supports that the supply managers want and the looser controls that the free marketers want--with the treasury paying for the compromise.

This process may be hard on the nerves of individual Congressmen, but from the farmers' point of view the results have been pretty good. In interviews with farmers during the recent election campaign, I found that the vast majority of farmers were satisfied with the present feed grain program. They feel the present support prices are quite generous. Some farmers admit the supports are so high "how can a fellow turn them down." Farmers also like the voluntary feature of the program, that they are able to go in and stay out depending on which they calculate is their best interest.

In the feed grain program you might say midwestern farmers manage to have their cake of subsidy and eat it without too much control.
I'm not sure that Bismarck could have done much better for the farmers. If some rural Machiavelli had planned it that way, he could not have contrived more skillfully to have the farmers play both sides of the political street.

Of course, this was not done deliberately. The effect was achieved by a bitter clash of economic interests among different farmer groups. But the net effect of the farmers' disunity was to yield a better program from the farmer's point of view than if all the farmers had been represented in Washington by a single voice.

I should stress though that this divide and subsidy strategy is made possible by the fact that it is the urban majority of the population that is also divided by its own ideological differences. This, I suspect, is the real key to the prevailing deadlock over agricultural legislation—that the urban interests are so fiercely divided, with both sides seeking political allies in the rural countryside.

With their loss of representation the rural areas have less political bargaining power today than before. But this loss is offset somewhat by the fact that the political divisions in the urban part of the population seem to be intensifying.

That at any rate seems to be the picture of the prevailing balance. An attempt may be made to upset this balance in the next session of Congress. Cotton and tobacco are already under strict production control and the rural Congressmen from the South, who dominate the agriculture committee, may try to impose compulsory production controls on wheat and corn. Such a move might pick up enough support among urban congressmen to go through Congress.

The members of Congress who are at this conference can give you a better judgment than I can as to whether such a move is likely to succeed. I do not sense any determination on the part of the White House to push such a strategy. I also expect some strange bargains and compromises will be made in Congress to gain support for an opposition to President Kennedy's proposal for a general reduction in federal taxes.

Finally before I expose myself to your questions, let me turn briefly to the reapportionment struggle going on in the different states.

Here I expect rural areas will suffer sizable losses in representation. Partly this is because in many states equitable representation has been ignored for so long that much catching up politically is needed. The crucial question, in fact, may become how far will the swing go in the other direction? Will urban interests dominate everything?

Many city dwellers I have interviewed want both houses of the state legislatures to be set up on a population basis. The slogan "every man one vote" has a strong appeal.
However, there are other interests besides the farmers who would oppose a complete upheaval in the representation formulas.

As in Congress, the rural interests will have allies and bargains will be struck.

I might end by leaving you with this cartoon image.

Perhaps it is true that the farmer is in danger of becoming a political old maid and maybe he had better hitch up with that fellow who has a key to the Treasury while there still is a chance.

But I'm inclined to think the rural population has more political sex appeal than that. There still seems enough of a swing and twitch to those rural hips to draw whistles from both political parties.
FUTURE RURAL POLICY--ISSUES AND CHOICES

by G. E. Brandow

We may be able to see more clearly the choices before us in rural policy if we remind ourselves that two broad sets of economic and social forces are shaping the rural economy. The first of these is agricultural technology. Farm output is rising in relation to total input. The combination of resources used in farm production is shifting in the direction of more capital and less labor, while crop yields have risen rapidly enough to reduce cropland requirements in agriculture. The size of farm required to employ family labor efficiently continues to rise. These and related changes are reducing the farm population and diminishing the amount of service work to be done for farmers in the smaller rural communities.

The second set of forces is working in the opposite direction. The growing population of the nation and the rising level of living are creating new demands for many if not all rural resources. Industry is pushing into some once-rural areas; demands are growing for outdoor recreation; more people working in the city have homes in the country; control of land for water supplies is becoming more important, and so on. The areas in which farm-based labor requirements are declining most rapidly are not necessarily the ones in which nonfarm demands are growing. Some areas most likely to lose farm labor and cropland have little to offer for non-agricultural purposes; some other areas are retaining a substantial farm population and are also strongly affected by the urban intrusion.

As this conference demonstrates, the scope of economic and social questions generated by these two broad forces requires us to think in terms of rural policy rather than solely in terms of farm prices and incomes. Each set of forces runs very deep. Even if the pace of farm technology should slow, overcoming existing lags in farm size and labor force will continue to shrink the farm population for many years. The growth of the population and level of living in the nation as a whole will continue indefinitely; the nonfarm demands on rural resources will grow rather than diminish. The strength and persistence of the forces producing change in the rural economy substantially limit the policy choices we really have.

Rural Policy Other Than That Dealing With Farm Prices and Income

I am going to cheat a little by devoting most of my time to the less difficult part of rural policy--farm price and income policy. Before going on to it, however,

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I want to make some comments about choices and issues in other areas.

A good deal of change will take place in the rural economy in the next 25 years through private, voluntary action without deliberate policy decisions on the part of any governmental body. Many rural areas will lose population; others will gain. Industry will move into some rural communities and leave others. Privately-initiated recreation enterprises will spring up in the countryside. Farm, forest, residential, industrial and other uses of land will become more intimately intermixed in many areas. Such changes will occur because there is where economic opportunity lies. The dominant policy issue will be whether and how public action—local, state and federal—will facilitate desirable developments and will exercise controls over them in the public interest.

Effective work has been done recently to arouse interest in rural development, especially through attracting industry and supplying recreational services. The promotional phase of the effort is well along; the production phase is a hand. If the early enthusiasm is to lead to sustained interest and effective programs, private investors and community groups are going to need reliable information on possibilities and advice on how to develop them. Private firms can be very useful in supplying planning services, and a number are engaged in such work. But there is also need for basic information that can be applied to particular situations and for the objective, public-interest-oriented kind of evaluation ordinarily associated with educational institutions.

Thus one question is the extent to which research and extension education in universities, and especially the land-grant universities, will be supported for these purposes. A much better base of knowledge about the technological, economic and social relationships that determine success in the development of rural resources could be built up. Well-established extension procedures could be used to direct the information to where it is needed. This will require some shift in conventional concepts of the scope of agricultural research and extension, and financial support for new types of work will be necessary. That the ability to answer questions about rural development has lagged so far behind the interest of rural people in asking them is already a source of embarrassment and a danger to the total program.

The frequent tendency to argue public issues in terms of black and white will be a constant obstacle to rural development. It seems clear that a blend of private enterprise and local, state and federal action is called for. Some important benefits in using land for recreation or water control cannot be captured in the sales revenue of private enterprises. Thus, governmental support for many developments is warranted, and it may be on a local, state or national basis, depending on the scope of costs and benefits. The exercise of eminent domain will be essential at times. Such necessary roles of government often will be resisted, however.
On the other hand, private enterprise may be the appropriate way to conduct the major part of some activities initiated by government action. It will often be appropriate for a government agency to operate a facility so as to recover costs or to obtain funds for further investment. Such roles for private enterprise and such use of private enterprise practices will also meet resistance among some groups. Ideological positions may not be especially relevant to a particular development question yet may be the main issue when the public makes a decision.

Education as a rural policy issue already has been emphasized in this conference. We do not have much choice as to how many boys and girls in rural areas will go into farming or whether they will need better education than their parents had. Most will not go into farming, and all should have as much education as they want and can absorb. Our choice is how well we will prepare rural youth to make the most of their opportunities. Unless rural areas with poor agricultural resources receive help in educating their children, schooling is likely to be inadequate. Probably rural areas are especially handicapped by the failure to resolve such issues as federal aid to education and racial segregation in the schools. No issues concerning farm price and income policy are as difficult to deal with as these.

Farm Policy Issues and Choices

Farm policy necessarily tries to do several things that cannot all be done simultaneously. As in the past, we shall want an ample food supply, incomes for farmers that compare favorably with incomes of people in other occupations requiring similar skills, freedom for farmers in operating their businesses, low Treasury costs of farm programs, stable or lower prices for consumers and an efficient agricultural economy. For the immediate future and probably for much longer, excess production capacity in agriculture will assure an adequate food supply but will force us to strike some kind of compromise among other important objectives—especially, among good incomes for farmers, freedom of farmers to make individual decisions and low Treasury costs.

Discontinuing all support and control programs. One view is that all farm and related programs should be discontinued soon. Studies made two years ago of the prospects for farmers' incomes if price support and control programs were discontinued still seem approximately correct, although their authors probably would make some changes if the studies were to be repeated now. The studies concluded

that net farm income might decline from 19 to 40 percent over a 5-year period if support and control programs were dropped, and speedy recovery was not considered likely. The recent C.E.D. report implied more optimism but rested in large part on what seems to be an unattainably high migration from agriculture in a 5-year span.

Proposals to drop practically all farm and related programs place so low a value on the objective of maintaining reasonable incomes for farmers that the policy is not likely to be initiated or carried to completion if undertaken. The real choices in the next few years will be among programs that give at least some recognition to each major objective.

Surplus disposal programs. These will be a part of farm policy in the next few years. Indeed, some programs initiated very largely to get rid of surplus farm products have made a place for themselves on other grounds and probably would be continued in some form even if surplus capacity in agriculture ceased to be a problem. This has been the experience with the School Lunch program and seems to apply to much of the P.L. 480 (Food for Peace) program. While surplus capacity persists, surplus disposal will be pushed in more ways and on a larger scale than other purposes alone would warrant.

The substantial cost of surplus disposal, especially P.L. 480, will be an issue when other farm and nonfarm policies are considered. For example, there will be a fight about approval of the new wheat program in the grower referendum to be held in 1963. If the program is rejected, the cost of P.L. 480 will fall even if conducted on the same physical scale, for the farm value of exported wheat could drop to perhaps little more than $1.00 per bushel. This will be a point in favor of rejection. The corresponding decline in wheat producers' income, of course, will be an argument on the other side of the question.

P.L. 480 is in a sense competitive with other economic aid to foreign countries, and a dollar of P.L. 480 is sometimes regarded as a substitute for a dollar of other economic aid. Though food has an important place in the total aid program of the United States, food is never all and seldom the major part of an underdeveloped country's economic needs from abroad. Continued support of foreign aid is becoming more and more an issue, but it would be an error to assume that the large scale of P.L. 480 greatly reduces the need for other forms of economic aid.

How to deal with excess farm capacity? Surplus disposal programs reduce the gap between agriculture's potential production and market outlets at existing prices, but they do not close it. A central and continuing issue will be whether to close the gap by payment-type, modest-price, supply control programs or by compulsory, higher-price, supply control programs. The tobacco program is a

good example of the compulsory approach. The feed grain program and conservation reserve are examples of the payment-type approach.

Payment programs must necessarily be modest-price ones. If price objectives are raised, farmers stay out of the program unless payments for participation are also increased. Land tends to be shifted to more intensive uses, thus aggravating the over-supply problem. If great weight is given to the objective of making earnings on farmers' resources fully comparable with earning outside of agriculture, payment programs will be inadequate.

It seems possible to maintain farm income somewhat below the present level with a payment kind of supply control program and with P. L. 480. Compulsory programs for particular commodities would also be possible, and these would be necessary for cotton, wheat and dairy products, among others, if current incomes for their producers were to be maintained. I want to discuss the payment programs first and compulsory programs second.

Payment-type supply control programs for crops. Past programs had shifted much of the excess cropland into feed grain production by 1960. The feed grain programs of 1961 and 1962 reduced production while feeding of concentrates to livestock was rising rapidly. Stocks could be down to a prudent level by the end of the 1963 crop year. The cost of the 1962 program, in the form of payments and loan premiums for compliers, may be about 1.1 billion dollars. Land being released from the Conservation Reserve will add to the burden of the feed grain program.

There is a good prospect that in two or three more years a feed grain program involving about half the cost of the present one--say 600 million dollars--will hold average production and utilization in balance. The farm price of corn could be $1.00 a bushel or slightly higher, and feed grain producers' incomes--except for effects of weather--could be maintained at about current levels.

Such a land retirement program for feed grains has a special significance. It would absorb much of the excess land recently in crops and thus make a major contribution to balancing total crop production with utilization. Feed grain prices equivalent to $1.00 for corn are about in line with prices at which feed grains are moving in world trade, thus minimizing problems of export subsidy and import restrictions. If wheat prices were aligned with feed grain prices, the prices at which export-types of wheat would be available for export from the United States would not be far out of line with present International Wheat Agreement prices. The land retirement program for feed grains could be extended to wheat at the same basic payment rates.

Probably cotton could be brought within the same framework with results approximating those for wheat. Land retirement payments consistent with those for corn might result in holding cotton production in balance with utilization at roughly the current export price of cotton. Thus I view the present program for
feed grains--or some reasonable modification of it--as an indication of what a feasible, payment-type, supply control program might be like for crops in general. The cost to the government would be materially less than recent costs, and some sticky foreign trade problems would be alleviated. A whole farm retirement program could be combined with the crop retirement program.

A strong objection to such an approach would be the decline in income for producers of wheat and cotton. On the other side of the question, farmers would be free of compulsion in operating their farm businesses. Moreover, such a program would be consistent with efficient allocation of resources in agriculture in the long run. Returns on labor and investment in agriculture would not be high enough to hold labor and poor land in farming if labor had attractive long-run opportunities elsewhere. But the withdrawal of labor would be orderly; few farm people would be forced out of the frying pan into the fire. The level of farm income would be substantially above no-program levels for several years, at least. The basic program could continue—with appropriate adjustments, of course—as long as technological advance outpaced farming's ability to adjust without important time lags.

Circumstances seem to be forcing farm policy in this direction. Feed grains are not far from this position now. The vote on the 1963 wheat referendum probably will be close; rejection of the new program would leave wheat resting on the feed grain program and thus on land retirement if the feed grain program were not changed. The gap between domestic and export prices for cotton may force some reduction of current grower prices. Both the logic and the pressures of the current farm situation make the payment type of supply control for crops one of the leading choices in the development of future farm policy.

The current land retirement programs suffer from certain "leakages" that seem in part avoidable. Overall, about two acres of cropland appear to have been retired for every three acres paid for under the feed grain and wheat programs. Part of the difficulty probably was caused by the haste with which the programs had to be put into effect when first begun. The leakages probably raise the cost of land retirement, and they tend to cause an unfavorable impression of the programs among farmers. If this approach is to be more or less permanent, all possible means of achieving the intent of the programs should be used.

Other programs for crops. Interest in something more than a land retirement program will be strong because of the desire to obtain higher incomes for producers than the combination of a land retirement program and P. L. 480 makes possible. Supply control to achieve higher prices probably must be of the compulsory type—compulsory acreage allotments, for example. But the export market is important for most of the leading products, and export subsidies will often be necessary. This is the current situation for cotton, wheat, and rice. Thus both farmers' attitudes toward controls and the government's willingness to pay export subsidies are involved when compulsory supply control is the issue.
The program proposed for wheat for 1964 can maintain producers' incomes at a substantially higher level than a land retirement program would. The cost to the government and consumers would be correspondingly higher. One cannot say now what wheat growers' alternative to the new wheat program will be when they vote in the 1963 referendum because the feed grain program for 1964 and later has not been settled. If the feed grain program is not much changed, it will tend to put a floor under wheat prices at about the current value of wheat for feed. If there is no feed grain or wheat program after 1963, prices of both could go substantially lower.

The wheat choice in 1963 would be clearer and more reasonable if growers were to choose between the new wheat program as written and a land retirement program under which payments for compliance were based on the feed value of wheat when corn was about $1.00 per bushel. If growers chose the latter, they would do so to their own income disadvantage, but I see no reason why others should object.

A similar choice for cotton is still premature. In order to narrow the gap between the import and domestic cost of cotton textiles, a payment to cotton handlers is likely to be proposed. Essentially, this will make the export subsidy, or a payment nearly as great, applicable to all of cotton production rather than to exports alone. Possibly growers will have to accept some price reduction as their part of the bargain. Marketing quotas will have to be retained, though total utilization probably will expand modestly in response to a materially lower domestic price. The cost of such a program to the government, lower grower prices and acreage restrictions may eventually lead to a choice between the program and the payment or land retirement kind of supply control discussed for feed grains.

Tobacco is still further from a choice between compulsory control and the land retirement approach, and there seems little immediate prospect that the present program will be materially changed. Rice may be able to retain its present program despite its high relative cost because rice is such a minor crop that the absolute cost does not appear large in the Commodity Credit Corporation's expenditures.

Programs for livestock. If feed grain prices remain fairly stable, livestock producers are not likely to be in deep price difficulties except during temporary periods of cyclical over production. In the case of poultry products, these periods can be painfully protracted by the unwillingness of integrators to reduce operations. Dairy is the principal exception, for demand for dairy products as a group is growing little if at all, and voluntary cuts in dairy production are especially slow to be made.

Probably the greatest policy mistake that could be made from a livestock standpoint would be to permit feed grain prices to fall substantially for two or three years and then to raise them again. The decline of feed grain prices would create a short period of high profits in converting grain into livestock until more
livestock products came to market. The subsequent increase in grain prices would subject livestock producers to a price squeeze until livestock production was reduced, and the price squeeze would be likely to last longer than the initial period of better-than-average profits. One hears talk that grain producers may have to get along with no program whatever before they will agree on and support a feasible program. An unfavorable result of such a sequence of events would be the damage it would do to the livestock industries.

Dairy surpluses are likely to persist or even to increase under the present dairy program. The alternatives seem to be (1) some sort of quota plan to control supply and to maintain or improve income and (2) lower prices. The transition to lower prices might be eased by direct payments for a time. Quota programs will be easier to work out for individual fluid milk markets than for the total dairy industry but will make only a modest contribution to bringing markets for manufactured dairy products into balance. There appears to be very strong resistance to any change in dairy programs, but a change probably cannot be postponed indefinitely.

The poultry industry is likely to blow hot about marketing orders when markets are cyclically depressed and cold when markets improve. If marketing orders are to be effective, they must provide some control on quantities going to market. Such controls seem most feasible for turkeys and least feasible for eggs. If feed prices do not change much, poultry markets may be sufficiently stable so that supply control will not soon again come to a vote.

The shape of emerging farm policy. Just possibly, we can establish the framework of a permanent farm policy in 1963. Its main feature would be supply control for crops by means of payments for land retirement. Another important feature would be continuation of P. L. 480. The first and most important decision should be on a feed grain program. The recommended decision is to continue approximately the current feed grain program until stocks are at desired levels and then to hold production in line with utilization, keeping the price of corn at $1.00 per bushel or only slightly higher.

With this base established, programs could be worked out for other crops, giving producers choices between (1) compulsory supply controls, providing they were not too costly to the government, and (2) land retirement as represented by the feed grain program. Costs to the government under compulsory supply control arise mainly from subsidies on dollar exports and from P. L. 480 shipments. Controversy about compulsory controls and the level of government costs would continue, but there would always exist an alternative against which to test other proposals. Quite possibly, circumstances would force crop programs generally toward the basic land retirement program.

The principles to be followed in establishing the desired level of carryover stocks of the major commodities should be agreed upon as soon as possible. Larger stocks than the private trade would choose to carry from business considerations alone seem prudent.
Except for dairy, programs for livestock products present no urgent problems. If feasible and acceptable programs are developed to prevent gluts in markets for poultry products or for similar purposes, they can be debated and voted upon by producers. The likelihood that compulsory supply controls will be adopted in the near future does not seem high if feed costs are stable. Again, dairy is the chief exception. A quota program is a possible way out of the current situation; or, given time, moderate price reductions would bring production and utilization into balance.

Thus an end to controversy about farm policy is not foreseen. But it may be possible to agree upon a basic policy—land retirement and P. L. 480—and to put debate about particular commodities in a secondary position. The basic policy would assure agriculture an opportunity to adjust to changing conditions in an orderly way without extreme financial hardship. Reciprocally, the nation would be assured that economic incentives were always moving agriculture toward efficient use of its resources.
THE CHANGING ROLE OF THE COLLEGES OF AGRICULTURE

by Floyd Andre

The changing role of colleges of agriculture is a major concern in the land-grant universities today—not only at the level of faculty members and deans and directors but also among presidents and governing boards of land-grant institutions. One land-grant president, for instance, voiced the opinion recently that most of the programs in the colleges of agriculture are helping the consumer and not the farmer, whom he believes they should be helping. Another is concerned about the rigidity of federal grant-supported programs. Many are asking how resources can be re-allocated within the land-grant colleges to meet the priority needs in agriculture.

The purpose of this paper is to discuss the changing role of colleges of agriculture and some of the ways we can orient our programs to meet the needs of the people we serve. Naturally enough, I am going to talk about the institution I understand best, Iowa State. But several of the examples which I will give could be applied to the similar institutions in other states.

Anyone who has been around the state of Iowa much recently can arrive at two conclusions which we feel have a bearing on our work here at Iowa State. First, we are convinced that the majority of Iowans recognize that our agricultural, economic and social structure is shifting rapidly. Secondly, even though Iowans appreciate that tremendous strides have been made in recent years, there is much concern that Iowa's economic growth is not fast enough.

In our changing role in the years ahead, it seems to me that the task of the College of Agriculture here at Iowa State is in four principal areas:

1. To help move Iowa forward through teaching and research.

2. To help assure agriculture's place in our nation's economy by establishing understanding and relationships with all segments of our society.

3. To provide ideas and information needed to develop sound public policy relating to agriculture.

4. To meet educational needs in world affairs and in international relations.

Dr. Andre is dean of agriculture, Iowa State University.
Moving Iowa Forward Through Teaching and Research

First, let's think about our task to help move Iowa forward through teaching and research since this most surely is where our primary responsibility lies.

Teaching. There are some who say that we are slow to change our teaching subject matter and methods. But anyone who is familiar with the reorganization of the major part of our program here the past 10 years can only be proud of a deep thinking and farsighted faculty. There have been five developments which I feel are especially significant. I want to mention these briefly to illustrate the change from curricula-oriented toward turning out production technologists—which was the need from the time of the establishment of the land-grant colleges up to the beginning of the 1950's—to curricula oriented to meet the requirements of graduates entering a setting of abundance in agriculture in the United States but of pressing need in world affairs.

1. A farm operation curriculum was established during World War II—primarily as a two-year program but with a provision that a person might continue and earn a degree in farm operation. Instead of the two-year program becoming the popular program—as everyone expected—the four-year degree program rapidly grew to have the largest enrollment of any curriculum in the College of Agriculture. Last year the average size farm from which these students came was over 440 acres, almost two and a half times the average size farm in Iowa. In this curriculum emphasis is placed on management rather than technical skills. It is one of our most rigorous curricula in terms of requirements in the physical and biological sciences. We believe that many successful future college-trained Iowa farm operators will be well grounded in economic principles and will have an understanding of the principles in management of business and industry.

2. In the early 1950's, it appeared that most of the rewards for students at Iowa State were based either on extra-curricular activities or grade points. To achieve either of these recognitions required steering away from the more rigorous courses in mathematics, statistics, chemistry and physics. We found it necessary to reorient our students, particularly those who had unusual academic ability. Our advanced curriculum program was established in 1956, and at the present time we have 51 scholarships for juniors and seniors who maintain high averages and who agree to take at least two years of mathematics and a year of physics or statistics in addition to other advanced courses. This advanced curriculum program led to the establishment of a science option in several of our curricula, and certain modifications of all of our curricula for those students who wish to prepare for graduate study.

3. In the fall of 1951, the curriculum in agricultural economics was changed to agricultural business. And in 1954, sweeping changes were made in the curriculum and options were established to satisfy the needs of a wide range of abilities and interests. As a consequence of these changes, the agricultural
business curriculum is one of our fastest growing programs in the College of Agriculture and now has almost 300 undergraduate majors. In 1958 several other curricula, including agronomy and animal science, included options in business and industry.

4. Recognizing that over the years ahead there will be a continued need for technical assistance in underdeveloped countries, the College of Agriculture established during this past year an international service program in agriculture at the undergraduate level which provides for training in international subjects and in at least one foreign language. This program, like the advanced curriculum program, is backed by scholarships to encourage our better qualified students to enter this area, and it is open to students from every curriculum in agriculture.

5. A fifth significant change has been the recognition of the importance of counseling and guidance of undergraduate students. We are charged with the education of young people with a wide range of abilities and interests at a critical age in their lives. To meet this challenge, we selected our best qualified teachers and allowed teaching time for counseling. This has increased our teaching load more than 10 percent, but the system has been highly effective. Our superior students have been given more challenging programs. Our slower students have performed much better. A very important result of counseling is the reduction in numbers of students dropping out of college. It has been estimated that 20 percent of our upper class enrollment is the direct result of the benefits of counseling and guidance.

Research. Through the years, research has played a major role in moving Iowa forward. The extent of the success is clear in some of the problems that exist in excess capacity to produce, in problems of adjustment and in the public debate on farm policy. Only a small start has been made in obtaining the answers that are needed intelligently to shape the vast adjustments taking place today in rural America. This is one of the major concerns here in Iowa and one in which Iowa State hopes to continue to receive support.

Our future research work in agricultural and economic adjustment will emphasize three major areas designed to assist in acceleration of economic growth in Iowa. First is that of research on agricultural and industrial development and its impact on rural areas and communities. Under this area, work will be done in these areas: developing criteria for classifying and delineating rural areas in Iowa in terms of critical industrial location factors; projecting and evaluating industrial development for rural areas and communities; adjusting economic, governmental and social institutions to local industrial development; and assisting communications media to better serve the people of Iowa as an aid to economic growth.
The second area designed to contribute to Iowa's economic growth will be in water resources and recreational area development. At present, best estimates are that current supplies of water in the states west of the continental divide will be fully developed within 20 years. If studies haven't shown by that time that additional sources of water are available or that there are better ways of using the supply, the economy and agricultural growth of that area will be drastically curtailed. This will place a challenge on the central states.

The third area will be in expansion of production technology research for more rapid economic growth. Emphasis will be given to improving per capita income in Iowa's area of lower farm income, development of soybeans which have characteristics for high demand in the foreign market, and further expansion of research in food technology.

It seems clear, as we look to the future, that the challenges for agricultural research will increase. The team-of-specialists approach in research work has become a must. At the same time, we need to remember that no agricultural college can specialize in everything. Rather we must choose carefully the areas in which there is need and for which we are particularly adapted by way of natural resources, facilities or faculty. We must be aware that it is possible to reach the point of getting so many grants for research from various outside agencies that they start to direct our program rather than fitting into our program.

Extension. Extension—with its state-wide campus—has a major responsibility, too, in our task of moving Iowa forward. The broader concerns of Extension work came into prominence during the years following World War II. These years brought wide awareness of the adjustment problem that was growing out of the great productivity achieved by American farmers. And, the Cold War following the Korean conflict brought an even greater awareness that we live in a compact and highly interrelated world. The need to apply our Extension technique of education to difficult questions was recognized. The appropriate content of Extension education has been defined beyond disseminating simple technology or management of the farm enterprise or home. The appropriate content has become that content which helps people of a county—town as well as farm—understand the world they live in and to make adjustments that will help them live the kind of life they choose.

The Extension Service idea—developed and tested over a 50 year period—has been a success story. As we have suggested, today's needs are more difficult and complicated, but we can build on the strengths of our past successes. We can build on the sound and tested structural arrangement of Extension, even though many questions arise today as we face our changing role.

1. We need to consider such matters as what staffing arrangements are needed to provide informational sources on broader topics of the community, taxation, economic growth and so on, in addition to the technology and
science of agriculture and home economics. Then, too, what staffing arrangements or modifications are needed to provide for the increased specialization as demanded for education in depth? Do we need more specialists? How should they be organized? Should Extension continue to be organized as county units or should it be organized into multiple county units? True, the pattern is not yet clear, but the direction does seem to point clearly toward greater specialization and larger programming units.

2. Our Extension program needs to be built on current needs. This requires continuous flexibility and shifts in emphasis. It requires deliberate and careful planning at local levels as well as leadership on national, state and area problems. Our changing role has directed our Extension emphasis into six principal program areas.

   a. First, of course, is the area of technology. Here we find three levels of need today: providing facts and answers to problems; the interaction of technological problems as they affect a total enterprise; and the newest development—education in depth, or in other words, specialized training for selected audiences.

   b. The second program area is management education—that area in which the principle of choice-making is emphasized.

   c. Marketing is another of the program areas. In this area increased attention is now being given to state and regional problems and specially trained staff are working with producers, firms and consumers.

   d. Family living—another of the program areas—is concerned with urban and rural families alike. Problems of physical and mental health, consumer information, management and family life education are receiving increased attention.

   e. Work with 4-H and other youth also is a program area. Here we find the emphasis today on the development of boys and girls, citizenship training, career exploration and projects stressing science rather than merely skills.

   f. The last program area is community development and public affairs. In this area the task is to provide organizational and educational leadership to help people tackle the problems of economic and social change, area and community development, and to provide citizenship information on such topics as the farm program, the Common Market and international trade. We feel that such efforts as the "Challenge to Iowa" and "Iowa Future Series" have been highly successful in this area.
3. Program balance should be achieved in these areas. The varying background, interests and needs of Extension's clientele demand a balance between applied and theoretical technology, between output increasing and quality improvement, between technological and social and economic development, between programs for the individual and programs for communities. We have need for balance between the planning function and the action function. Balance, in fact, is a basic consideration in building an Extension program.

You will agree, I think, that our programs in teaching, research and extension do help in moving Iowa forward. I have attempted to discuss some of the major ways in which we are fitting this most important part of our task into our changing role as a College of Agriculture. I will be more brief in talking about the other three principal areas of our task—namely, working to assure agriculture's place in our nation's economy, providing ideas and information needed to develop sound public policy relating to agriculture, and meeting our educational responsibilities in world affairs.

Assuring Agriculture's Place in the Nation's Economy

Agriculture's responsibility is to provide food and fiber for the nation. Society expects the agricultural industry to satisfy these needs at reasonable prices and furthermore to keep production in balance with demand. This, as we all know, is a difficult task for we are dealing with the complex problems of national economic growth. The problems of adjustment in agriculture are an important part of the total problem and must be dealt with as a part of the larger problem. It becomes part of our task as an educational institution to help agriculture meet its responsibility and adjustment. Then, too, people in agriculture expect to share fully with the rest of the economy in the rising levels of living. Thus, helping these people realize a fair share in the nation's economy becomes part of our task, also.

There is one example I would like to mention which is especially important to us in education and research in this area of agriculture's place in the nation's economy. This is the need for a thorough understanding of total resource use on the individual farm, in the individual state and in the entire nation—also understanding of the relation of resource use to world conditions. It seems to me that our students need a thorough understanding of this area.

Providing Ideas and Information Needed to Develop Sound Public Policy Relating to Agriculture

The next principal area of our task is to provide ideas and information needed to develop sound public policy relating to agriculture. The several land-grant institutions that have launched programs in public policy relating to agriculture most surely have made a real contribution to society.
Inevitably, all land-grant institutions will be involved in this work to a greater or lesser degree. In this area, research can help identify and measure significant factors involved in social and economic change. Extension can perform a catalytic role in helping people identify and solve their own problems. Also a significant area in this endeavor for Extension is the need for sound, unbiased public policy information. This need will grow both in scope and depth. Most would agree that democracy cannot function effectively without an informed, responsive citizen body. Few jobs facing Extension deserve more consideration than this task.

Meeting Educational Needs in World Affairs

The last principal area of our task as a College of Agriculture concerns our educational responsibilities in world affairs. This area is receiving tremendous attention today and is a challenge which I believe the agricultural colleges are accepting. Agricultural development of necessity is an important part of assisting the developing nations to help themselves. Thus, we have a critical and unique role in this aspect of our nation's foreign policy.

Today our work of an international dimension consists of specific kinds of activities. Among these are: the training of foreign students on our campus; the training of American students not only for work in foreign lands but also to provide knowledge about world and foreign affairs for students who are not planning foreign careers; the participation of staff members in both short-term and long-term foreign assignments; the participation of the College of Agriculture in international cooperative projects; and acting as host for foreign visitors to the campus.

You may be interested and also a bit surprised at some of the figures recently compiled in a report of our activities in these areas during the period 1950-61. For instance, in 1950 we had a total of 97 undergraduate, graduate and special students from foreign countries studying agriculture at Iowa State. In 1961, there were 170. During the ten-year period, 1951-61, we had 1,737 foreign visitors from 87 countries. Our 4-H group has been responsible for providing places for 150 International Farm Youth Exchange students in Iowa during the period 1949-61, while 69 Iowa students have participated in the IFYE program abroad. In addition to this, you might be interested to know that approximately 146 staff members from the College of Agriculture have been on leave to at least 45 foreign countries for short-term or long-term assignments since 1950. This past summer, for instance, one of our outstanding professors, Dr. Earl Heady, was in Hungary, Poland and Russia lecturing on our type of economics to economists who had been trained under the Marxism theory.
Also, we have just recently completed negotiations on cooperative contracts with two Latin American countries--Peru in the field of land economics, and Uruguay in the fields of animal science and crops and soils.

We have been considering the changing role of the colleges of agriculture in four settings; first, our role in moving our state forward through teaching and research; second, our role in assuring agriculture's place in our nation's economy; third, our role in providing information needed to develop sound public policy relating to agriculture; and fourth, our role in an international dimension for land-grant institutions.

Perhaps I can best conclude these remarks by expressing the view that we in the colleges of agriculture need to continue to build our programs in teaching, research and extension upon the enthusiasm, boldness, and dedication that has characterized the success of the land-grant universities through the years.

Change in agriculture, of course, is not something new. It has been going on ever since man planted the first seed. But, it does seem to be going at a gallop now. Any going organization--including an educational institution--needs to keep up with the times as a minimum. If it is to be effective, it must give leadership in the adjustments as well. In the changing role of the colleges of agriculture, we need imagination for new ideas in education; we need boldness to try them; we need courage to face failure if necessary to gain success. We must continue to break new ground and orient our work to modern day needs and problems. In such a role the challenge and the opportunity for the colleges of agriculture will continue to be great.
POLICY DECISIONS AND LONGER VIEWS

By Earl O. Heady 1

The third annual agricultural policy conference has been directed to the objective enunciated in founding the series; namely, to provide opportunity for free and objective analysis and discussion of policy goals, means and results aided by new data and interpretations available. However, the environment surrounding agricultural policy, both in political considerations and economic understanding, is so complex that a great deal more effort is required.

Policy programs remain the number one problem of American agriculture and a major problem of American society. This is true as measured empirically by treasury funds allocated to agricultural programs, by the "felt need" of the public and still lack of a generally-agreed-upon program, by the degree of economic disequilibrium and level of labor returns in farming, or by other standards. Even though it is true that policy is the priority problem in terms of public investment in agricultural industry, yet the amount of research, professional discussion, knowledge and objective education is still scant relative to other scientific fields and problem areas. For example, agricultural policy still receives much less emphasis in research, education, professional meetings and similar efforts to solve problems and create knowledge than does farm management, agricultural marketing, soil fertility, animal nutrition and a number of other particular fields.

Progress in knowledge and understanding has certainly been made over the past two decades, especially in the last decade. If the growth rate of the total previous period is compounded over the next 10 years, we may begin to approach the appropriate investment for analyzing policy, in attaining proper understanding of alternatives and consequences and in defining publicly acceptable long-run solutions. It is unlikely that long-term and publicly acceptable policies will be attained until analysis and interpretation are broadened and carried to a larger segment of the farm and urban population.

The environment of communication, education and general public discussion on agricultural policy has improved over the past decades so that this task can be tackled more vigorously. It will continue to improve since more state universities now have the courage to do so and since more formal organizations are emphasizing agricultural policy analysis and education. The amount of resources so allocated, however, is still too small in relation to the public's need to understand the underlying economic forces and the likely long-run consequences of various policy alternatives.

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Public Decision-Making Process

Open discussion of policy conforms with two foundations of our society; namely, the public (democratic) decision-making process and freedom. Certainly one characteristic of freedom and free societies is that university and other public employees are able to conduct and publish research on policy, and to conduct education and public discussion on policy matters. Groups are not able to use various means to scuttle research and education and public discussion. However, in social systems which are the antithesis of our own and where freedom obviously does not prevail, the doctrinaire stand of the dominating group cannot be questioned. Heads fall both figuratively and literally if persons dare to analyze and publicly discuss potential policy alternatives or to question the policy position expressed by particular interests. Freedom, especially that surrounding agriculture, will be best preserved when many groups and organizations are able to conduct analysis and discussions and to have both scientific findings and recommendations or even hypotheses labeled as such brought to the attention of the public.

Detailed discussion of policy through semi-academic, professional, public or political means is part of the democratic decision-making process. Moreover it is highly similar to scientific research, wherein all previous knowledge is reviewed, alternative hypotheses and propositions are formulated and, under estimates of the most likely outcome, one alternative is tested. Unfortunately, few policies can be previewed in the manner of a small experiment, with the results eventually extended in broader manner to the complete population or universe. Frequently, the only way in which the results of a policy can be estimated is to put the policy into effect and measure the outcome. If it proves unsatisfactory or its results differ from those hypothesized, a new trial must be made through testing a new alternative or one modified from previous trials. American farm policy has, to an important extent, been one of public experimentation in this manner.

However, although there will always be some degree of experimentation involved in national policy because predictions are not errorless, it is not necessary for policy to lie entirely in the realm of "first hypothesis" testing. Two means exist whereby policies adopted can have a stronger base. One is in research and prediction of possible outcomes, opportunities which have not been fully exploited. Another is in the realm of public discussion of the full range of policy alternatives and consequences, without various or dominant interest groups denying consideration of hypotheses other than their own. Discussion, even where it does not have research base to give it exact empirical content, is the universal process for reasoned calculation on democratic social policy. Any group engaged in making a group decision can do so efficiently only if the decision is preceded by an appropriate extent of discussion. A legislative committee, a 4-H Club, farm organization officers, a university or any other group (even a Politburo) necessarily must engage in sufficient discussion if it is to make efficient decision -- even if solely for itself.
Unless all members of the group have supernatural powers and wisdom, voting in any organization, certainly in a large and democratic society, cannot be conducted successfully without discussion. Discussion and explanation provide the means for exchange of information among groups or bodies. Ordinarily attempts to minimize discussion are made where there is special interest in ramrodding a selection which is not optimum for the group at large.

The political process itself is a method of public discussion and exchange of information and hypotheses. It is a means by which the gains and losses from different policies or even the lack of policy might be particularly evaluated and estimated in relation to minorities and particular group interests. The route is roundabout but in the long-run public and political discussions lead policy towards the public interest and increased aggregate community welfare.

It is still true, however, that too little research and particularly too little education have been made available to aid the public decision-making process on agricultural policy. The Extension Service, providing objective services for these purposes, need not fear attacks causing it to have to "burn the books." While "burning or hiding the books" is literal in non-free societies, its equivalent is sometimes approached by pure voids in education programs or timidity in education on major policy problems.

Long-Run Perspective

In terms of this framework and of policy alternatives and choices for the next decade, several propositions are perhaps worthy of further examination. First, policy can have only minor effect on the major structural changes taking place in commercial agriculture. Regardless of historic policy orientations to the contrary, the economic growth forces of the nation are too strong and extend too broadly beyond agriculture for farm policy to have any significant restraining effect on the long-run tendencies toward capital-intensive farming, larger farms and a smaller labor force.

These structural and agricultural changes are affected by two sets of prices: those for farm commodities and those for resources used in agriculture. Price or income support mechanisms may bolster commodity prices and have ultra short-run effects in altering the outflow of labor resources, although it is not evident that this is the effective restraining parameter.

But even if price and income supports alone did serve thus, tendencies in real resource prices in the long run point towards larger and fewer farms using more capital and less labor. Agriculture now uses a small proportion of the nation's total resources and these resource prices are determined clearly outside of farming. Hence, under continued economic growth the real cost of capital declines relative to the price of labor. Capital
is being rapidly substituted for labor and land whereas a century ago the ratio of annual inputs in agriculture was 75 labor to 25 capital. The situation is now reversed for commercial agriculture. With the scale or cost economies associated with many capital inputs, the tendency will continue strongly towards greater volume and larger farms simultaneously with the rapid trend to a smaller labor force and population in agriculture. Even under higher support prices, these tendencies, which have been brought about by changing resource prices and productivities, still continue. Hence, while price and income support policies may serve as short-run cushions, they cannot offset the stronger long-run forces stemming from economic growth, which forces affect the relative real prices of capital and labor. Even if by stepwise function, policy needs better to recognize this "inevitable" in the effect of economic growth on farming structure and provide better means to accommodate it while preventing great capital losses to particular strata of farming.

The "voice of agriculture," its political strength, also is similarly a direct function of economic growth and its relative effect on prices of commodities and services as well as its effect on relative prices of capital and labor. With growth and higher per capita incomes, the total commodity mix of the nation includes a smaller proportion of agricultural products and a larger proportion of non-farm products. This change in the "shape of things" under economic growth draws labor from agriculture just as does the lower real price of capital under economic growth, which causes labor to be reduced in farming. With further economic growth, both in sight and necessary, the "voice of agriculture" can only decline further since voters are attached to labor resources. Policy should thus also be turning in the direction of the inevitable of the next decade. Perhaps the appropriate question is not what unique policy agriculture can retain or attain aside from the general policies of society. Perhaps the question is how to guarantee non-farm society (a) incentive for economic progress (b) positive rewards for contributing to this progress (c) stability in level and expectations of income and (d) prospects of growth in income? Appeal will be better made to general society in providing policy measures to agriculture now possessed by itself rather than in providing special and unrelated policies to the farm industry. Just as price supporting policy elements can only slightly restrain the tendency towards the longer-run structure mentioned above, so retarding legislation on reapportionment can perhaps slightly restrain the decline in the voice of agriculture. However, economic growth, with its effect on relative prices of resources and their distribution throughout various economic sectors, will override both of these restraining measures in the long-run -- and the long-run is now close at hand.