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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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 politician," 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 cannot 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.