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.