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.

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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. Schnittker 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. These 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:2

<table>
<thead>
<tr>
<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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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Farm</td>
</tr>
<tr>
<td>0-4</td>
<td>23</td>
<td>168</td>
<td>5.00</td>
</tr>
<tr>
<td>5-8</td>
<td>44</td>
<td>180</td>
<td>6.80</td>
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<tr>
<td>9-11</td>
<td>14</td>
<td>207</td>
<td>7.85</td>
</tr>
<tr>
<td>12 &amp; over</td>
<td>19</td>
<td>208</td>
<td>9.75</td>
</tr>
<tr>
<td>Average</td>
<td>100</td>
<td>185</td>
<td>6.90</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.