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.