COMMERCIAL AGRICULTURE'S RESPONSE TO NATIONAL FARM POLICIES

by K. L. Robinson

It is appropriate to begin with a review of the present position of commercial farmers and the impact which recent government programs have had on those farms which account for a large proportion of all farm products sold. According to recent USDA figures, there are approximately 3.5 million farms. But less than half of these farms produce the bulk of farm products which move through commercial channels of trade. The top 27 percent of all farms (those with sales in excess of $10,000 annually) now account for nearly 80 percent of the total value of farm products sold (Table 1). Almost a million farms fall in this category. Another 600,000 farms have annual sales which fall between $5,000 and $10,000 annually. Most of these also can be classified as commercial farms, but their numbers are dwindling, and most farms in this category face severe adjustment problems. Finally, there are nearly two million farms with reported sales of $5,000 or less, but they account for less than 10 percent of all farm products sold. On most of these farms, income from nonfarm sources is far more important than income from the sale of farm products. Their prosperity is already influenced much more by developments outside of agriculture than by the level of farm prices or by agricultural support programs.

It is, of course, extremely difficult and frequently misleading to attempt to generalize about farmers today because of the wide diversity that exists in farm sizes and incomes. Despite unfavorable prices for most farm products, high costs and frequently a shortage of skilled and reliable labor, some farmers are doing remarkably well. Others are building up debts and are falling farther behind each year.

Typical labor incomes on dairy farms in the Northeast, for example, have been around $3,000 in recent years. Average incomes for the majority of farmers certainly are low in relation to those of employed workers in nonfarm occupations. But the average figures tell only part of the story. Among a group of 18 above-average dairy farms in New York, all family owned and operated with no more than one or two hired men per farm, the range in labor incomes (after allowing for a 5 percent return on capital) in 1963 was from less than $3,000 for four of the farms to more than $10,000 for six of the farms. One farmer earned a labor income of more than $25,000.

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1 Professor of agricultural economics, Cornell University.
Table 1  Number of Farms and Proportion of Sales by Sales Classes, 1963

<table>
<thead>
<tr>
<th>Farms with sales of:</th>
<th>Number of Farms (million)</th>
<th>Percent of All Farms (percent)</th>
<th>Percent of Total Sales (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000 and up</td>
<td>1.0</td>
<td>27</td>
<td>78</td>
</tr>
<tr>
<td>$5,000 to $10,000</td>
<td>.6</td>
<td>17</td>
<td>13</td>
</tr>
<tr>
<td>$2,500 to $5,000</td>
<td>.5</td>
<td>13</td>
<td>5</td>
</tr>
<tr>
<td>Less than $2,500</td>
<td>1.5</td>
<td>43</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>3.6</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: USDA, Farm Income Situation, November 1964.

Similar extremes can be found among any group of commercial farmers at present. Those farmers with superior management ability and the capital to make improvements are doing remarkably well.

At least a part of the present wide range in incomes is associated with farm sizes. Farmers with gross sales of less than $5,000 annually obviously find it extremely difficult to pay production expenses and have enough left to maintain a reasonable level of living unless they can earn income from off-farm work. Even those farms with sales of $5,000 to $10,000 have limited potential earning capacity. It is generally acknowledged that a farmer needs to sell farm products valued at $10,000 or more each year to farm successfully today. Farmers themselves have recognized this. The number of farms with sales in excess of $10,000 annually has, in fact, been rising in recent years, while the number of farms with sales of less than this amount has been declining, especially those with sales of less than $5,000 annually.

Every year since 1935, the total number of farms has been less than in the preceding year. In the decade of the 1940's the average rate of decline fell between 1 and 2 percent per year. During the past decade, including the past five years, the rate of decline has averaged about 3 percent per year. Thus, the decline in farm numbers is clearly a bi-partisan phenomenon. The exodus from agriculture has continued in every administration and under every Secretary of Agriculture that has held office during the past 30 years.
Effects of Recent Federal Farm Programs on Commercial Agriculture

We have at present an extremely diverse and complex assortment of commodity programs. These programs provide price supports at widely varying levels for some commodities but not others. Those commodities which are supported now account for roughly one half the total cash receipts of farmers. Livestock and most livestock products (other than milk and dairy products), fruits and vegetables are not supported although the prices of many of these non-supported commodities are influenced indirectly by support programs on other commodities and, in a few cases, by marketing orders. Present support programs are buttressed by a wide range of activities designed to reduce supplies or to increase consumption, either at home or abroad. These include compulsory acreage allotments for some crops but not others, the school lunch, school milk and food stamp programs, export subsidies, sales of surplus commodities for foreign currencies and gifts for relief. More recently, large-scale land retirement programs have been added. It is obviously very difficult to separate out the effects of these programs from all the other factors which have influenced farm output, prices and incomes over the past decade. Nevertheless, I think it is important to try to do this if one is to provide information on which to base rational policy decisions.

Farm programs probably have influenced prices and incomes much more during the past decade than during the depression years of the 1930's and certainly more than during the decade of the 1940's. During the first 15 years of government price-support and acreage control programs, that is from about 1933 to 1948, recovery from the depression, drought in the mid-1930's and World War II had far more influence on agriculture than did farm programs. The agricultural adjustment programs adopted in the 1930's unquestionably influenced the production of individual commodities such as cotton and tobacco, but they had only a very modest effect on total farm output. Average farm prices were increased as a result of the storage and loan program when commodities moved into storage in the late 1930's, but they were later depressed when the accumulated storage stocks were liquidated. Thus, the net effect was to moderate the price fluctuations rather than to raise by a substantial margin the average level of farm prices.

Government programs also helped to cushion the decline in prices which occurred in the late 1940's. But again, the effect of the support programs during late 1940's and early 1950's was mainly to moderate price fluctuations rather than to add significantly to average farm incomes. Storage holdings acquired in the late 1940's were reduced during the Korean emergency.

Government policies began to have a much greater impact on agriculture during the decade following the Korean War (beginning about 1953). In the late 1950's and early 1960's, net farm incomes probably were increased by
a minimum of 20 percent and perhaps as much as 50 percent by government price-support, acreage diversion and surplus disposal programs.\(^2\) The greater impact of government programs during the past decade than during earlier periods is due principally to the fact that substantial quantities of farm products were held off the market and stored or diverted to non-commercial outlets, mainly abroad. In addition, beginning in the late 1950's and continuing in the early 1960's, total farm output, and not just the production of individual commodities, was held down by land retirement programs. Substantial export subsidies and transfers of income via direct payments, as under the feed grain, cotton, sugar and wool programs, also have contributed to maintaining or raising farm incomes during recent years.

Increases in cash costs relative to gross receipts in recent years have made net farm incomes more vulnerable to changes in farm prices than was true 20 or 30 years ago. At present, a decline of 10 percent in gross receipts is likely to be accompanied by a reduction of between 30 and 35 percent in net farm income, and an even greater percentage decline in the net cash income available to buy new equipment or to repay debts. Thus, price declines are more serious now than a decade or two ago because of the higher leverage or multiplier effect such changes are likely to have on net farm incomes.

Despite support programs, the average level of farm prices in the United States has been relatively low in recent years when measured against either world prices or historical price relationships in this country. Our prices for feed grains, soybeans, poultry and eggs are among the lowest in the world. The prices which our farmers receive for wheat, cotton, rice and tobacco, although above those prevailing in the lowest-price countries, are well below those which are maintained in many countries. The index of average farm prices in the United States in 1963-64 was 4 percent below the level prevailing a decade earlier, while the index of prices paid was 12 percent higher. During each of the past three years, the parity ration, that is the average relationship between prices received and paid by farmers (with the 1910-14 relationship equal to 100) has fallen below 80. The only other period since World War I that the ratio has remained this low for as long as three years was during the early 1930's. The current ratio is substantially below that which prevailed during the agricultural depression of the 1920's.

\(^2\)For a review of these estimates see "Farm Program Benefits and Costs in Recent Years," a study prepared for the Senate Committee on Agriculture and Forestry by Walter W. Wilcox of the Legislative Reference Service and published as a Committee Print, 88th Congress, Second Session, October 1964.
Had farm price-support, storage, acreage diversion and export subsidy programs not been in effect during the past decade, there is no question but that farm prices would have declined even further. Various statistical methods have been used in an attempt to estimate how much prices might have fallen in the absence of government programs. All are subject to limitations, particularly with respect to the effect lower prices might have had on subsequent supplies, but they offer convincing evidence of the critical role which support programs have played during the recent years in maintaining farm prices substantially above the levels that would have prevailed under free-market conditions. The effects obviously have been much greater on some commodities, such as wheat, cotton, tobacco and rice than on other commodities such as fruits, vegetables, eggs and poultry. Indirectly, supports and storage or diversion programs have significantly influenced livestock product prices, particularly the prices of beef and pork. Had surplus grain stocks not been held off the market, prices would have been forced down to a level at which it would have been profitable to convert the additional grain into beef, pork and poultry. This, in turn, would have depressed the average prices of all livestock products.

Producers of supported commodities undoubtedly have received a large share of the benefits of federal farm programs, but the producers of such non-supported commodities as pork and beef also have gained, at least in the short run. Benefits have been allocated among producers roughly in proportion to sales. Thus, the top 25 to 30 percent of all farmers (those with sales in excess of $10,000 annually) have probably obtained about 80 per cent of the benefits.

Those leaving agriculture also have benefited indirectly from support programs because of the effect such programs have had on farm values. Over the past three years, prices of farm land have risen at the average rate of about 5 per cent per year. The recent inflation in land prices has been due in part to intense competition among farmers who want to enlarge their farms. But at least a significant part of the gain has been due to government programs. Certainly land values would have risen less if such programs had not been in effect. While higher land values have provided a form of capital gains to farmers who have sold out, it must be recognized that these higher prices also have raised entry costs and thereby created a higher cost structure for those purchasing farms.

Farm price-support and supply adjustment programs clearly have helped to maintain or raise the average level of farm prices, incomes and land values during the past decade. The effect of such programs on output and efficiency is much more difficult to determine. Some of the programs which have been in effect during the past 10 years have had a retarding effect on output and efficiency, while others have stimulated the adoption of new technology and thus have contributed to increases in yields. My own judgement, based on fragmentary and admittedly not very satisfactory data, is that our farm programs had a net positive effect
on output during much of the 1950's, but that they have had a retarding effect on output during the past three to five years. During the most recent period, the withdrawal of land from production under various types of government programs probably has been sufficient to offset a major part of the yield-increasing stimulus of price and income-support programs. This was not true during most of the 1950's. Except in 1957-58, total farm output was not materially influenced by government programs. During the past four years, however, the area planted to crops has been reduced by 40 to 50 million acres which is equivalent to a 13 percent reduction in land inputs. As a result of this large-scale withdrawal of land, production has been held below where it would otherwise have been.

Among the major agricultural nations of the world, the United States is unique in having adopted programs designed to limit production. Mainly because of these programs, per capita supplies of agricultural products in the United States have averaged very little higher during the past three years than in the early 1950's, (table 2). In contrast, per capita supplies of farm products are now much larger than a decade ago in most other industrial nations, and especially in Japan, Australia and Western Europe. Total agricultural output rose even in Eastern Europe, the USSR and Latin America more than in the United States between 1952-4 and 1962-4.

Changes in the use of farm inputs during the past decade are in line with those that probably would have occurred in the absence of government programs. Farmers are now using a third less labor than a decade ago, 10 to 15 per cent less land, about the same quantity of machinery, and much more fertilizer, chemicals and purchased feed (Table 3). It is unlikely that the exodus from agriculture could have been speeded up much more without causing serious problems for rural communities. In the absence of price-support programs, slightly larger numbers of people might have left agriculture, but there is little evidence to suggest that such programs have been a significant factor in the decision to leave or to remain in agriculture. Income differentials have been so wide, particularly for those operating small farms, that there has been ample incentive to move whenever jobs were available. The rate of exodus from agriculture has undoubtedly been influenced much more by nonfarm employment opportunities than by farm programs.

In the absence of government programs, the amount of income available to finance improvements undoubtedly would have been reduced. This in turn would have made creditors less willing to finance the purchase of additional machinery and perhaps other inputs as well. The question of fertilizer purchases is the most critical, since inputs of fertilizer have probably contributed more to increasing output in recent years than any other factor. Over the past 10 years, the total quantity of plant nutrients applied, (nitrogen, phosphorus and potassium combined) has increased more than 75 percent. If one accepts the rule of thumb which has been suggested by some agronomists that a ton of applied plant nutrients will add the
### Table 2

Percent Changes in Total and Per Capita Farm Output, Selected Areas and Countries, 1952-54 to 1962-64

<table>
<thead>
<tr>
<th>Country or Area</th>
<th>Percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>Japan</td>
<td>51</td>
</tr>
<tr>
<td>Australia</td>
<td>41</td>
</tr>
<tr>
<td>Eastern Europe and USSR</td>
<td>34</td>
</tr>
<tr>
<td>Latin America</td>
<td>34</td>
</tr>
<tr>
<td>Western Europe</td>
<td>25</td>
</tr>
<tr>
<td>U. S. A.</td>
<td>19</td>
</tr>
</tbody>
</table>

*Source: *World Agricultural Situation*, ERS, USDA, 1965*

### Table 3

Changes in Major Farm Inputs 1953-54 to 1963-64

<table>
<thead>
<tr>
<th>Farm Inputs</th>
<th>Percent change, 1953-54 to 1963-64*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm labor (man-hours)</td>
<td>-36</td>
</tr>
<tr>
<td>Cropland planted</td>
<td>-13</td>
</tr>
<tr>
<td>Machinery</td>
<td>+2</td>
</tr>
<tr>
<td>Feed, seed and livestock purchased</td>
<td>+54</td>
</tr>
<tr>
<td>Fertilizer</td>
<td>+76</td>
</tr>
</tbody>
</table>

*Partly estimated.*

equivalent of 10 tons of grain, then as much as 80 per cent of the increase in total grain production which has occurred during the past decade can be attributed to increased use of fertilizer. Even if farm product prices had been lower, it is doubtful if the use of fertilizer would have been greatly curtailed. Marginal returns from increased use of fertilizer at recent prices have been as high as three dollars for each dollar spent.

Regional shifts in production undoubtedly have been inhibited by acre-age allotment programs tied to historical bases. In the absence of allotment programs, production of cotton undoubtedly would have declined in the Southeast and increased in the Southwest. A somewhat larger proportion of the wheat crop also would have been produced in those areas where costs are low and alternatives limited such as the Great Plains and the Pacific Northwest and a smaller proportion in the eastern states. The consolidation of farms would have been encouraged, and, on the average, greater efficiency in the use of both labor and machinery would have been achieved. Farms have grown in size despite these programs, but consolidation probably would have occurred at an even more rapid pace in the absence of such programs. At the same time, one must recognize that increases in labor efficiency have been achieved in part because farmers have had the income (and hence the capital) to buy additional land, machinery, improved seeds, fertilizer, irrigation equipment, etc.

In summary, the effects of farm programs on commercial farmers and their present position is about as follows:

1. Despite government support programs, farm prices are now relatively low by historical standards, but they are probably at least 10 per cent higher than they would be in the absence of government programs.

2. A significant minority of farmers have demonstrated that they can operate profitably under present adverse price relationships. They have been able to do this by enlarging their farm, using higher yielding crop practices and buying additional machinery.

3. The income spread within agriculture is probably widening. Farmers with superior management ability have increased their incomes relative to those who have been unwilling or unable to adopt new production practices.

4. Large numbers of small-scale farms still remain in agriculture despite the rapid adjustments that have occurred in recent years. Only a small fraction of those operating such farms (i.e., farms with current sales of $5,000 or less) will ever be able to earn a satisfactory income solely from agriculture.
5. Farm programs have not seriously impeded resource adjustments in agriculture. The quantity of labor and land employed in agriculture has continued to decline, and the use of capital, and especially fertilizer, has increased. These are changes which probably would have occurred in the absence of government programs, although probably at somewhat different rates.

6. Farm incomes and land values are now higher than they would have been in the absence of government programs. At least a part of these gains have been capitalized into land values, thereby adding to capital requirements for new entrants into agriculture.

7. Some of the agricultural programs which have been in effect during recent years have led to increases in yields and efficiency, while others have had a retarding effect. I find it difficult to make a positive statement about whether gains have exceeded losses or the reverse. The changes in resource use that have been induced by price-support and related programs are probably small relative to those resulting from technological developments and market forces. The major factors contributing to increased output during the past decade have been improved varieties and cultural practices which have been developed in large part with public finds, and cheap fertilizer, improved chemicals and farm machinery, which have been produced mainly by private industry.

Magnitude of the Present Surplus Problem

Experience during recent years strongly suggests that more farm products are likely to be produced by farmers during the next few years at prices averaging between 75 and 80 percent of parity (if production is uncontrolled) than consumers, either at home or abroad, might purchase at these prices. The amount by which prices would have to be reduced in order to achieve equilibrium between commercial demand and supply obviously cannot be forecast with any degree of precision, partly because the effects of future technological developments are unknown. Most economists who have made an attempt to forecast future demand and supply conditions have come to the conclusion that, even under the unfavorable price relationships that have prevailed in recent years, the surplus problem is likely to persist, at least during the next five to ten years. If yields continue to rise at rates which approximate those that have prevailed in the recent past, we will be able to meet anticipated domestic and export demands 10 or 15 years hence with no more land in production that has been planted to crops in recent years, and less land than was farmed in the 1950's.3

3See Earl O. Heady, "Potential Shifts in Commercial Agriculture Relative to Technological Change; Policies for Long-Run Solution to Surplus Problems," this volume.
The size of the surplus is obviously dependent on prices. To maintain the present level of prices, it probably will be necessary over the next five to ten years, either to purchase farm products equivalent in value to between 5 and 8 per cent of annual production if output is not restricted, or to make corresponding adjustments in production. This is merely an informed guess, and for this reason should not be considered as a precise forecast. A period of adverse weather or a new international crisis might temporarily eliminate the surplus problem. Nevertheless, it would appear prudent for the United States to be prepared to deal with a continuing adjustment problem in agriculture over the next decade of about the same dimensions as in the recent past. This suggests that we should be prepared to consider something more than one or two-year "emergency" programs.

**Alternative Courses of Action**

American agriculture has achieved a tolerable degree of adjustment with the assistance of the federal government during the past few years. Physical surpluses of most commodities have been reduced. Except for cotton and tobacco, average annual disappearance of every major farm commodity has equalled or exceeded production during the past three years. Our experience has demonstrated that the surplus problem is by no means insoluble. Nevertheless, I think it fair to say that no one is entirely satisfied with the present combination of farm programs. Many farmers are dissatisfied with the incomes they now receive; others complain about the controls and the bureaucracy necessary to implement the programs which have been adopted; nonfarm residents object to the costs associated with supporting agriculture; our competitors abroad complain about our export policies; and economists frequently assert that too little attention has been given to policies which will facilitate long-run resource adjustments. While criticisms abound, one must not lose sight of the fact that the present combination of programs does represent an acceptable compromise. There is probably less opposition among commercial farmers to present programs, complicated though they are, than to most of the alternatives that have been proposed.

In view of the support that exists for the current mixture of programs, it is probably unrealistic to think in terms of eliminating all supports or of relying on a single proposal such as comprehensive supply controls to achieve a balance between consumption and production. The important policy issue at present is to decide what combination of programs appears to be reasonable. My assignment is not to attempt to prescribe the optimum mix of programs (even if I were capable of doing so to the satisfaction

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of all interested groups), but merely to suggest possible modifications of present programs or changes in emphasis that might be considered, and to point out some of the consequences of such changes.

Since government costs are a focal point of opposition to present programs, I shall begin by listing the alternatives in ascending order of costs. They are as follows:

1. Lower support prices
2. Limit production or sales through the use of effective, compulsory controls
3. Programs involving multiple pricing
4. Voluntary land retirement
5. Purchase, store and dispose of surplus commodities
6. Make direct payments to increase total returns to producers above the amounts that might be obtained from the sale of farm products

The problems associated with each of these alternatives will be discussed in turn.

Lower Supports

The direct and indirect costs of agricultural support programs now account for more than one half the total agricultural budget. Eventually, savings of perhaps $3 billion in government costs might be achieved if all support programs were eliminated, but the short-run effects on the budget of reducing support prices would be much less since a significant part of present costs are associated with storing, handling and disposing of surplus commodities that have been accumulated in prior years.

The conflict over high vs. low supports which dominated farm policy discussions in the 1950's has diminished in intensity during recent years. Secretary Benson achieved at least a partial victory in his efforts to use the price mechanism to reduce agricultural surpluses and cut government costs. Few people are now advocating a return to high supports unless they are accompanied by effective supply controls. The major issue at present is whether support prices should be lowered still further.

Most economists concede that lower support prices would tend to slow down the rate at which farm production might increase in the future by reducing incomes and hence the amount of capital available for investment. Moderate price reductions, however, could not be expected to bring about an immediate decrease in farm production or a significant increase in
consumption. Prices would have to be reduced very substantially to have an immediate effect on production. The costs to society of eliminating surpluses through price reductions alone would indeed be very great. Creditors, merchants in rural areas, and local schools would be among those adversely affected as well as farmers. Lower support prices for some commodities, however, would help to reduce costs associated with export subsidies and, through their influence on land values, would make it less expensive to retire cropland under a voluntary land retirement program. Over a period of years, lower support prices also might help restore or improve the competitive position of such commodities as cotton and tobacco.

Compulsory Controls

The least-cost method of eliminating agricultural surpluses, if one assumes that dropping supports is not a feasible alternative, is to make production controls or sales quotas effective without compensating producers for resources withheld from production. To be effective, present minimum acreage restrictions would have to be abolished, and further cuts in allotments would have to be made in order to offset the effects of higher yields. Some method also would have to be adopted to prevent the acres withdrawn from allotment crops from being planted to non-allotment crops. Alternatively, sales quotas might be employed. However, thus far both Congress and producers have been reluctant to accept this alternative. Unless controls were comprehensive and included most commodities, resources formerly used to produce commodities subject to control would be diverted to other commodities, thereby creating new surplus problems. Potential gains in efficiency also would be sacrificed unless some provision were made to transfer sales quotas between producers. Many farm operators have far more to gain from increasing output and reducing costs than from moderate increases in prices. The individual farmer looks at these programs from the standpoint of the effect they might have on his farm business, not the aggregate effects. This is why it is difficult to get producer acceptance for such programs even though one can argue convincingly that total returns to farmers could be increased if sales of farm products were restricted.

Multiple Pricing

For some commodities, it is possible to raise or maintain returns to producers above the level that would prevail under free-market conditions by charging buyers different prices for the same product, depending on use. For a number of years, this principle has been used to improve returns to producers operating under federal marketing orders. A high proportion of the fluid milk sold in urban areas is now priced in this manner. All costs of marketing order programs are assessed against producers or handlers.
More recently the principles of multiple pricing have been applied to wheat. Under the present wheat certificate program, the average market price of wheat is maintained at a relatively low level. Those who agree to restrict their acreage are given certificates for a part of their crop which can be converted into cash. The payments made to participating farmers are financed largely by the sale of certificates to wheat processors or exporters. Thus, government costs are relatively low. Any farmer who wants to increase wheat production is free to do so, although he receives lower average returns per bushel of wheat than those farmers who elect to participate in the program and agree to restrict production.

In practice, multiple price programs probably can be applied successfully to only a few of our present surplus commodities such as wheat, milk and possibly rice. Government costs can be reduced and returns to producers maintained or increased only if the higher prices charged buyers for a part of the total volume, or the cost of certificates, can be passed on to consumers without greatly influencing sales. It is also essential to have a secondary outlet, such as the export of feed market for wheat, which can absorb the quantities not sold in the primary or high-priced market.

**Voluntary Land Retirement Programs**

Recent experience suggests that we can continue to avoid any serious build-up of farm surpluses (assuming the present level of support prices is maintained) if we are willing to spend between one and two billion dollars per year to induce farmers to keep land idle. In general, it is cheaper to pay farmers not to plant crops than to purchase, store and try to dispose of surplus commodities once they are produced. A land retirement program can probably be operated at about one half the cost or less of a purchase, storage and disposal program, provided the program is operated efficiently.

The present voluntary feed grain program is expensive mainly because it has been directed towards retiring part of the acreage on each participating farm. To get farmers to cut back their acreage, it is necessary to compensate them, not only for the idle land, but also for their labor, management and capital on which they would have earned a return if the additional acreage had been planted. Marginal returns from planting additional acreage are usually very high. For this reason, compensation rates must be high if farmers are to be induced to participate. The costs of retiring land under the present feed grain program have exceeded 50 percent of the gross value of production per acre.

Government costs could be reduced to as low as 20 to 30 percent of the gross value of output per acre if the program were concentrated in certain areas, and whole farms rather than part of the acreage on each participating farm were retired. Average annual costs might be lowered still further if farm land in marginal areas were purchased by the government. The rule to be followed, if cost minimization is the objective, is to concentrate land
retirement (or purchases) in those areas where land values and hence rental rates are lowest in relation to the value of output per acre. A selective farm rental or purchase program obviously would have a much greater impact on certain areas than the present program under which payments are distributed widely. Merchants and suppliers of farm services in such areas would be adversely affected.

Purchase, Storage and Surplus Disposal

At a cost of between two and four billion dollars annually, the United States probably could continue to maintain a balance between production and use of farm products without supply controls, provided sufficient outlets for surplus commodities could be found. It is difficult at present to find additional outlets for farm products within the United States that do not substitute wholly or in part for normal commercial sales. The net addition to the total demand for farm products of present internal food subsidy programs such as the school lunch, school milk and food stamp programs is less than 1 percent of total production. There is little prospect of increasing internal consumption of farm products by much more than one percent.

The greatest potential for increased use of farm products clearly lies in the developing countries, not in the United States or in countries which can afford to buy our farm products such as those in Western Europe. At present, under the Food for Peace program, we are disposing of commodities valued at about $1.6 billion per year. It may be unrealistic, however, to count on an expansion of disposal activities to solve our farm surplus problem. Countries which might offer potential outlets may be unwilling to enter into contracts with the United States because of the fear of becoming too dependent on us for food, or because they fear additional imports might depress their own agricultural prices and hence retard internal development. The United States also may be reluctant, for political reasons, to sign agreements with some countries such as Indonesia, the United Arab Republic or Mainland China which might be able to make use of additional quantities of food. For these very practical reasons, we may find it difficult to increase the scope of our present surplus disposal programs even if we desire to do so and are willing to pay for the commodities exported as well as the costs associated with handling and transportation.

Payments to Producers

The United States has made use of selective payment programs to maintain or increase returns to producers of wool, sugar and cotton. In the case of wool and sugar, the programs have been relatively easy to finance since both commodities are imported in large volume and tariffs are collected on all imports. A part of the revenue from import duties has been used to finance payments to producers. In the case of cotton, payments are now made to handlers or producers to make cotton prices more competitive and, at the same time, maintain farm incomes. These payments are financed directly from the treasury.
A direct payment program, such as the present one on cotton, is likely to be expensive unless the program is confined to a few commodities with a small volume of production. Costs can be held down by lowering the guaranteed or support price, by limiting payments to a specified volume, or by divorcing payments from production entirely. It is generally acknowledged that an unlimited direct payments program without production controls, under which the government would make up the difference between prices that would clear the market and present support prices, would cost considerably more than the present combination of acreage allotment, land retirement and surplus disposal programs.

Conclusions

While agricultural support programs can continue to make a contribution to the incomes of commercial farmers, as they have in the recent past, it is well to keep in mind that the major determinant of the long-run level of incomes in agriculture is the availability of alternatives. Added incomes from support programs will simply contribute to higher land values unless sufficient numbers of farmers cease to bid for the privilege of farming. In the long run, programs which contribute to general economic expansion and make it possible for those in rural areas to obtain the education needed to complete for nonfarm jobs will probably add more to the welfare of commercial farmers than will support programs.

The present combination of agricultural support measures is broadly acceptable to farmers, but the package is costly to the treasury. There are a number of ways in which costs might be reduced, but not without encountering opposition from producers and those in rural areas who might be adversely affected by attempts to limit production. Any realistic discussion of farm policy issues must take account of these restrictions. Furthermore, in considering future changes in farm programs, one must recognize that the trend in recent years has been away from general legislation towards particular programs for each of our major surplus commodities: wheat, feed grains, cotton, tobacco and dairy products. Greater differentiation among commodity programs probably is inevitable since programs that will be appropriate and acceptable for one commodity such as cotton may not be for another such as wheat or feed grains.