WHAT FARM POLICY IS IN THE NATIONAL INTEREST?

By Lauren Soth

The farm policy of the United States has been a brilliant success in all things except for the level and stability of the farmer's income.

Throughout our national history, the public has been abundantly supplied with food and agricultural raw materials for manufacturing, and prices of these farm supplied goods have been low. Even in times of war, pestilence or drought this country has not been faced with a serious food problem like that of so many parts of the world today.

The U.S. farming industry has been progressive in lowering costs and improving techniques. Our public policy has been exceedingly wise in this regard. Federal and state governments have cooperated in scientific research and education programs which have fostered a continuous advance in productivity. Our agriculture is a dynamic industry which in the last 25 years has been increasing output per man-year at a faster rate than the economy as a whole. In this last quarter century agriculture has released more than one-third of its manpower for use by the society in production of other goods and services.

Our agriculture has been able to respond dramatically to a national call for more production to meet the requirements of two major world wars. It has served the national interest by furnishing large quantities of food beyond domestic needs for the relief of hunger in other countries.

The U.S. farming industry also has been able to furnish several thousand technical experts for the development of agriculture in the less developed countries. Surplus capacity in American agriculture enables this country to carry out its objectives in foreign policy more competently than it could otherwise. Capacity to extend modern agricultural knowledge and to supply food directly where needed in support of national foreign objectives gives us a powerful advantage over our Russian and Chinese rivals for influence in the world.

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1 Editor of the editorial pages, Des Moines Register & Tribune
II

In discussing agricultural policy, it is well for us to consider these successes along with the failures which usually seem to get the most attention. It is well for us to look at the nation's agricultural policy in its entirety and in historical perspective and not to think of agricultural policy only in terms of the restrictions on production, price supports and subsidies of recent years.

The major thrust of American's public programs in agriculture has been and still is toward increasing production. This expansionist policy has greatly facilitated national economic development. It may well have been the single most important factor enabling this country to achieve and hold higher rates of output per person than any other part of the world.

This pervasive public effort in agricultural research and development has had cumulative effects. Scientific knowledge builds on itself in geometric progression. Public expenditures in agricultural research and education have continued to mount year by year. The financial rewards from new technology also have attracted increasing private investments in agricultural research and development. Since the end of World War II there has been a fantastic outpouring of new technology and the investments in fertilizer, chemicals, machinery and other production goods necessary to make the new ideas effective.

This surge of forces pushing agricultural production upward has hit the farm economy at the same time as a sudden change in the character of the demand for food. As the nation has grown richer, and better fed, demand for food has become more inelastic. The American consumer cannot be induced to buy larger amounts of food today even at sharply reduced prices. In the old economic textbooks, the demand for bread and potatoes was called inelastic, but demand for meat and dairy products was considered to be elastic. Today even the high quality protein foods face inelastic demand in the American market.

The combination of these supply and demand forces delivers a crushing blow to prices of farm products and to incomes of farmers. Without government farm programs to hold supplies somewhat in check, without price supports and subsidies, net farm income clearly would have fallen to disaster levels.

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Any realistic farm policy must reckon with this conjunction of dynamic forces which is pushing production upward faster than commercial markets are expanding. Persistent growth of supply, in the face of inelastic demand, results in chronic overproduction. It is no good to talk about eliminating the surpluses in government stockpiles as though that were a solution. This is a continuing problem of supply-demand dynamics. Elimination of the stored surpluses would leave the underlying disequilibrium unchanged.

Now it should not be surprising if, after more than half a century of intensive farm subsidies to increase production, we should be confronted with an imbalance in the rates of growth of supply and demand. If the subsidies which have generated this growth in agricultural supply should now require compensating subsidies to farmers to offset the depressing effect on their income, that, too, should not be surprising.

The subsidies to protect farmers from their own excess production, to a large extent, caused by public action should not be looked upon as sinful while government spending for expanding production is regarded as sacrosanct.

It is true that some of the methods we use to support farm income provide incentives to farmers to increase production further. But it is also true that the continuing subsidies being paid for research and education in agriculture, for land development, for irrigation, for soil conservation, stimulate production. Those critics who are outraged by price supports as making the surplus problem worse never seem to be outraged by the other aspects of our farm policy which also stimulate production. If we aim to adjust our farm policy to reduce the pressure of over-production, we ought to look at the whole farm policy and not just one part of it.

If we decide to do nothing to curb the injection of new technology and new capital into agriculture, we should not object to compensating public expenditures to enable farmers to maintain reasonable income opportunity in comparison with workers in non-farm occupations.

III

Considering the benefits the nation receives from abundant, efficient production of food and fiber, the cost of farm subsidy and control programs in recent years does not seem exorbitant. Studies by research economists in the federal Department of Agriculture, at Iowa State University, Cornell University, Pennsylvania State University and Oklahoma State University indicate that crop acreage control, price support and commodity storage programs have increased net farm income by something like $6 billion per year or about 80 to 100 per cent in the last
This increase in farm income has been accomplished at a public expenditure approximating $3 billion per year. Because of the inelastic demand for farm products, a relatively small public expenditure for production restraints and administered prices in agriculture has made possible a doubling of net farm income over what it would have been otherwise.

If this seems unjustified on grounds of equity, it should be remembered that income per person living on farms has barely maintained its ratio to income per person in the rest of the country in the last 15 years despite a sharp reduction in farm population. 4 The farm programs have enabled farmers to hold their own in relative income instead of suffering what surely would have been a drastic decline as a result of the increase in production.

If it could be shown, nevertheless, that the intervention of the federal government into management and pricing in the agricultural industry had slowed down technical progress, we would be justified in doubting whether this intervention was in the public interest. The original acreage control and price support programs were strongly objected to on these grounds and still are by those who have not read the record. The experience of the last 30 years has shown that these interferences by government into the free market did not slow technical change; they speeded it up.

The historical bases for acreage allotments were expected to prevent inter-regional changes of acreage in pursuit of least-cost production. This has not happened in significant degree. Between 1937 and 1960 total corn acreage dropped from 94 million to 82 million. Corn acreage declined by 12 million in the South Central states and 4 million in the South Atlantic states, areas of low yield. In the Corn Belt, however, there was an increase of 3 million acres. Cotton production has moved westward and away from the less efficient areas of the Southeast, despite the acreage control program.

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3 "Farm Program Benefits and Costs in Recent Years," Committee Print of the U.S. Senate Committee on Agriculture, prepared by Walter W. Wilcox, senior specialist in agriculture of the Legislative Reference Service, Library of Congress.

4 Per Capita Farm Income from All Sources as a Percentage of Nonfarm Income from All Sources:

<table>
<thead>
<tr>
<th>Year</th>
<th>1948</th>
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<tr>
<td>1948</td>
<td>65.7</td>
<td>53.9</td>
<td>57.4</td>
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<td>1952</td>
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<td>1956</td>
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<td>1960</td>
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It also should be remembered that during these 15 years the reduction in farms occurred largely among the lowest-income farms; presumably, the lowest-income people were leaving agriculture.
James O. Bray and Patricia Watkins, of Stanford University, show in a recent study\(^5\) on technical change in corn production that price supports, rather than being detrimental to economic growth, caused new techniques to be adopted more rapidly and high-cost producers to be retired sooner than otherwise would have been the case. The most rapid rate of technical change ever experienced in the United States in corn production occurred during a period when price supports for corn were in full effect. The Bray-Watkins study is an illuminating contribution to the subject of agricultural development.

Bray and Watkins make a distinction between growth in agricultural production caused by improvement of extractive techniques or fertility-depleting operations and that caused by soil-restorative techniques. Among the extractive techniques are replacement of animal and human power by mechanical power and biological improvements such as hybrid corn. The limit of improvement from extractive techniques is the natural fertility barrier. Such traditional restorative techniques as crop rotation may lift the fertility barrier slightly. But the real breakthrough in corn production came during the early 1940s from the introduction of artificially-manufactured, cheap nitrogen. The yield potential in hybrid corn could not have been realized without this innovation in fertilization that has lifted the fertility barrier. We do not know yet how high this barrier can be raised.

Our national farm policy of shielding agriculture from the dynamic forces of supply and demand was not adopted with the idea that it would facilitate economic development. But the programs proved to be an important force for modernization of agriculture. They provided the assurance of future prices farmers needed to make the investment in fertilizer.

IV

Whatever else our national farm policy may have done, it has provided both abundance and rapid technical progress, which are of great value to the nation. The nation should not expect agriculture, with 10 percent of the population, to bear a major share of the cost of these contributions to the nation. To turn agriculture over to the free market would be like expecting General Dynamics, General Motors or General Electric to produce jet airplanes and missiles at less than cost--and their workers to accept a 50 percent cut in wages for defense production.

The weakness of our farm policy is precisely in this area. The rewards for hard work, managerial competence, initiative and enterprise in farming are not high enough, in comparison with the rest of the economy. This is true by the standard of equality of opportunity and the standard of welfare equity. It is also true from the viewpoint of the national interest in maintaining a high quality of brains in the agricultural industry. As farming becomes increasingly complex, highly capitalized, more scientific and less traditional, we shall have to attract and keep able people in the business. The country will have to pay for this. Economic incentive in agriculture must be raised if the magnificent progress of this industry is to be maintained. The free market, unassisted by government, is incapable of providing this incentive.

A policy of moderately higher incomes in commercial agriculture will not stop the migration of high-cost producers out of the industry. Migration from agriculture in recent years has been mostly from the lower end of the scale in size of farm, level of income, level of education and level of production. This migration should continue. The nation can no longer expect agriculture to serve as a welfare industry, harboring the poor and incompetent who cannot be employed in an industrial society.

This is a national problem and should be met by the nation in the same way as it meets the poverty problem in the cities—that is, by education, health services, job counseling and the creation of new job openings through a policy of economic expansion. It is not closely related to the commercial farm problem. If the least productive third of farmers were to leave farming, this would have little effect on the total market supply of farm products.

V

If the nation should decide to redirect farm policy with the objective of raising farm income, what are the choices?

The intellectual foundation for making such decisions has been enormously enhanced in the last dozen years or so. The land-grant agricultural colleges, the federal Department of Agriculture and some of the private universities have been increasing our stockpile of imaginative research and original thinking on agricultural policy. The two institutions sponsoring this meeting, Iowa State University and North Carolina State, deserve special commendation for their leadership in this field. It is no longer accurate to accuse the agricultural colleges of ignoring the economic adjustment problems of agriculture in their studies. All of these institutions have gone far toward lifting us out of the realm of faith and traditionalism in our policy thinking.
We may obtain from recent studies dependable projections of the consequences to farm income and to the federal budget of various changes in farm policy. If we set a certain target of farm income, these scholars can tell us with considerable precision how much the cost will be for various types of programs, in terms of consumer expenditures in the market and federal taxes.

Fortunately, this country is rich enough that it can choose over a wide range of farm policy. We can afford to pay for a high degree of voluntariness and few regulations, if that is what the people want, and still maintain high farm income.

There can be no question but that the way to achieve a given level of farm income at the least governmental cost is through production control. The most expensive way to reach a given income target in terms of government cost is through direct subsidies.6

Our farm income support programs have been compromises between these extremes. Farm income has been raised partly by production restraints and supply management, which increased the prices to consumers in the market, and partly by direct subsidies from government.

These compromises do not please the absolutists who want to go all the way to supply management or the reverse. But they are quite practical in our democratic political system. In practical operation of the farm programs, it has been found that limited production controls and voluntary programs, even if that means a lower level of price support, are preferable to high price supports and strict controls.

If we seek a higher farm income goal, we can (1) increase the government's budget for direct subsidies to farmers or (2) tighten up production controls to increase returns in the market or (3) elevate price supports without tightening production controls and run heavier government costs in management and disposal of surpluses.

The extent to which one or a combination of these methods must be used to reach a given income target depends partly on (1) how much expansion in foreign commercial sales of farm products can be achieved and (2) how large a quantity of these products is used in foreign aid (Food for Peace) programs.

The need for government programs also depends on whether effective supply management can be accomplished by private farm organizations. If farmer bargaining power can be strengthened through private organizational arrangements, less government control will be needed. Marketing orders and agreements supervised by the federal government work well in balancing market supplies of some commodities -- so long as total grain output is held in check by government programs, providing a general shelter for all agriculture.  

An argument for tightening government production controls is often made on the ground that the public is likely to object less to a rise of food costs in the market than to a highly visible increase in the government budget. Returning to a higher level of price supports without controls would bring back the complications in surplus management that were regarded as scandalous a few years ago. High price supports with unrestrained production tend to bring on "dumping" practices in foreign trade which run counter to U. S. trade policy.

Is a policy of increasing the effectiveness of production controls and raising market prices to consumers politically feasible? If the question refers to acceptance by the general public, it seems to me the answer clearly is "Yes." There has been a great deal of talk in farming circles in recent years about "poor public relations," "bad press for agriculture" and the like. But I have found little evidence of this. In preparation for this paper, a search of recent (last 10 years) published materials of labor unions, consumer groups and urban groups failed to produce significant examples of protest against farmers because of high food costs.  

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7 About 90 per cent of all U.S. farm land in crops and pasture is devoted to food grain or feed for livestock. Over-supply and low prices of grain quickly spill over into livestock and other farm production.

8 Prof. Don Hadwiger of the Political Science Department of Iowa State University helped make this review of the literature. I am grateful to him for this assistance, but he bears no responsibility for the conclusions reached here.
As a matter of fact, the AFL-CIO usually has backed farm income support legislation in Congress. Consumer and urban groups, to the extent that they have taken an interest in agriculture at all, have been more concerned with the problem of poverty in agriculture, migratory farm labor, the absence of welfare legislation for farm workers and that sort of thing than in food prices. The National Consumers League, for example, testifying in Congress on farm labor and rural poverty in 1964, argued that the consumer could well afford the slight increase in cost of food that might accrue through providing a minimum wage and better living conditions for farm laborers.

The truth is that practically all the objection to farm production controls comes from certain farm organizations and agriculture-related industries, which have a stake in large volume farm production, and from theorists who see such regulations as beyond the pale of prescribed doctrine of free enterprise. Farm organizations in some cases have argued that consumer antagonism required a reduction in farm controls. There has been talk of farm price support legislation being a "bread tax" on consumers. So far as I have been able to find, this protest does not come from consumers.

Urban congressmen, however, may well object to large government expenditures for agriculture in the budget. They may insist on a higher blend of production control in the farm program "mix." Their complaints on farm legislation are not that farm income is being raised beyond a reasonable level but about the method used to raise farm income. They may argue more and more in the future that if farmers are to be guaranteed a certain level of prices, there must be a limit to how much farmers can produce at that price. "Open end" price support is costly.

From an economic standpoint, given the high rate of income in this country, it makes little difference whether higher farm income is achieved through more government expenditures or more controls over production. From a political standpoint, however, it may make a lot of difference. It may become increasingly difficult to maintain a high level of farm income through government subsidies, either direct payments or high price supports and disposal programs. The limiting factor seems likely to be the federal budget rather than consumer protests.

VI

Very likely we will continue to employ a blend of methods of supporting farm income, either adding more control and cutting subsidies or adding more subsidies while reducing restrictions if the budgetary hurdle can be surmounted. This pragmatic approach is the best one, since we are still feeling our way along in this business.
In making our decisions on future directions of farm policy, it would be well to avoid excessive attention to doctrine and moral philosophy, which leads to absolutist policies. We Americans, in our practical wisdom, frequently make fun of the Russians for their obsession with doctrinal considerations—and rightly so. The lopsided development of the Soviet economy, especially the dismal results in agriculture, plainly are a consequence, in part, of adherence to the various Marxist dogmas about economic organization, ownership of resources and pricing. We should be wary that we don't get trapped in the same way by doctrine.

Let me summarize the reasoning presented in this paper:

First, the nation has benefited enormously from the rapid application of new technology in agriculture.

Second, this technological advance has been generated and prosecuted in large measure by government action.

Third, the advance of technology has created surpluses and low prices, from the viewpoint of the farmer, or abundance and cheap food from the viewpoint of the public.

Fourth, equity considerations require that the nation support farm income, since it obliges farmers to adjust to new technology, placing them at a severe income disadvantage in the free market.

Fifth, price-support and other government programs used so far to support farm income have not slowed technological advance but on the contrary have facilitated it.

Sixth, strict production control is the best way to maintain farm income if the objective is least government cost. Price support, storage and disposal of commodities, along with voluntary production restraints, cost more in taxes but preserve valued elements of individual freedom. Direct payments are the most costly, in terms of government expenditures.

Seventh, no one method of protecting farm income is intrinsically right in all circumstances. The best combination of methods depends on how much control is deemed advisable; the level of exports, commercial and concessional, and on other special factors affecting each major commodity.