FARM UNCERTAINTY--AN ANALYSIS OF THE ISSUES

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For the fourth time in as many decades, the rural areas of the United States are once again experiencing doubt and frustration over the outlook for the farm economy. For those farm families who remained on the farm through the first three, and there are many in view of the high age structure, this latest turndown in farm prospects must seem particularly frustrating.

The agricultural industry was facing a severe depression of income when the government first made a major attempt to legislate hope for families in 1933, hope which slowly diminished with the large crops and declining prices of the latter years of that decade. To compensate for not maintaining prices in depression, farm prices for major crops were left uncontrolled during World War II and hope was raised during the 1940's for both improved farm conditions and world peace, hope which again disappeared with growing grain stocks and the chilled winds of the Cold War late in that decade. The early 1950's also brought hope that farm conditions were on a path to improvement, but that path was clearly uphill for the last half of the decade. And to the dismay of many, farm conditions have reversed their upward trend in the decade of the 1960's.

The first half of the 1960's brought expanding demand, declining grain stocks and improving price levels. These conditions resulted in improved income levels as the number of farms declined. But the farm picture again clouded with the drop in foreign demand after 1965-66. In addition the "miscalculation" of 1967 crop production has shown that the basic over-capacity has grown relative to domestic markets. And the prospects are good that our ability to produce will continue to grow for the next decade.

But others will look in greater detail at our capacity to produce so I shall not pursue it further. But events in 1967 should have underscored the importance of our policy makers and administrators having a clear understanding of the magnitude of our production potential. The over-relaxation of production restraints in 1967 suggests a lack of appreciation of the true potential of our farm plant. A better understanding of the changing magnitude of variables affecting the level of total output would have provided a keener understanding of the atomistic nature of our technologically advanced farm industry.

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Figure 1. Trends of prices received for all crops, all livestock, and all commodities, 1964-67.

Figure 2. Trends of prices paid by farmers for items used in production and family living, 1964-67.
Farm Uncertainty and Farm Issues

There are many issues creating uncertainty among farm people today. A majority of these issues revolve around (a) the economic outcomes farmers will derive in an urban society, (b) the relationships which will exist between farmers, the government, and the urban society, and (c) the role, if any, that farmers will fill in the U.S. relationship to a food-needy world. Some of these issues are more immediate in nature and others bother those persons who are looking past 1970. A look first at some issues which are causing near-term pessimism.

Farm prices

Above and beyond all other issues in order of immediate importance is the lower level of farm prices received recently for grain commodities. These prices are lower on average than any since 1960 when crop prices received averaged 222 on the 1910-14 base. After 1960 crop prices rose, averaging 227 in 1961, 232 in 1962, 239 in 1963, 239 in 1964, 234 in 1965 and 235 in 1966. As is evident crop prices reached a peak in 1964, an election year, and maintained a slightly lower level to 1967. Based on present prospects, 1967 crop prices received by farmers should average about 224 percent of the 1910-14 base period (figure 1).

The lower crop prices received in 1967 are somewhat more difficult to explain than simply saying that a larger output is available for the market. The quantity available for sale is increased but carryover stocks will be lower at the marketing year's end than in most years since 1961. Probably more important, excess capacity in grain production has been shown to exist. Only 12 months ago, much of the grain trade and even many well trained agriculturalists hypothesized that our overcapacity to produce was gone and demand would soon outstrip supply. You heard statements that our 55 million acres retired were simply "turn-arounds" and "rock-hills" which farmers would not farm even if restrictions were removed. The events of 1967 clearly removed these doubts and, even though carryovers will increase only slightly (with most of the increase remaining insulated from the market in government bins), farm prices are lower than in recent years. This outcome suggests that whereas in 1966 there was doubt that output could be increased, there is now doubt that the overcapacity can be controlled. One objective of this meeting should be to allay that fear.

The uncertainty over farm prices is not solely one of crop prices however. Of additional importance is the relationship between crop prices and livestock prices. As is evident from Figure 1, this ratio has widened since 1964 when crop and livestock prices averaged about the same relationship to each other as in 1910-14. Of course livestock
prices in 1964 were depressed and a more stable relationship would appear to be one where, on the basis used in these indices, livestock prices are 20 to 30 index points higher than crop prices. But during 1967 this margin widened to between 45 and 60 points. Thus when comparing the alternatives of selling corn for cash or storing corn for livestock feeding, the latter course may appear more favorable unless producers take adequate care to project livestock prices into the future. Should future livestock prices fall -- a sure response if livestock production is greatly expanded -- these two alternatives will be more nearly equal by the time livestock is ready for market. The USDA is projecting feed grain tonnage for feeding purposes to rise from 126 million tons in the 1966-67 feed year to 133 million tons in the 1967-68 feed year, suggesting USDA believes livestock producers will increase production of livestock. And these are the signals which many producers are concerned about -- signals which are raising a great deal of concern in rural areas.

**Prices paid**

A second major area of immediate concern is with prices paid for items used on the farm. As Figure 2 shows, these costs have been increasing since 1964. Between 1955 and 1964, prices for production items increased by 3/4 of one percent per year, but in the 3 year period between 1964 and 1967 these prices rose 7.0 percent, or over 2 percent annually. While output per unit of input has increased over the period, (table 1) it offsets only part of the increase in prices of inputs, and does not cover the additional quantity of inputs used or the decrease in crop prices received. The result is a tightening of the cost-returns vice in which many farmers find themselves. A major uncertainty for the future lies in what will happen to the costs of production even if crop prices return to their 1964 level.

**Inflation**

Farmers, both traditionally and at present, are least able to protect themselves against increases in costs of operating their firm. In the remainder of the economy, probably a majority of wage earners now have built-in cost of living escalator clauses in labor contracts. Many businesses, as the steel industry shows, are also able to adjust prices to cover higher costs or increase profit. Farmers, however, must face the impact of higher prices and wait until market prices increase. With the present magnitude of unused capacity for crop production, inflationary pressures in the remainder of the economy are not affecting agricultural prices to any significant degree.
Table 1. Index numbers of farm output, inputs, and productivity for the U.S., 1955-66.

<table>
<thead>
<tr>
<th>Year</th>
<th>Farm Output</th>
<th>Production Inputs</th>
<th>Productivity¹/</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>96</td>
<td>102</td>
<td>94</td>
</tr>
<tr>
<td>1956</td>
<td>97</td>
<td>101</td>
<td>96</td>
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<tr>
<td>1957</td>
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<tr>
<td>1958</td>
<td>102</td>
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<td>1959</td>
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<td>101</td>
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<tr>
<td>1960</td>
<td>106</td>
<td>101</td>
<td>105</td>
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<tr>
<td>1961</td>
<td>107</td>
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<td>1962</td>
<td>108</td>
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<tr>
<td>1963</td>
<td>112</td>
<td>102</td>
<td>110</td>
</tr>
<tr>
<td>1964</td>
<td>112</td>
<td>103</td>
<td>109</td>
</tr>
<tr>
<td>1965²/</td>
<td>115</td>
<td>103</td>
<td>112</td>
</tr>
<tr>
<td>1966²/</td>
<td>113</td>
<td>105</td>
<td>108</td>
</tr>
</tbody>
</table>

¹/Output per unit of input.
²/Based on revised basic data from the 1964 Census of Agriculture and other data, therefore not completely comparable with 1964 and other years. Data for 1966 are preliminary.

Farmers are in a significantly different position with respect to the present war-initiated price increases than was true during both World War II and the Korean conflict. Their costs are increasing but the traditional effect of war on farm prices has not occurred and will not likely occur with the existence of excess capacity. The result is that farmers today are in a position where inflation has a sharply negative short-run effect on farm incomes. This is a sharp reversal of past decades when war and other demand-increasing activities created inflationary pressures which raised both farm and nonfarm prices. At present, only nonfarm prices are showing any substantial upward effect and these prices are costs of farmers. Should prices of production items continue their recent upward trend without offsetting farm price increases, the squeeze on net returns will continue.

Program payment

A third short term problem area is farm program payments. The termination of government payments for land retirement programs in 1967 on all farms except those classified as small farms has reduced the proportion of
Table 2. Net farm income and payments under government programs (in millions of dollars) and proportion of net farm income coming from various types of programs for the years, 1963-66.

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Farm Income</th>
<th>Total Payments</th>
<th>Percent of Total Net Farm Income</th>
<th>Land Diversion</th>
<th>Percent of Total Net Farm Income</th>
<th>Price Supports</th>
<th>Percent of Total Net Farm Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>$12,015</td>
<td>$3,266</td>
<td>27.2</td>
<td>738</td>
<td>6.1</td>
<td>1,235</td>
<td>10.2</td>
</tr>
<tr>
<td>1964</td>
<td>12,914</td>
<td>2,452</td>
<td>19.0</td>
<td>994</td>
<td>7.7</td>
<td>922</td>
<td>7.1</td>
</tr>
<tr>
<td>1964</td>
<td>13,138</td>
<td>2,169</td>
<td>16.5</td>
<td>911</td>
<td>6.9</td>
<td>690</td>
<td>5.3</td>
</tr>
<tr>
<td>1963</td>
<td>13,115</td>
<td>1,686</td>
<td>12.9</td>
<td>621</td>
<td>4.7</td>
<td>436</td>
<td>3.3</td>
</tr>
</tbody>
</table>


1/ Includes payments for conservation programs, the sugar act, milk indemnities, the Soil Bank, Great Plains Conservation, cotton, wheat and feed grain programs.

2/ Includes payments for wheat and feed grains programs.

Total farm income from this source. Government payments for all purposes made up 27.2 percent and price support programs 10.3 percent (table 2).

In 1967 the reduction of land retirement programs immediately reduced farm income by 5 to 6 percent and this reduction has a considerable effect when combined with lower crop prices. In this instance, however, there is room for some amount of optimism. Payments for land retirement programs will be reinstituted and enlarged in 1968. The 15 million acres returned to production in 1967 will likely again be retired in 1968. Government payments will increase as a result.

Associated closely with the reduced land retirement payments are the smaller proportion of farmers who are eligible for price support payments because fewer farmers participated in production control programs. Thus more farmers find themselves without the protection of a price floor for grain commodities. About their only immediate hope is that those who do qualify for price supports will place their grain under loan and remove it from the market place. Such action should help to buoy the price of major grains. However, in both cases -- for those who must store grain because price supports are not available and for those who must store to gain price supports -- a substantial amount of grain storage is required.
Table 3. Average levels of government payments and the percentage of gross farm income from these payments for various farm sales classes in 1964.

<table>
<thead>
<tr>
<th>Size of Farm in Sales</th>
<th>Number of Farms in Thousands</th>
<th>Percentage of Farms</th>
<th>Government Payments Per Farm</th>
<th>Percentage of Income From Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20,000 or more</td>
<td>384</td>
<td>10.7</td>
<td>$2,391</td>
<td>18.5</td>
</tr>
<tr>
<td>10,000 to 19,999</td>
<td>594</td>
<td>16.6</td>
<td>670</td>
<td>8.8</td>
</tr>
<tr>
<td>5,000 to 9,999</td>
<td>609</td>
<td>17.0</td>
<td>350</td>
<td>6.4</td>
</tr>
<tr>
<td>2,500 to 4,999</td>
<td>463</td>
<td>13.0</td>
<td>173</td>
<td>3.9</td>
</tr>
<tr>
<td>Less than $2,500</td>
<td>1,523</td>
<td>42.6</td>
<td>51</td>
<td>1.2</td>
</tr>
<tr>
<td>All Farms</td>
<td>3,573</td>
<td>100.0</td>
<td>472</td>
<td>8.8</td>
</tr>
</tbody>
</table>


There is one other facet of this reduced level of government payments which may be of importance. Data on the distribution of these payments in previous years suggest that larger farms are helped most by these payments. As data in Table 3 show, a higher proportion of gross income comes from government payments on farms with larger scales of farm products. The implication from these data is that larger farmers, those which are probably both more vocal and more listened to when their incomes are reduced, may have lost most from the reduction in government payments. This may explain part of the generally increased awareness of the decline in farm incomes. On the other hand, if the smaller sales class farms do not participate because their resources are already underemployed, then the possibility exists that these farmers were even further discouraged from participation by the expectation of higher prices in 1967; if so they now face lower prices on increased production without the support of government programs. If this latter situation is true, and given the small capital reserve of many of these farms, a sharp reduction may occur in numbers of farms with smaller sales.

Imports

The last short run issue I shall raise is the continuing issue of what level of imports should be allowed entry into the United States. This is a
complex problem. While freer trade does bring over-all gains to the consuming public as well as to some individual growers, these gains are not without some offsetting losses. A major part of the import problem stems from the fact that different groups generally reap the gains and losses from freer trade policies. It does little good to point out to cattle feeders that increased imports of beef from Australia allow greater exports of feed grains to England which in turn sells manufactured goods to Australia. The gains and losses do not fall on the same farm operator since most cattle feeders use their supply of feed grains in their own operation and sell little in the export market.

But there is room for improvement in the level of understanding of why we import farm commodities and what effects imports of farm commodities actually have on farm prices. The U.S. imports commodities it either does not produce, wants greater variety than is produced domestically (a result of an affluent society), or producers are temporarily supplying relatively smaller quantity to the market and prices increase. This was the case in 1962 and 1963 when cow herds were being enlarged and a reduced supply of lower grade beef was moving to market. Prices rose and imports increased substantially for low grade beef equivalent to our cow beef. But the relationship of imported beef to domestic steer beef was not well understood and as a result the nation later raised trade barriers to slow the entry of foreign beef -- trade barriers which the U.S. was at the same time encouraging other countries to lower. As the USDA pointed out, each 10 percent increase in low grade beef either from domestic cow production or from imports reduced prices of Choice steers by 3 percent. By contrast, a 10 percent increase in domestic steer-heifer beef production reduced Utility cow prices by 23 percent and steer-heifer beef prices by 13 percent. These results clearly suggest that by far the most important variable in cattle prices was domestic fed beef production. Increases in imports of beef, due to the particular kind of beef included, did not affect price to nearly the degree that it did increases in domestic production of fed beef. Had these relationships been better understood, perhaps our trade policies could have been more consistent. Were they better understood today, perhaps imports would not be used as a whipping post for many other agricultural problems.

These are the major short run issues as I interpret the uncertainty currently affecting farm people. Many farmers are uncertain over how farm prices and support programs will fare in an increasingly urban-oriented society. The question over whether excess capacity can be controlled also raises similar questions. Most of the uncertainty results from the increasing concern that farmers are becoming a minority

group both in numbers and in political power. This leads to great uncer-

certainty over what route the government will follow in its relation-

ship with agriculture. It leads to uncertainty over what government
will do to support prices and incomes of farmers. It also leads to a
number of longer run issues I want to discuss.

**Longer Term Issues**

For many a farm operator and especially one who expects to remain
on the farm into the 1970's, the problem of agriculture is not simply
what will happen in 1968 but what is even further ahead. His concerns
are over such matters as the consumer orientation of the federal govern-
ment while the slice of farm voters continues to narrow. He is worrying
also about the undependability of the export market, and is particularly
concerned that he has no obvious means to affect the quantity of farm
products which move into the foreign markets. He is unconvinced that
either the government or private enterprise is pushing hard enough to
expand our foreign trade and would like to use his own muscle in this
area, but simply feels dwarfed by the very large farm organizations
(those that have the power to do something) and insignificant as a part
of a small organization. Finally, and probably the most important long-
run issue in the minds of many small and medium size farmers at least,
is the continuing trend toward larger and larger farms. Many farmers
today see themselves in the road of our rush to ever enlarge the size
of farm plants. They now suspect as they did not 15 years ago when
their small neighbor gave up farming, that the headlong rush toward larger
farms may not have an equilibrium point short of the King ranch or the Kern
County land company. The result is that many are concerned that even the
medium size operator is now on the road to extinction.

**Need for production controls**

These are some of the longer term issues which are confronting farmers
along with their recent problem of reduced farm incomes. Many of the
issues may only represent the tendency of farmers to worry when it rains
that it won't stop and when it isn't raining that it won't start. But certainly
some of these issues are of real importance to both farmers and nonfarm
people. For example, the large production levels achieved in 1967 make
it fairly clear that production control programs are going to remain of great
importance to farmers. For those control programs to continue will require
facilitating legislation and rather large appropriations to back up these pro-
grams. For these programs to pass Congress requires a majority of Congress-
men to vote in favor. But farm areas can no longer produce a favorable
majority on farm bills. Thus to pass these bills requires that urban congress-
men join in voting funds for farm programs which compete directly with urban
Figure 3. Distribution of commercial farms in the U.S. in 1964 by sales classes of farm products sold.
programs for limited tax funds -- farm programs which benefit large producers most. While most farmers are not directly aware of the skewed distribution of government payments (pointed up in table 3), they have a sense of foreboding that dependence upon any type of direct government payments cannot continue indefinitely. This was shown by a question from a farmer at a recent farm meeting. He asked "how can farmers expect favorable farm programs to continue when they make up less than 6 percent of the population?" While a far larger proportion of the population have a stake in government programs he now is a member of a minority group since "one man-one vote" became law.

Farmers recognize that Congress is in a rebellious mood. Also, having now seen the publication of names of large government payment receivers, they recognize that social pressures are being generated and that political pressures may result from these large transfer payments. They are uncertain what course payments will take as a result. In the past the argument has been made that we are trying to buy only production control and are not concerned with which size farm firm we deal with. It seems unlikely that this argument will continue to bring forth favorable votes from urban Congressmen. The inverted welfare effect which occurs is clearly contrary to most concepts of equity. Furthermore, these funds may represent a major source of funds with which firms purchase additional cropland for expansion of their firm. Firms with larger payments may be able to gain control of additional cropland while smaller firms, those which need to expand to take advantage of larger size machinery and modern technology, are less able to compete effectively in the land market. If true, these programs may be affecting the structure of agriculture, encouraging the larger farms to expand to sizes a greater than scale economies might suggest. Recent purchases of large acreages of farm land in the Great Plains by corporations suggest that land ownership is a way to tap the government treasury. If the skewed distribution of payments does result in this type of outcome, it may well mean that farmers' fears of eventual domination by farm monopolies are justified. It may also mean that farm numbers are even further from equilibrium than generally thought and will remain so if government payments do encourage larger firms to expand into larger and larger firms while small and intermediate firms decline in number.

No increase in medium level farms

Certainly, there are many unknowns with regard to present farm programs. But one fact does emerge from the maze of unmeasured effects of present farm programs: there has been no tendency after 35 years of programs for farm numbers to increase around any medium level of output. As Figure 3 suggests, farm numbers are as heavily skewed to the left as are government payments skewed to the right. Interestingly enough, the only two economic classes of farms which increased in number between 1959
and 1964 were the $20,000 to $40,000 group and the above $40,000 group. If farm numbers are to stabilize at around $40,000 sales per farm, then with a reduction of 250,000 commercial farms per 5-year period like 1959-64, we are at least 20 years away from stabilizing commercial farm numbers. In all likelihood, if such a large amount of capital can be brought together by the average farmer, the average size will be even larger. Whether the gain in economic efficiency, as firm size increases past most scale economies, offsets the loss in Jeffersonian-democratic ideals is open to debate. Intermediate size farm operators who would likely have to leave farming clearly speak out against these ongoing changes. It remains to be seen if society will make a choice, or by default accept the present trends.

In the debate over much larger average size farms, farmers often express the view that corporation-type monopolies in agriculture would eventually be able to raise food prices to much higher levels. This view is probably unjustified. Even if the required small number of managers could gain control over the large acreages and vast expanse of space which U.S. farms cover, it is unlikely that societal restrictions would allow such a monopoly. The nation and the government, to the consternation of many farmers, is becoming more consumer oriented. Farmers point out many signs to support this contention -- from the reduced purchases of pork by the defense department in 1966 to the overly large increase in farm output in 1967. The recent passage of meat inspection legislation, while possibly even beneficial to farmers, also suggests a shifting of power from rural areas to urban areas.

What the shifts in political power really mean remains to be explored in this seminar and in the political bouts which will be fought in upcoming elections. But farmers are probably correct that prospects for higher farm prices from farm programs are not bright. The relative importance of consumers and farmers suggests that price levels may hold the line but increases will likely be small. Under these conditions the importance attached to changes in farm costs can be easily seen.

The mistrust of government and government power from which much of the farm concern originates is not new. But it is true probably that political facts provide more basis for such concern today than 15 years ago. A Minnesota farmer recently suggested to me that little incentive exists for the government to expand exports of farm commodities. He pointed out that, in recent years, the costly nature of storage programs provided a substantial political incentive to move all possible grain into world markets. His fears were that as we approach more nearly optimum levels of carryovers, it could feasibly become good politics to stabilize exports and production at moderate levels, thus not risking the variability of quantities, prices, and political fortunes which could result if exports are maximized. While private firms handle much of the grain trade, they too may face a declining incentive if the demand curve they face for gains is less than perfectly
elastic. As of yet, no other group is apparently waging an extensive campaign to increase farm exports. Thus this farmer was quite concerned and asked what could be done. If others also become more concerned, the result could be increased emphasis on self-initiated programs of demand expansion. How successful these programs might be remains to be seen. The federal government does seem to be encouraging do-it-yourself programs these days -- primarily in the area of farm bargaining. It may be that other areas could prove more productive.

Finally, a major source of pessimism which is currently running through farm areas may be due to the lack of having received any substantial reassurance that farm conditions are going to improve. The nation and its leaders are so tied up in matters of national security that no one seems to have time to come to the farm areas and reassure rural people that their interests are being cared for. One reason is of course that there are fewer national leaders from these areas. Another is that there are fewer votes in these areas than in urban and suburban areas. One can see the effect when he listens to Senator Dirksen tell of spending his days in Washington, his nights in Chicago, and sleeping on the plane between. Not often does he mention visiting rural down-state Illinois. Maybe it's only that farmers do not pay as well.

Conclusions

Uncertainty and uneasiness are causing people in rural areas to raise questions about the outlook for the agricultural industry. These questions deal almost entirely with the set of interrelationships between the farmer and the outside world. The concern is over prices of commodities sold to the urban market, prices paid for inputs purchased from the agri-business complex, their dependence on the federal government for adequate income and their general economic position with regard to the remainder of the economy.

The discussion and protest originating in the rural areas suggest that the farmer's economic position has worsened in recent months. Many are comparing the past year to 1966 which is undoubtedly an unfair comparison. The higher prices paid for food by consumers in 1966 and the resulting consumer discontent probably preclude holding farm incomes at that level. It is in large part an outcome of the shifting reaction of the government toward agriculture. Also, the increased interest in self-help programs both among farmers and administrators is an open admission that past programs have not satisfied either side completely. How successful self-initiated marketing programs will be remains to be seen.
The relevant question to pose at this time is whether ways can be found by which farmers can proceed in the remaining part of the 20th Century to balance an industry which has never long known balance and stability. Should stability be achieved, the industry will be in an improved position relative to the remainder of the economy. It will, as a result, be better able to share in the rewards which the U.S. economy is capable of producing but which have generally eluded the farm sector over the last four decades. If ways to balance the industry are not found, farmers likely have more decades ahead when economic fortunes will fluctuate far more than most farm families would prefer. The task remaining is not small.