SUMMARY OF ALTERNATIVES IN FARM POLICY
FOR THE IMMEDIATE PERIOD AHEAD

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This seminar has brought together important information and general agreement on the outlook for agriculture over the immediate years ahead. It has indicated that the industry is faced with further rapid technical change and structural adjustments over the next decade. Furthermore, with current technological trends and innovations in sight, U.S. agriculture has substantial overcapacity in terms of recent price levels and export demand. Without farm programs relating to price and production, potential levels of crop output will depress crop prices, result in greater livestock production and depress farm income in the years immediately ahead.

These prospects are indicated in the several papers and the discussions of the seminar. They also are suggested by the production levels achieved by U.S. farmers in 1967. Further, the papers on long-run capacity suggest that supply potential over the next 20 years will remain large enough to depress prices, in the absence of unexpected large increases in foreign demand. Exports far exceeding those of recent years will be necessary to absorb the nation's food producing capacity at prices higher than those of the present. To absorb our prospective producing capacity over the next 15 years, exports would have to triple over recent levels. Wheat exports would have to increase to two billion bushels and feed grains to 70 million tons by 1980. Such large increases are not likely, except in the case of some large and entirely new developments in international trade, food aid, or war.

It is possible that, at some time in the future, population growth and economic development over the world may cause demand for U.S. farm products to rise to levels absorbing our full supply capacity and putting an upward pressure on prices. But whether this is three or 20 years away is of the greatest importance for agricultural policies in the immediate years. If it were only three years away, we should begin taking transitory steps from our present policy format to that posed by great demands on our capacity. However, if it is 20 years away, the policy needs over the next few years are quite different, and the information presented and discussed at this seminar indicates that the latter is the outlook. Capacity will remain large in relation to domestic and export demand over the next two decades.

We are thus left with the reality that, in the short run, the agricultural industry has no self-balancing mechanism other than sharply lower
prices to equalize aggregate supply with effective demand levels. Alternative, to keep output in balance with demand and maintain prices at existing or higher levels, will require continued legislation, or some type of majority or group action by farmers. A wide variety of programs are available, ranging from those representing group action by farmers to those representing government actions to modify commodity supply, price, storage and other market forces. Most of these alternatives have been proposed at previous times or are under discussion and examination at the present. The nature and implications of several major alternatives are discussed below. The outlook provided in the papers of this seminar should provide farm groups with a basis for appraisal of the current situation and the manner in which the various alternatives mesh with supply-demand prospects in the immediate period ahead.

Bargaining Power

Bargaining power is one alternative which evidently appeals to some farm groups as a means for improving prices and incomes. Most other major industries and economic sectors possess sufficient power in the market to "have a say" in the level of prices that prevail. So, why not farmers? In the minds of some farmers, sufficient bargaining power would give them the ability to gain control over prices paid and received — but especially prices received. Others believe that self-managed market power would allow the removal of government involvement in agricultural policy. Both or either of the alternatives would appeal to even more farmers if they could be convinced that a mechanism exists which would actually attain production, price and income goals for millions of producers.

What, then, are the conditions necessary to bring farmers the bargaining power which has eluded them in the past?

Condition 1: Effective control over the supply of the commodity must be exercised. Farmers would necessarily have to control the total production of the crop or livestock commodities of concern and the commodities which readily substitute for them.

Condition 2: Some group or organization must be given, have inherent power, or a store of money and a bureaucracy to exercise disciplinary control over producers and the total amount of product which can be produced. When an excess of the commodity is produced this group must also have the ability and power to allocate to each producer his share of the available market.

Condition 3: Buyers of farm commodities must become convinced that the farm association or group controlling supply can cause inconvenience and/or loss unless bargaining over price takes place.
Condition 4: Members of the association or group must be able and willing to withstand the financial loss of withholding their products from the market until such time as buyers agree to offer acceptable terms of trade to suppliers.

In past decades farmers acting alone have not been able to meet the conditions necessary to achieve bargaining power because they lacked control over total output produced and sold. To partially remedy this market-power weakness, the government, evidently with the majority consent of farmers, has used production control and storage programs to reduce the quantity of grain coming to the market. With a smaller quantity of grain available, grain prices could be supported at levels above market clearing prices. These support prices were made effective through non-recourse loans and storage programs.

If farmers are to establish self-imposed bargaining power in the future, they will need to attain control over the aggregate supply or actual production of farm commodities. Only thus can farmer representatives convince buyers that they have sufficient market power to cut off the supply and cause loss to buyers. And the cut off in supply must exist in the long term, not just over a few days or weeks. Lasting effects can be attained only with a reduction in the total supply of the commodity produced over a relevant time period (crop year, production period for livestock, etc.) -- not simply a temporary withholding from current marketings of a supply already produced.

There are some basic reasons why temporary withholding does not raise prices in agriculture. In the case of storable commodities such as grain, withholding quantities already produced simply extends marketing of the same amount to a later time. In the case of meat animals such as hogs, withholding market-ready animals actually increases the supply in a later period because hogs grow to a greater weight until they are finally marketed. If the price increases during the withholding period, the low price elasticity of demand for farm products almost certainly guarantees lower prices and incomes in the later period when the market supply is increased as the same hogs are sold at greater weights. Without destroying some part of the supply already produced or permanent removal of it from the market in some manner, the market situation is not changed at all for an extended time.

\hspace{1cm}{1/ For further discussion of these requirements, see George Ladd, Agricultural Bargaining Power. Iowa State University Press. 1964.}
The prospects for effective farm controlled bargaining power, as reflected through market demand and supply potential, is not significantly greater today than in previous decades. In fact, the increasing ability of farmers to overflow effective markets with grain commodities may cause supply control to become more costly and difficult than ever before. In the absence of effective control over production, only the ability of farmers to purchase and withhold permanently -- store, export, or destroy several billion dollars' worth of grains -- would maintain farm prices at levels higher than decreed by market demand and the "supply already produced." Currently, no private group has the large funds necessary for these purposes. Hence, it appears at least in the near future that the farmers' best mechanism is the federal governmental machinery to bring about effective control over market supply of major grain commodities.

However, some possibility does exist that, under a government umbrella of supply control, farmers may be encouraged to form some type of bargaining associations and engage in price negotiations. Such associations could provide farmers with an opportunity to participate more directly in bargaining over commodity prices. But farmers' ability to produce over the next few years will almost certainly require their use of government-operated programs to manage grain supplies. Otherwise supplies will "overflow" present and near-term market demands and result in short-run price depression. While it is conceivable that "unanimously consenting farmers" could get together and voluntarily reduce production, this task is yet to be accomplished or experienced. And it is difficult to foresee how the several hundred thousand producers of feed grains, wheat, hogs and cattle, geographically separated and increasingly competitive as they are, will be able to do so. Certainly a large reduction in their numbers would be required before they can be organized into the required state of "unanimous consent."

With the decline in farm numbers that is underway, and with the growing interest of different farm groups, it is possible that the conditions for self-imposed bargaining power may some day be achieved. Farmers could, if they selected this goal, drop all government programs and attempt to attain supply management and price increases through their own organization and bargaining power. But it would take some time and probably quite low prices to convince all individual farmers to participate voluntarily over an extended period. During the period in which effective bargaining machines and sufficient participation are being attained, output would likely increase while prices decline. Yet this is one choice farmers have -- to drop other programs and rely on their own bargaining power. Only thus would anyone know exactly how well supply can be controlled voluntarily and the exact magnitude of price changes.
Alternative Supply Control Policies

The other major alternative in supply control, demand expansion and price improvement is for farmers to use government programs they design for these purposes. The range of programs which can be used to control total farm output and support or increase prices is rather large. The mechanisms used over the last three decades have included acreage quotas, marketing quotas, processing taxes with tax warrants for cooperators, loan-storage programs, foreign disposal, food aid—economic development programs, land retirement programs, voluntary participation programs, direct government payments, and several combinations of these. We discuss only a few.

Another choice which exists is the possibility of no government program, a policy of unrestricted production and marketings. This alternative is currently favored by some groups and farmers. Such a policy would have the following short-run implications for agriculture.

Free markets

Removing all government programs which currently affect production, marketing and prices of agricultural products would have several effects on the farm economy. Prices received by farmers would tend to decline in the short-run when most of the 50 million excess acres of cropland, withheld from production by farmers cooperating in government programs, were returned to production. There is considerable indication that a fairly large proportion of these acres approach the productivity of the land already in production. In 1967, for example, wheat acreage expanded 18.3 percent over 1966. While yields were somewhat less favorable, total wheat production increased by 16.2 percent. Corn acreage increased by 6.1 percent while production increased by 14.7 percent over 1966. The four combined feed grains (corn, oats, barley, grain sorghum) show a similar response with a 2.9 percent increase in acreage and an 11.1 percent increase in production. Soybean production was somewhat less responsive, an 8.7 percent increase in acreage resulting in a 4.8 percent increase in production. For these grain crops in total, an 8.2 percent increase in acreage resulted in an 11.2 percent increase in tonnage produced.\(^2\)

There is indication that the present retired acreage of cropland could, if returned to production, increase total acreage of these major crops by approximately 20 percent (from 200 to 250 million acres) and output by as much as 15 percent. Such a large increase in production would cause substantially lower prices over the short-run in the absence of government storage programs or larger foreign disposal. After several crop years, of course, these low price levels would drive some marginal acres and farms from crop production to more extensive types of farming. The response would be some eventual improvement in market prices, but if prices soon returned to present levels, the marginal acres would likely return to crop production. Thus the period of adjustment, even to return prices to present real levels, could be quite extended.

All research results suggest that farms and lands driven out of grain production by a free market policy would be heavily concentrated in certain regions of the United States. The Southeast would suffer a large share of the reduction in intensive crop production, as would marginal grain areas of the Plains. The cropland released would, through a succession of crop years, move to a more extensive use such as pasture or tree production. Farm families would move out even faster than at present as their economic base declined and as a premium was placed on higher managerial ability to use efficiently large supplies of capital.

The repercussions of a free market would not be wholly on the farms in marginal regions, however. Towns, schools, churches and other local institutions would also bear the costs associated with the shift or return to a more extensive agriculture. Political leaders would see their constituent base slowly erode away. Community spirit, already weak from the changes of the last decade, would degenerate further as asset values declined in small towns. The adjustment implications for rural America would be immense for a sudden return to a completely free market.

But the losses which rural America might suffer under a free market would not be shared by all persons in the U.S. economy. Most notable among those who would gain would be taxpayers and consumers. To some extent, these groups are the same, but not all consumers are taxpayers, of course. Taxpayers would gain as a reduction in governmental appropriations reduced the level of public expenditures on agriculture. This reduction would not be as large as generally supposed, however, since only some $2.0 billion of the approximately $6.5 billion agricultural appropriation is spent on production control, storage and foreign disposal. Expenditure on welfare programs operated through the agricultural department, as well as research and, perhaps, some storage and foreign development programs, would likely continue. These latter programs
account for a large portion of federal expenditures on agriculture and consequently reduce the "savings" which might result from eliminating programs of supply control and price-supporting storage.

Consumers would gain from lower food prices which a free market might bring. While there are no recent figures on this possible savings, some estimates in 1963 indicated it at approximately 6 percent if free markets were to be substituted for programs then in use. At that time, the total consumer retail food bill for 1967 was estimated at $63.5 billion with continued programs and $59.7 billion with a shift to a free market, a 6 percent decline. This $3.8 billion savings in food costs, plus the $2.0 billion savings in government expenditures, would total a $5.8 billion reduction. This reduction would nearly equal the estimated $5.3 billion reduction in net farm income which would occur with the return to a free market.3

Thus free markets for agriculture would provide some gain to certain segments of the economy. But agriculture would in general suffer substantial losses. Rural areas which depend upon agriculture also would see sudden economic recession. These changes would bring both economic and social losses to a segment of the nation's economy which historically has made large contributions to the economic growth and development of the United States.

These are the issues which provide the major basis for commercial farm policies. We must be concerned with the distribution of gains and losses among the various groups of society under various government policies and market organizations. Some can bring gains to consumers and taxpayers generally, but losses to farmers and the rural community; some can bring gains to the rural sector but large costs to taxpayers; others can bring gains to some farm and age groups, but income reductions to others. The task is to find policies which have the greatest positive prospect. If we can find policies which have positive benefits to all major groups concerned, we can be certain that the outcome over all groups is positive. But if the policy or market result brings gain to some but loss to others, we cannot be certain that adding the positive and the negative will provide a net-sum effect that is positive.

Current acreage diversion programs

Few major industries in the United States typically operate at full capacity. The steel industry, for example, rarely operates at more than

75 percent of capacity. Likewise, the auto industry does not operate at full capacity when demand is slack for cars. Labor also uses policies which either restrict or gently persuade employers to hold working hours to prescribed levels such as 40 hours per week. Before enlargements of the Vietnam War there was considerable discussion about reducing the work week even more. Termination of the war is likely to return these discussions and considerations.

But agriculture is the one industry where a policy of less than capacity production is opposed by a rather large number of people. This seems true even though the low demand elasticity for food can cause modest control over output to pay substantial dividends in levels of prices and incomes. Given the current uncertainties in the world food situation, it would appear wise to have an extent of unused or stand-by production capacity in agriculture. This unused capacity for food production is as valuable to the nation's security, or even the world's welfare, as is unused capacity in the steel industry. Developing additional capacity while holding some of our agricultural production resources in a state of semi-retirement is not inconsistent with our national goals of global security.

But, if it is to be, what means should be used to hold output at less than capacity levels in the short-run? There are a variety of means which can be used with differing effects on the cost to society, farm production efficiency, and gains and losses to farmers as well as to rural communities.

Acceptance of this goal, to develop capacity in agricultural production but hold the excess in reserve, requires a clear concept of the purpose. To develop the capacity for future contingencies but to unleash its full power in current production causes the farm and rural publics to pay a major cost -- in the form of lower prices and incomes -- for the future gain of national or world society. Hence, we could consider that government supply control programs, just as those which might be attained under farmer bargaining power, are part of an over-all economic or social policy to (a) develop improved technology which lowers the real price and improves the quality of food for domestic consumers, (b) develop large capacity in order that future world food contingencies can be met, and (c) restrain this production capacity to an extent that the short-run effects and costs of its existence do not impose a burden on farm and rural sectors. Several policy alternatives exist which can allow this gain to consumers, provide a margin of safety for world food markets, and compensate farmers for their contribution to it.

One obvious set of programs for maintaining a measure of control over production capacity are present types of voluntary short-term land retirement programs. These programs for wheat, feed grains and cotton
retire from production part of the cropland on each farm that participates in the program. At the end of a one-year contract, under which part of the farm's cropland remains out of production, the retired acres again become available for crop production. Since the programs are established so that many farms and all producing regions find it nearly equally profitable to participate, land of all qualities is placed in the program. At year's end, the land is returned to production or left in the program for another year. No incentive exists under these circumstances for any sizable quantity of cropland to transfer permanently from crop production into more extensive uses. Thus the programs continue from year to year with annual costs of near $2 billion and with little long-run opportunity or incentive for permanent shifts of cropland.

An alternative before agriculture is to continue cropland diversion programs of the recent pattern to control output in the few years ahead. When the programs were first initiated, they seemed to have wide acceptance. The acceptance stemmed from the then widely recognized need to lessen domestic carryover stocks of grains. The diversion program lessened production by paying farmers who wished to participate voluntarily and resulted in some price improvement. Between the new program and a step up in foreign disposal, stocks were reduced. Programs in effect now are generally the same as those of two or three years back. The main difference is that some more acreage was released last year which combined with good yields, increased output and lowered prices. Hence, the important questions for the future are: Should current programs be continued into the next few years when production capacity will loom large relative to demand? If so, how large should production be allowed to grow and at what level should prices be stabilized?

The question of price level is crucial, just as it would be with farmer self-imposed bargaining power programs, because it influences (a) the acceptance to farmers, (b) the cost of the program, and (c) the foreign commercial demand for our products. Our grain prices are currently near world market levels, thus encouraging export demand growth for these commodities. There is a fairly wide sentiment for keeping them at world levels so that we can continue a rapid growth in foreign export demand. Also, if we push prices to higher support levels, production control programs become more costly. At higher price levels the payments to farmers for participation must be greater, if a sufficient number are to accept participation as profitable. Hence, the questions of magnitude of production control and level of prices are crucial concerns to be determined.
Figure 1. Proportion of land idled by counties under the Conservation Reserve of the Soil Bank Program.
Other diversion programs of voluntary nature

Numerous analysts have suggested that we can devise more effective means for controlling our excess production capacity -- a productive ability which allows the nation both to rest free of future food worries and to further our national goals in helping to alleviate world food problems and promote economic development.

A program which could improve the efficiency of land retirement would be one of a longer term than the present system, with acreage reduction concentrated more by regions. A program which concentrated on taking land out in large chunks or areas of the nation, rather than as a few acres on each farm, as well as taking it out for periods of at least five and preferably 10 years, has greater promise for a long-term transfer of cropland to noncrop uses. At the end of a 10-year contract period, land will have shifted to profitable production of grass, trees or other extensive crops. Furthermore, if the land so retired represents acreage marginal for grain crops in each county or region, the continuing movement toward greater efficiency in agriculture, with the consequent narrowing of profit margins, would almost certainly guarantee that much or most land of low productivity would remain in more extensive uses at the end of the retirement contract.

One way to guarantee that this land would remain out of crop production is this: the government could "buy up" the rights of land owners and operators to produce grain crops. They could use the land for any other purpose. The government could continue to hold these "crop producing rights" until that time in the future when world demand requires return of the land to food production. They could then be given or sold back to farmers. Payments for the shift would be made over a 10-year period, then terminated at that time. Under this procedure, a time would arrive when payments are not capitalized into land values.

This type of land retirement program has already been used to a limited extent in the United States. The current Croplands Adjustment Program is one of this nature, but on a small scale. The Conservation Reserve programs of 1957-1960 were larger and removed 28.7 million acres from production under long-term retirement contracts. Approximately 9.5 million acres remain under these contracts in 1968, but are slated to be released by 1971. The major problem which arose with this program was not one of the farm. Farmers seemed to find the program an acceptable means for transferring land, reducing their operation or moving to nonfarm activities. But many rural communities, particularly the business and service firms located in regions where a majority of the cropland went out of production, were hard hit by reduced business transactions. These groups quickly pressured Congress...
Figure 2. Location of cropland which research indicates would be idled under a free market economy for agriculture. (Numbers refer to the 144 regions in the research model.)
into terminating the program. A close look at Figure 1 indicates that
the heaviest concentration in land retirement under the Conservation
Reserve Program took place in the Southeast, the Northern Plains,
eastern Colorado, New Mexico and Texas. This outcome is consistent
with our recent research results which indicate that a land retirement
program based on relative interregional advantages would cause these
particular regions to suffer heavy consequences. Figure 2 shows the
areas of the United States, determined by a research model, which
would shift a majority of land from crop production, if a program of
removing some 50 million acres on a least-cost basis (and also one
which uses land on the basis of its comparative advantages) were
instituted. These are the regions that modern farming technologies
and demand levels have caused to become marginal for intensive crop
production at recent price levels. Once transferred from crop produc-
tion, the land so represented would be likely to remain in extensive
agriculture. But a program is unlikely to be acceptable unless the
previously mentioned pressures on local business and institutions
could be reduced or other means of economic compensation provided.

One way to reduce the pressure on rural communities would be
to place an upper limit in each county on the proportion of cropland
which can be removed in any one year. A second method that might
find favor would be to provide indemnification payments to rural
businesses and groups desiring to leave communities that become
no longer self sustaining. These are but two ways of reducing econom-
ic pressures on local communities that would result from lower cost
and more efficient land retirement programs. These or other compensation
programs would be necessary if nonfarm but rural groups were to find
programs of this type, or even a free market policy, to be acceptable.

Marketing quota programs

Another major alternative in controlling total output is use of some
type of mandatory output or marketing quota. Mandatory quota programs
could be one of two major types: One would be quotas on acreages
planted and harvested of major crops; a second would be quotas on the
amount sold in the market place. The latter would work in the case
of crops which move through the market for processing or other purposes.
Wheat for food, soybeans and cotton would lend themselves to market-
ing quotas. Feed grains do not move primarily to the market place and
consequently probably would require acreage quotas if output is to be
effectively controlled.

Acreage quotas have been used for a number of different crops in
the United States. Beginning in 1933, acreage allotments were used
almost continuously during periods of supply control, until programs
of voluntary participation began in 1961. Acreage allotment programs tend to be somewhat inefficient when they are based on historical patterns of production. Also, when they remove only a few acres on each farm, they tend to bring about inefficient combinations of land, labor and capital. However, these programs do have the potential for raising and sustaining market prices above levels which would result under full use of our production capacity. Also, the cost of holding some land out of production is transferred from government to farmers, with remuneration coming from the market place in the form of higher prices on the remaining levels of output. Over time, of course, these higher prices and returns will lead to an increase in land values which will raise the cost of entering farming for a new generation of farmers. This consequence also results under the type of land retirement program which maintains prices above free market levels and provides payments for participation.

Marketing quotas have not had wide usage in the United States, although Canada has employed this type of restriction on wheat output for a number of years. In Canada's case, the national wheat marketing board determines the total quantity of wheat to be marketed over some subsequent period. This quantity is apportioned among farmers and marketing certificates are issued allowing each farmer to sell his allotted quantity. Any remainder of the crop must be stored for a subsequent marketing year. Farmers are allowed to grow whatever acreage they determine to be most useful to their operation. However, since they can market only their allotted quota, they are well aware of the storage costs involved in over-production. If a sudden demand for wheat develops, and additional bushels can be sold, farmers tend to reap gains from any carryover above their usual marketing quota. Thus farmers are encouraged to store some grain in expectation of some future gain. The result is that the largest portion of storage costs for holding surpluses remains in private hands. This program also brings higher returns to wheat producers. A program of this type might hold some promise for U.S. farmers in the case of crops which move only through the market. It would provide a means for shifting the public out of the loan and storage business, although the government might find it necessary or desirable to hold a strategic reserve for defense or world food-aid purposes.

Market quotas are already used, through acceptance by the majority vote of farmers under market orders provided by public legislation, in the case of certain perishable fruits and vegetables grown in rather small and homogeneous areas. Marketing orders also are used in major milk sheds to limit the amount each producer can market. But they would be hard to enforce for feed grains and livestock which are grown over wide expanses of the nation and frequently move directly among farms.
Other Policy Considerations

These several types of programs provide the major alternatives open to farmers in their attempt to attain higher prices and an improved economic standing. A wide variation of these policies and programs is also in the realm of "the possible." If farmers desire greater "freedom to produce" they can return to a free market for agriculture. By contrast, if as a group they desire maximum "freedom to gain" they can adopt some form of mandatory marketing and acreage quotas or effective self-imposed supply control under their own bargaining power -- once they can make it work on a sufficiently large scale. Major programs of the recent past have represented a middle road or compromise between strict or mandatory production control and all production under the free market. The results have been programs which have been workable but not completely satisfying to all parties -- farmers, the government or taxpayers.

Future policy and programs, if they are to exist, will likely require that farmers show some greater amount of internal agreement than has prevailed in the past. The political facts of life may preclude continuation of current program types and the in-fighting among agricultural groups. As the farm vote declines in numbers and farm programs become increasingly dependent on urban legislators, the need for one voice to speak for agriculture may increase rapidly. A continued multiplicity of farm voices or the proposal of only radical alternatives, might push urban congressmen into more extreme alternatives for the farming industry.

In any case, certain things are clear: Production ability is great enough, and mammoth increases in foreign demand to fully absorb capacity are so distant, that prices will be lower in the immediate future unless some type of program prevails. Current legislation expires in 1969 and the farm public needs to consider programs which are workable and which can most effectively mesh the interests of food producers, consumers and taxpayers over the next few years.