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## Another Look at the Farm Problem

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# Another Look at the Farm

## Problem

Treating symptoms may relieve the pain but not effect a cure—unless the basic causes are recognized, understood and treated also. Here's a straightforward look at the two major farm problems we have today and at some possibilities for doing something in the near future to overcome or solve them.

by Earl O. Heady

**O**UR FARM economy has two major problems: (1) continuing overproduction—a long-run problem and (2) the surplus stocks now on hand—a short-run problem. The surplus stocks, of course, are an outgrowth of the continuing overproduction. But both will have to be solved—and perhaps attacked in different ways—if resources in agriculture are to earn returns on a par with those in other industries.

The essence of the overproduction problem is that, with the present and prospective productive capacity of its resources, agriculture now has more resources than are needed to produce food for the nation. These resources are continuing to produce more food than the market will absorb

at prices giving satisfactory incomes to farm families.

The standard in measuring these incomes is the return to labor and capital used. Over the last 10 years, the average return to labor and capital in agriculture consistently has been lower than the average return to the same amount of resources used in other industries. And this situation is likely to continue for some time unless some major changes can be made in the structure of American agriculture.

### Surplus Production . . .

This long-run problem stems partly from general economic growth. As a nation grows economically—particularly a wealthy nation in which consumers generally have good incomes—the possibilities for agricultural expansion aren't nearly as great as for many nonfarm industries. The

reason lies in the way consumers (who are relatively well fed and well off) spend their growing incomes.

Studies show that for each 1-percent rise in income, consumers may spend more than 1 percent—sometimes as much as 2 percent—on many items such as health, recreation, education, transportation, housing and home furnishings. As incomes continue to grow, consumers “invite” (by their spending) the use of more resources in these industries. Because consumers want these things so much, they handsomely reward the resources used in these industries.

The effect on agriculture is different when food is plentiful. When consumers' incomes increase by 1 percent, they increase their spending for food by much less than this. And most of this increased spending doesn't go for more food in total. It goes mostly for improved diets and food services, including freezing, packaging, additional processing, restaurant services, etc., rather than for more pounds of food per person. Some shift in the quality of products eaten takes place, but it mostly replaces other products or other qualities.

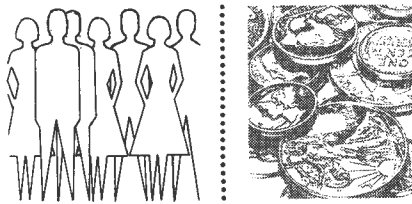
The main opportunity for agriculture to expand has been *with* and *at the rate of population growth*. Certain other industries, such as those mentioned, can expand profitably at a much faster rate. *Both* population and national income growth set the pace for them. But, without important new markets, population growth alone is the chief pacer for agriculture. If it produces more than can be absorbed by population growth, agriculture generally finds itself with too much output, surpluses and lowered prices.

This is in distinct contrast to certain nonfarm industries which can absorb productivity gains which exceed population growth. They're rewarded also by national and per-person income growth as consumers actually increase their spending for the goods and services offered.

Farm production has increased much more rapidly than has the

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demand for it arising either from (1) population growth or (2) increasing consumer incomes. This is the heart of the long-run problem of agriculture in the United States.



Mechanization and improved production techniques, meanwhile, also have made it possible for fewer persons to produce this increasing output. During World War II and the years following, we experienced an unprecedented, almost explosive, adoption of new technology on the nation's farms. The demand for farm products tapered off following the war. But the pricing structure after the war continued to encourage both increased output and increased use of new technology by making both unusually profitable relative to actual demand.

Agriculture has already made some changes because of this situation. Over 1939-50, the number of commercial farms in the nation dropped by 27 percent, and the average size of commercial farms increased by about 50 percent. The number of persons employed in agriculture declined by 25 percent in this same period and dropped another 25 percent during the 1950-58 period.

### Surplus Stocks . . .

The immediate short-run problem is our mammoth surplus stocks of wheat, feed grains and cotton. While this short-run problem is "part and parcel" of the long-run problem, it's not entirely the same problem. The changes that are taking place in response to the long-run problem offer no immediate promise of solving the short-run surplus problem.

Currently, as some operators leave the farm for opportunities elsewhere, their farm usually is consolidated with that of a nearby neighbor. And, as it turns out,

the operator remaining often has more capital and the management ability to get greater yields.

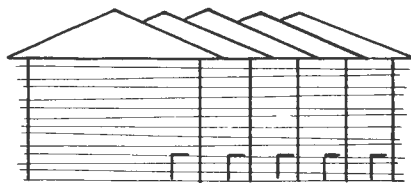
Likewise, solving the present problem of surplus stocks won't automatically solve the long-run problems of agriculture stemming from national economic growth.

### Insurmountable? . . .

We're all pretty much aware of the size of the short-run surplus problem. The carryover of feed grains at the end of this year is predicted to total 70 million tons—compared with a "normal" annual carryover of 20 million tons and an average annual use over the last 5 years, including exports, of 130 million tons.

With corn acreage uncontrolled and average weather (and considering also that wheat stocks have some feed-grain potential), our grain stocks at the end of next year will be nearly as large as the normal usage of all feed grains in an average year.

Considering the size of current stocks, it's easy to think that our first and most pressing problem is to reduce the size of these stocks. It is and, at the same time, it isn't. There's an even more pressing problem: *To stop adding to these stocks.*



Let's face it. There's no "magic" way to reduce these stocks immediately. At best, it would take several years to work the stocks down to a reasonable level. But to do this, even over a period of years, means that we'd have to stop adding to the stocks.

We've all hoped to find some easy and workable formula to expand demand or to improve market outlets for getting rid of our surpluses. But no such magic formula exists!

Surplus stocks now are six times greater than the record 1957-58 rate of feed-grain exports. And

we can't expand domestic demand for feed grains to remove the surplus rapidly. People can't eat the feed grains unless they're processed through livestock. But, if we increased livestock production enough to eat up the surplus in 1 or 2 years, livestock prices would be highly unprofitable.

So it seems that the best opportunity is in stopping additions to the feed-grain surplus, and, then, in using all of the methods at our disposal to reduce the surplus stocks over a 5- or 6-year period.

### Can It Be Done? . . .

Could this be done? We'd need to work out a "timetable" for any such attempt. Let's "try one on for size."

It's too late to do anything about the problem in 1959. With average weather, stocks will increase because there are no controls on corn acreage. Thus, the first chance to put any machinery in operation to cease adding to stocks would be in 1960. Needed then would be a vigorous program to keep annual production from exceeding annual use.

With the very large stocks on hand, acreage might well be reduced to a point where production would fall somewhat short of annual use. This operation would have to be continued for 4-6 years while: (1) We use every means possible to expand markets and to use up the excessive stocks now on hand; and (2) we use these years to make a transition to a more reasonable long-run structure of the national agricultural producing plant.

**What Method?** The first important step would be to decide on an acceptable method to cut back production, say, in 1960. Unless we do so and get it into action, we'll add even more to a stockpile of grains that's going to be tremendous by next year. And we can't even begin to make physical arrangements before 1960 to use up stocks.

Even if it were to be fed in a short time—a possibility that's remote and probably undesirable on a "quick-tempo" basis—we could not get more sows bred and more

cattle into the feedlot until next year. And, even if we were able to export it all in 1 year (a possibility even more remote and harmful to foreign relations), we couldn't get the machinery cranked up to do a complete job in less than a year.

The suggested first step is to stop adding to stocks which are already very large—*because it can cost considerably less to pay for not producing than to pay for producing and to pay for the storage costs in addition.*

Producers participating with present price supports and whose grain moves into government-held stocks still pay their production costs. They get some returns on the crop but also bear, along with the public in general, the storage cost. These, like the surplus stocks, have been increasing annually. There are ways, however, in which production could be reduced — with payments large enough to provide about the same returns as under the present system—but without also having to cover *either the costs of growing or storing the crops.*

There are a number of ways this could be done. Some have suggested rigid production quotas. But it's an open question whether such a system is acceptable in our society. Another possibility is to apply an old principle—that of "supply and demand."

Experience from the past — whether for hogs, chickens, corn, milk or other farm products—has shown that if the price of a thing is high enough, the supply also will be high enough. This same principle would work in production control: If a high enough price is paid, the "supply" of land going out of production also will be large enough.

A high price? Higher than the current levels designed to do a part of this job. But the *total cost* probably would be *considerably less* than the current public outlay needed (1) to pay some farmers to take some land out of production, though not enough to eliminate the surplus buildup; (2) to provide support prices to others for producing more and offsetting the land taken out of production; and (3) to pay for storing the added surplus production.

**Avoid "Won't Work's":** We know that the old methods of acreage control won't do the job. They haven't taken enough land out of production: (a) to make up for the trend in increased yields; (b) to offset the tendency for the lowest-yielding land to go out of production first; and (c) to offset the tendency for farmers to take out part of their acreage and then to more than make up for it by using the "released funds" to get a greater output from the remaining acres.

Many producers enter parts of their farms in the acreage-control programs and then offset the acreage cut by using more fertilizer and better practices on the land that's left in production. And, in total, the acreage-control programs of the past have, in the main, merely shifted the relative surplus production from one crop to another. Producers, in effect, were asked to reduce the output of one surplus crop but allowed to shift production to other surplus crops.

Parts of the wheat and cotton surplus problems have been shifted to feed grains in this way. During 1945-49, for example, 76 million acres of wheat, 22 million acres of cotton and 164 million acres of feed grains, including soybeans, were produced. Over the 1954-58 period, we produced 58 million acres of wheat, 16 million acres of cotton and 174 million acres of feed grains.



The Great Plains area cut wheat acreage, but increased the acreage of feed grains. The South reduced cotton acreage, but diverted some of the acreage into feed grains. And even the Corn Belt and the Lake States increased feed-grain acreage between 1945-49 and 1954-58 as producers shifted away from corn into soybeans and grain sorghums.

**Attack Both Problems?** In the short run, acreage might be taken out of production "across the board." The present "whole-farm" approach to land retirement provides some machinery for accomplishing this. But it might be necessary to extend such machinery to the limits allowed by community considerations and to spread it over more acres than at present.

A different system of land retirement would be needed in the long run, however. In this case, it would be better to withdraw land by regions where a permanent shift is needed in agricultural production and resource use.



If agriculture is to be meshed with national economic growth and the real social challenges that lie ahead, it will be necessary to concentrate more on leaving in production the land with the greatest comparative advantage in productivity of capital and manpower — with less production where the comparative advantage is lower.

Thus, some of the land which needs to be or might be taken out of production to meet the immediate surplus situation wouldn't be the same as that needed to meet the long-run growth and productivity problem. Research is in progress at Iowa State in analyzing possibilities for the latter, and we'll report some of the results soon in IOWA FARM SCIENCE.

Needed first, however, is thinking and action so that we can *stop adding* to the surpluses each year. And this is needed quickly. Then, the next 5 years, or whatever period is necessary, can be used to reduce existing stocks through whatever gains can be made in demand and market expansion.