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The Farm Problem- What's Behind It?

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FIVE OR 10 years ago, many folks were “sure” about what should be done to improve governmental farm policy. Remember the “high” versus “flexible” parity argument? That usually was good for a heated discussion. There also was a group that was solidly behind acreage controls. And another group maintained that all agriculture needed was a prosperous urban economy to use up farm products.

Time has softened many of these once-firm convictions. Farmers seemed to produce all they could—whether supports were high or low. Acreage controls on some crops merely led to shifts of acreage to other crops. And, despite national prosperity, farm surpluses kept growing.

Meanwhile, other convictions or hopes have moved into prominence: Perhaps advertising and promotion will lead people to eat more. Feed the needy in this country. Ship our surpluses overseas to feed the hungry people of Africa, Asia and South America. Let’s make alcohol from the surplus feed grains and use it to run our cars and tractors.

How realistic are these hopes? In any of these approaches—promotion, welfare distribution, exports, industrial uses—is there a chance to work out from under the pile of farm surpluses? Or, if these hopes prove futile, will farm families and the rest of American society have to make the hard choice between stringent controls or a free market?

Getting Answers . . .

To help determine the effects of different kinds of farm policy proposals before they’re tried or put to use, the Center for Agricultural and Economic Adjustment at Iowa State has collected information and sponsored research in farm policy.

The Center sponsored a workshop on feed-livestock problems and a seminar on the demand for farm products during the past year. Production and marketing specialists, economists and others studied farm prospects and farm policy problems. From the mass of assembled data and information, it was possible to agree on a number of conclusions.

This article is the first in a new series on the farm problem and farm policy. A large part of the series is drawn from information and data brought together as a result of the activities of the Center for Agricultural and Economic Adjustment. The series, as a whole, will attempt to answer the many questions that both farm families and urban families are asking about farm prob-
lems and farm policy. And we'll try to answer them as simply and directly as possible on the basis of information now available.

"First, just what's this farm problem all about?"

Like many other problems, the farm problem runs deeper and extends much further than it appears on the surface. Two reasons for public concern about agriculture seem to stand out.

One—Many people, including farm families, are concerned about the cost of the present federal farm program.

Two—Farm families' real incomes in recent years have generally been declining, while earnings in the rest of the economy have increased steadily.

The index of "real incomes" in agriculture, figured in terms of 1947-49 dollars, went down from 96 in 1950-51 to 84 in 1957. The real incomes of industrial workers, on the other hand, climbed from 110 to 129 in the same period.

And, while the real incomes of farmers were going down, their production was going up. Total farm output increased 10 percent from 1951 to 1957. This occurred in spite of a 20-percent drop in farm prices, a 5-percent increase in prices paid by farmers and a 19-percent decrease in net income per farm.

Feed grain production increased substantially during this period. In 1953, for example, production of feed grains—corn, oats, barley and grain sorghums—was 117 1/2 million tons. The production in 1958 was more than 157 1/2 million tons. Part of this increase reflects the use of former wheat and cotton acres diverted to feed grains, and part is due to farmers' increased production capacity. Also 1958 was a particularly good crop year.

"What's the reason for this increased output?"

About half of the increased output can be credited to greater crop production per acre. And about half of this increase has come from increased fertilizer use. Better seed, better weed and insect killers, improved machinery and better conservation practices also have helped to raise production per acre.

About a fourth of the total added output came from increased livestock volume. The other fourth is accounted for by the use of tractors and other power machinery to replace horses and mules. This replacement—now virtually complete—allowed production acres used previously to feed working livestock to be used for the production of cash crops or feed for other livestock.

"With more farm products to sell, shouldn't farmers be taking in more money?"

It often doesn't work out this way for farmers. Their products are used mainly for food and other direct human consumption. These products are essential to life itself. But once people's needs are satisfied, the market for any excess is limited. The human stomach doesn't stretch much. Or, as economists put it, the demand for most farm products is "inelastic."

Because of this, farm commodity prices usually are depressed sharply by any surplus produced. As hog producers have found out, for example, when hog supplies are increased by 1 percent, the market prices received by farmers drop 1½-2 percent. A 10-percent increase in hog supplies can drive prices down as much as 20 percent.

"If farmers receive less money from a large crop than from a smaller one, why don't they raise less—selling only what the market will take at a 'fair' price?"

Agriculture is made up of millions of individual firms—usually each with its own self-employed manager. Getting these millions of farmers, scattered all over the United States, to agree on a universal limitation of production is just about impossible.

Further, each individual farm operator knows that what he does (as one individual) won't affect the production plans of others or the final total output. Therefore, even when he knows that total production will be
high enough to drop prices and reduce his profit margin, say, from 10 cents to 5 cents a bushel, there's a very apparent fact to him: So long as the total production will drop the price enough to drop his profit margin 5 cents for each bushel he produces, he (as an individual) will be better off producing as many bushels as he can for the lower profit margin than by producing fewer bushels for a profit margin that's going to drop no matter what he, as one person, does!

"Hasn't the federal government been trying to help farmers limit their production?"

The aim of certain government farm programs has been to limit the production of certain crops. But history shows that these attempts haven't been very successful. Acreage allotments have been in effect on some crops. Since a farmer's main job is to produce, however, he still attempts to do his best to get top production from his acreage allotment. Also, the acreage withheld from the production of a specified crop usually has simply been planted to other crops. So, in total, acreage allotments have reduced farm production only slightly, if at all.

Acreage allotments also have another effect—of shifting acres from the crop under allotment to crops not under allotment. Allotments for cotton, for example, led many farmers in the South and Southwest to shift former cotton acres to corn and grain sorghums. This added both to the feed-grain surplus and to the already existing problems of farmers in the Midwest.

In addition, there's a basic conflict of interests whenever the federal government sets acreage allotments for crops. The interests of society as a whole are best served when there's a plentiful supply of food. But when the plentiful supply grows into a surplus, farm commodity prices and farm families' incomes are sharply reduced.

The government has tried to accommodate some of this conflict of interests by offering government storage for some farm products. The government storage programs haven't worked perfectly, though they've performed their principal function so far. But these programs become the targets of criticism at a point when the government-held stocks tie up considerable amounts of public tax money.

"With this conflict of interests, it looks as though we might never be able to satisfy both the general public and farmers. Why not let everything alone (let the free market set prices; if the going gets too rough for some farmers, then they'll just have to get out of farming)?"

Many people firmly believe that this is the answer. They feel that the government should cease its efforts to give farm families price and income protection.

But there are also many others who think that the government has some obligation to the farming industry. One argument is that large sections of labor and industry consistently are able to obtain price and income concessions for themselves by using their bargaining power.

This is reflected to the farming industry through higher costs that must be paid by farm families for production items and family living.

Another argument goes like this: It has been national policy—at times unconscious but usually purposeful—to encourage plentiful food supplies. Examples include the Homestead Act, the land-grant college system and the large program of government-sponsored research and education. Much of this has had, among other effects, that of raising production.

The nation as a whole benefits substantially from gains in production and efficiency—whether in agriculture or other industries. Unless a nation frees a large proportion of its workers from the task of producing subsistence goods, there can never be enough labor available to produce the additional kinds of goods and services that make up a high standard of living. This is one of the problems that the USSR and many other nations are seeking to overcome. In the United States, the "average" American farmer now produces enough food for himself and 23 other persons.

One of the major benefits to consumers, however, is in the unfailing supply of nutritious, high-quality food at reasonable prices. Consumers in the United States eat a diet unequaled in any other country in the world. And they pay for their high-quality diet with a smaller percentage of their incomes than in any other country in the world. American emphasis on agricultural production has brought high-quality bargain diets to American consumers.

"This argument then concludes: Society as a whole gains the major benefits from any policy for a plentiful agriculture. So isn't it the responsibility of society to pay for the support of that policy rather than letting the impact of agricultural plenty fall on the farming industry alone?"

"All during the postwar period, our population has been rapidly increasing. Shouldn't this help farmers?"

The added population has helped—but not enough to keep pace with the growth in farm productivity. Population has been growing at the rate of about 1 1/2 percent a year in recent years. But farm production has been growing at the rate of about 2 percent a year.

"Haven't we been forgetting about the hungry people outside our country? Can we really say that we have a farm surplus when people anywhere in the world are starving?"

This brings up a different and very important area in considering present and future farm policy—that of expanding demand. Involved here are not only political and economic considerations but humanitarian principles and United States foreign policy as well.

We'll take up the problem of expanding demand (through domestic food stamp plans, exports, shipments under Public Law 480 and the hope of many people—expanded industrial uses) in one of the forthcoming issues.