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What Agriculture Is Up Against...

Has agriculture itself built all of its present predicament? With so many proposals being made and the time for action coming closer, here's a review of some of the "outside" forces and their impact on farming.

by Earl O. Heady and John F. Heer

The most apparent symptoms of agriculture's troubles — the farm problem — are the farm income and overproduction-surplus situations. "Something needs to be done." But what? The need for developing more effective approaches than have been used in the past now is generally recognized. Many proposals now are being made and will be made toward overcoming our farm problem.

Greatest emphasis in these proposals is on the surplus-overproduction aspects — to adjust farm output downward. This can be approached largely within agriculture. The effects, however, are likely to extend far beyond agriculture, just as changes "outside of" agriculture have had and are having a great impact on our agricultural welfare and economy.

The effects of our farm problem and of the causes that have led to it have been both social and economic. The effects of the solutions, likewise, will be both social and economic. But the forces which have led to agriculture's difficulties and the pressures for solution are mainly economic.

To help in choosing among the different approaches being suggested, we want to review in this and a second article some of the forces and changes that have been behind the development of agriculture's present state. For these same forces must also serve as a backdrop for our solutions if we're to approach them realistically.

Not All "Farm"...

All of agriculture's predicament hasn't been of its own making. National economic growth and development — and their consequences — are behind much of the present situation. While there may be little that we can do about this side of the picture, it's important to understand its meanings and implications for agriculture. So in this article, we want to look mainly at agriculture in the perspective of this over-all national picture.

Within the framework of national economic growth and development and its effects on agriculture, the other side of the picture — our surplus farm output — takes on added seriousness and impact. Next month, we'll look more closely at the "how and why" of this tremendous growth in output within agriculture. Forces both within and outside of agriculture are reflected in our farm income and surplus situations.

National Forces...

Compared with the rest of the world, we have a wealthy and productive economy. But economic maturity is only relative. Plants and animals mature at a certain time and stop growing. Economic growth doesn't, and further growth and development lead to still more changes in the shape of things.

Our national economy has grown. In doing so, the relative proportion of agriculture has declined — while the proportion of other goods and services demanded by well-fed and prosperous consumers has grown. The population, labor force and income of agriculture once made up the major part of our economy. But increases in personal income and changes in our wants have spelled agriculture's decline as a portion of the national economy.

The importance of agriculture hasn't declined. It's still basic to the life of the consumer who now, however, spends a smaller portion of his income for farm products than he used to. Agriculture has declined in the portion of national income it contributes (and receives) and in the proportion of total national resources it employs.

Why...?

Many of the changes that are affecting agriculture result particularly from the fact that we have a productive and prosperous economy and because income per family and per person continues to rise. National income has gone up about 7 percent each year in the past 10 years. Income per per-
son has been increasing by about 5 percent a year. Taxes and inflation have left something less than this for consumer spending and saving. But consumers now have more real purchasing power than ever before and prospects for having even more.

This increased purchasing power, especially, causes the shape of the national economy to change. It provides the “votes”—in the form of spending (expressed as payments for products and the use of resources)—that specify the changing shape of the economy.

As the real incomes or purchasing power of consumers has increased, consumers haven’t voted for less food. But, already well fed, neither have they voted for more food per person. They’ve voted for large increases in other goods and services. Consumers do change the proportions of different foods they buy, but the pounds of food bought per person has remained almost constant.

Spending has mushroomed for many other goods and services. Think of your own changes in spending in the past 10-15 years. Are you now eating more pounds of food? Probably not—though you may be eating more frozen vegetables and meat stored in your refrigerator or freezer, fewer canned vegetables and cured meats.

How about your spending for electricity, recreation, health? Or newspapers, magazines, television, travel? Chances are, like other consumers, most of your increases in spending have gone to these latter types of goods and services. And, even as you’ve switched to more frozen vegetables and meats, you’ve paid mostly for more containers, processing and refrigeration equipment rather than for more crops and animals.

As our national economy has grown and as the amounts of capital and labor increase, consumers in total have voted for using these resources in the production of nonfarm goods and services. Consumers have a limited capacity for food. But their capacity for absorbing many other goods and services, especially personal services, has no comparable limit.

These kinds of shifts in our economic balloting have been going on since World War I, and it’s likely that they’ll continue. Progress and economic growth seem to be a basic goal of our society. It’s unlikely that we’ll try a “backswitch” and voluntarily seek out a lower income and standard of living. This would be one way to increase agriculture’s proportion of the national economy. And it’s probably the only way we could return to the day when the population, labor force and income of agriculture would make up the major portion of our economy.

If the “pattern” is set then, why not just ignore it? For one thing, the situation won’t just go away or disappear; it’s going to stick with us. We could just ignore it and let things happen. This is one choice or alternative. But let’s look more closely at some of the changes and their meaning for agriculture.

Their Meaning . . .

A century ago, agriculture contributed nearly a third of the national income; 50 years ago, the proportion had dropped to about 16 percent. Recently, net income from agriculture has been about 5 percent. And this trend will continue as national and per-capita incomes continue to grow.

With no startling developments in foreign markets, the demand for food can grow only at about the rate of our population increase. The demand for other goods and services can and will grow at a much faster rate. The demand for them isn’t limited by consumer food capacity, and consumers buy more of them as soon as they have enough income. As a result, more and more resources will be used in producing these other goods and services. This means that more and more capital and labor will be employed to receive income in nonfarm industries. And the proportion of national income in these industries will grow much more rapidly than income of the agricultural industry.

Farm income, thus, will grow more slowly than that of the nonfarm sector, and its percentage of total income will decline further. The proportion of the nation’s resources in agriculture likewise will decline—and at a faster rate than the portion of national income provided by agriculture. There’s just no getting around the fact that, once well fed, consumers in a wealthy society and growing economy vote—through their spending—for additions in the supply of capital and labor to be used mainly for nonfood products. At the same time, new forms of capital and technology substitute
for some of the resources in agriculture.

Capital in agriculture has increased in the last 25 years or so, but not as fast as in nonfarm industry. The proportion of the nation's capital used in nonfarm industry has expanded; that in agriculture has declined. With their plentiful supply of food, consumers have demanded through their spending that new additions to the labor force (through population increase) be used to produce the other goods and services they want. And agriculture, meanwhile, has found new forms of capital a rapid substitute for labor. So the portion of the nation's labor force used and needed in agriculture has declined very rapidly.

The labor force in agriculture has been more than halved in the last 40 years. It has declined by at least a third in the last 10 years. Agriculture used well over half of the national labor force 100 years back; even 50 years ago, well over a third. The percentage now is less than 10 percent. It will drop further: (1) partly as some substitution of capital for labor continues in farming; (2) especially as the total labor force continues to grow and is used more and more to produce the nonfarm goods and services demanded by consumers.

Another change, related to the labor force in agriculture, is the number of persons and families in farming. A century back, the majority of the nation's population was in agriculture. In 1910 over a third of the population was on farms; now, only slightly more than 10 percent. And some of these families have only "one foot on the farm" because of the growth of part-time farming.

These changes in relative demand, labor force and population have altered the economic structure in changing the shape of our over-all economy. They'll continue to do so. They're also changing the social and political role and voice of agriculture — perhaps more so in the future than in the past.

All of these changes result naturally from economic growth and national wealth—"naturally" because it's the basic biological and psychological nature of man that dictates that the shape of things will change with economic growth.

Can't Go Back . . .

We've drawn this picture of the situation partly within but mostly surrounding agriculture to set up a perspective before moving on to the situation within agriculture in our next article. We've done this because it's so easy to look only at the shape of things in the past —without fully recognizing the possible role and structure of agriculture in the future.

We might regain the past to some extent if we could roll things back in time. But if we could, even those of us with deep roots in agriculture would hardly care for all of the consequences and to pay the costs in terms of other losses.

Current income per person and the returns to resources in agriculture are by no means what we'd like to see. But our real income and standard of living are much higher than they would be under a "rollback." Living standards for both farm and nonfarm families have benefited and grown because of technological advance and productivity growth in both farm and nonfarm industries.

All consumers, farm and nonfarm, have gained greatly from the progress in agriculture. Food is abundant and at relatively low prices. American consumers needn't spend most of their income for food as is the case in much of the world. Consumers have gained as much or more from the technical advances and productivity gains of nonfarm industries. These have made goods and services available in great quantity and variety at prices that can be paid by the average farm and nonfarm family.

As it now appears, farm families have gained in real income from this general technical advance of all industries more directly than from the technical improvements in farming itself. A "rollback" would mean giving up the gains in the variety and quantity of nonfarm goods and services that we can buy in exchange for our labor and resources invested in agriculture. This, notwithstanding the fact that dollar incomes in farming aren't what we'd like them to be.

We couldn't have achieved our present standard of living if the major portion of our population and capital resources were required to produce food and fiber. Gains in productivity and technology in both agriculture and other industries have freed resources to produce the many other goods and services that we now take for granted.

As a part of this over-all change in the structure of our national economy the nonfarm part has been rising. Agriculture's part, in turn, has been declining—especially as a result of economic growth and increasing per-capita incomes. Agriculture can grow profitably only at about the rate of our population increase. Other industries can grow much faster. The demand for many goods and services isn't limited by the capacity of the human stomach; the demand for them increases both with population increase and as income per person increases. People don't become overweight by buying more travel, medicine, education, books, personal services, household fur-
Part of the cost-price squeeze in farming results from demands for some of the same resources for farming as well as for nonfarm uses.

It wouldn’t be quite so rough if changes took place only in the proportion of national income and production generated in agriculture and in the proportion of resources used by it. But the consumer, with his income still increasing and so long as food is plentiful, doesn’t attach the same rewards to resources used in agriculture as in other industries. This is particularly true when agriculture’s output pushes forward more rapidly than demand—and especially when capital resources are being substituted for labor in agriculture.

The consumer, in the price he’ll pay and the amount he’ll buy, passes on a higher return to resources used for the goods and services he wants most as he grows wealthier. He puts a premium on steel, wood, petroleum, chemicals, labor and other resources used to produce the items he wants most with his increased income. But these resources command the same prices—even though they may not give the same return—if used in agricultural production.

This is the basis of the cost-price squeeze that has become more and more critical in agriculture over the past 10 years. It has resulted in lower returns to labor and other resources used in agriculture than these same resources would earn in many other industries. With the wealth and income of the national economy being what they are—and still increasing — and with agriculture already having a surplus production capacity, both farm and nonfarm consumers are using their price votes for more resources to be transferred to the production of other goods and services.

Making Choices . . .

We need to understand these changes in national economic structure and their implications if we’re to devise and select policies and programs that don’t cause us to try to “swim upstream” or even further aggravate the symptom problems of farm income and surplus. It’s difficult to prescribe even a good painkiller unless we recognize the basic cause of the malady. This is why we’ve stepped back in this article to take a look at the total picture of our national economic growth and development and its meaning for agriculture. We’ve pictured this setting to show some of the forces that agriculture faces in realigning future farm policy. These are the forces that are dictating the place and role of agriculture in our present and developing national economy. While there probably isn’t much we can do about this part of the picture as it affects agriculture, we must take it into account in the future farm policy approaches that we choose.

The impacts of some of the forces mentioned in this article are heightened by the fact that agriculture is producing a surplus output. The forces operating within and outside of agriculture are related, but they aren’t identical.

Most of the farm policy proposals being made at this time emphasize various means of cutting back or using up surplus farm production as the most critical and immediate goal. The proposals include land retirement, increased exports, land-use easements, crop quotas or allotments, income aid and many other possibilities. At the same time, there’s increasing recognition of the real forces involved—and, also important, of more of the possible social (as well as economic) consequences of alternative courses of action or inaction.

Making the best choices among the proposals offered calls for a recognition and understanding of the basic forces both within and outside of agriculture that have led to the situation we now have. For if we want the measures we choose to be effective over time, they must be realistic in terms of the fundamental causes—rather than mere treatments of the symptoms alone.

Next month, we’ll consider the forces operating mainly within agriculture—especially with respect to the surplus production part of the picture. Why and how does agriculture—caught up in the national trend outlined in this article—still tend to use so many resources and produce a surplus output? The reasons aren’t as simple as a casual glance indicates.