

108

85th Congress }
2d Session }

COMMITTEE PRINT

POLICY FOR COMMERCIAL AGRICULTURE

Its Relation to Economic Growth and Stability

REPORT

OF THE

SUBCOMMITTEE ON AGRICULTURAL POLICY

TO THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

WITH

INDIVIDUAL VIEWS OF SENATOR ARTHUR V. WATKINS

Please Return



FEBRUARY 10, 1958

Printed for the use of the Joint Economic Committee

UNITED STATES
GOVERNMENT PRINTING OFFICE

WASHINGTON : 1958

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LETTER OF TRANSMITTAL

FEBRUARY 10, 1958.

HON. WRIGHT PATMAN,
*Chairman, Joint Economic Committee,
House of Representatives, Washington, D. C.*

DEAR SIR: Transmitted herewith is a report by the Subcommittee on Agricultural Policy appointed to conduct a study of policy for commercial agriculture pursuant to instructions contained in the February 28, 1957, report of the Joint Economic Committee on the January 1957 Economic Report of the President.

Representative Wilbur D. Mills, who was a member of the Subcommittee on Agricultural Policy, took part in the planning and organization of the panels and attended the hearings, but due to his resignation from the Joint Economic Committee he has not had an opportunity to participate in this report.

Senator Douglas wishes to have it made clear that because of unforeseen conflicts he could not take part in the subcommittee's hearings nor participate in preparing the report. This does not imply either approval or disapproval of the report.

In transmitting this report we wish to express our special appreciation to George E. Brandow, the economist for the subcommittee, for his excellent services in connection with all phases of our work. We are grateful to the Pennsylvania State University for releasing him from his regular duties to take this assignment.

Sincerely,

JOHN SPARKMAN,
Chairman, Subcommittee on Agricultural Policy.

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POLICY FOR COMMERCIAL AGRICULTURE

Its Relation to Economic Growth and Stability

I. INTRODUCTION

The Subcommittee on Agricultural Policy has conducted a study of policy for commercial agriculture in accordance with instructions contained in the Joint Economic Committee's report on the January 1957 Economic Report of the President. By "commercial agriculture" is meant the farms that produce the great bulk of the products put on the market.¹ Family farms dominate commercial agriculture, in this sense of the term, both in number of farms and in volume of production. Studies by the Subcommittee on Low-Income Families in 1949 and 1955 directed attention to problems of noncommercial farm families who often produce as much for home use as for the market and frequently are engaged in off-farm work.

We sought a clearer understanding of the nature of the farm problem, its underlying causes, prospects for the future, and the strengths and limitations of alternative means of dealing with it. Our study was designed to explore these questions rather than to develop legislative proposals. Particular attention was given to the relation of the farm problem to the growth and stability of the total economy, an area in which the Joint Economic Committee has special responsibilities under the Employment Act of 1946.

We went about the assignment by preparing a study outline and inviting 60 specialists from universities, government, national farm organizations, and elsewhere to write papers on assigned topics. The persons who prepared papers later appeared before the subcommittee at hearings conducted in the form of panel discussions. The papers were published in a compendium on November 22, 1957; the hearings were held December 16-20, 1957, in Washington, D. C.

While the analyses and views presented to us by participants in the study varied in emphasis and at some points were in direct conflict, a general pattern was clearly discernible in their description of the complex farm problem. When alternatives for dealing with it were discussed, agreement often extended to the conditions that need to be fulfilled if particular approaches are to work. But there was disagreement as to whether such conditions are likely to be fulfilled and as to whether results should be judged good or bad in light of non-economic considerations.

Part II of this report is a summary prepared by the committee staff and based on participants' papers and their testimony in the hearings.

¹ In the instructions to the subcommittee contained in the Joint Economic Committee's report on the January 1957 Economic Report of the President, "commercial agriculture" is defined as the 35 percent of farm operators producing about 85 percent of products marketed. The definition used in the present report is an approximation of this based on the latest data now available, that contained in the 1954 Census of Agriculture. In this report, commercial agriculture encompasses the 44 percent of all farms that sell 91 percent of all farm products. The operator and his family supply most of the labor on the great majority of these farms.

This part of the report treats the farm problem and possible alternatives for dealing with it. Attention is directed to the compendium of papers and to the record of the hearings for a more comprehensive treatment and for expressions of individual views.²

The subcommittee's own conclusions regarding implications for farm policy are summarized in part III of the report. We suggest in general terms four principal lines of action that might be pursued in dealing with the problems likely to face farmers in the future.³

II. THE FARM PROBLEM AND ALTERNATIVES FOR DEALING WITH IT

Part II, pages 2 to 17, has been prepared by the committee staff to summarize information presented by participants in the study on four main topics: (a) The nature of the farm problem, (b) its relation to economic growth and stability, (c) how the market mechanism for farm products works, and (d) alternative means of improving income in commercial agriculture.

A. THE NATURE OF THE FARM PROBLEM

1. *The rising productivity and shifting demands that characterize economic growth and development in the United States subject agriculture to persistent strains*

The upward sweep of productivity in the American economy has raised real per capita income nearly fivefold since the Civil War. But the economy has not grown like a balloon, equally in all directions; rather, some industries have grown slowly, others rapidly; entirely new industries have come into existence, and a few have disappeared. Scientific discovery, technological progress, the nature of human wants, and many other forces have shaped this complex economic development. For agriculture, the dominant influences on its relative growth and income position in the economy have been the shifting pattern of consumer demands as income has risen and the advancing productivity of American farms.⁴

The American people were fairly well fed 50 years ago, especially in terms of calories per person. As incomes have risen, consumers have chosen to spend a small part of the increase on better quality and more expensive foods, but most of the added income has been used for industrial products, more processing and marketing services attached to foods, recreation, and the like.

But productivity has risen in recent decades approximately as much in agriculture as in the rest of the economy. Gains in the past 30 years have been impressive; crop production per acre is up 30 percent,

² Senator WATKINS. I regret that other commitments prevented me from participating in the hearings; however, I have examined the compendium and printed hearings. In general, the staff's summary appears to be of high quality. Nevertheless, I am obliged to elaborate upon some of the observations made therein by way of footnotes. This is (1) because several major points developed at length by a majority of the witnesses are not adequately presented in my opinion, and (2) because these points lead me to conclusions regarding their implications for commercial farm policy which in some respects are at variance with those of the subcommittee.

³ Senator WATKINS. Since I disagree in several major respects with my colleagues as to the conclusions which should be drawn from participants' testimony regarding commercial farm policy, as it affects farmers' welfare, and economic growth and stability, I have presented my views in a separate statement.

⁴ Senator WATKINS. It is important to note that almost every witness recognized the fact that the root of the commercial farm problem lies in the nature of the demand for food and fiber products. Since the demand for agricultural products is inelastic, the resources devoted to agriculture have simply produced, in spite of an annual increase in total demand, a supply in excess of that which consumers will buy at prices farmers deem satisfactory—i. e., parity prices.

livestock production per breeding unit 46 percent, and production per man-hour of farm labor 157 percent. Between 1940 and 1955, total farm output rose by 35 percent while total resources used rose only about 10 percent. Technological advance, use of products purchased from industry to replace or supplement farm resources, increased specialization, and more skillful management have all contributed to this rapid advance in productivity.

From one viewpoint, agriculture's role in the evolving American economy is seen as an essential contribution to the developmental process. Rising productivity in agriculture has permitted one farmworker to produce enough food for more and more nonfarm workers; the economy has been able to devote a rising proportion of its resources to industrial production; and the level of living has risen far above that possible in a country where most of the people must farm if all are to eat.

Viewing the developmental process from another standpoint, however, one sees the main structure of the farm problem in the United States. Advancing labor efficiency has much reduced employment opportunities in agriculture during the past few decades and has sharply increased the size of farm that a family can operate. These changes are forcing a reorganization of farms into larger but fewer units. In recent years, even the total acreage of cropland has been excessive in light of rising crop yields.⁵

Agriculture has been under economic pressure since World War I to reduce the number of families living and working on farms, a form of adjustment very difficult for any major sector of the economy to make. While agriculture—especially commercial agriculture—has shared in the long-term advance in the level of living in the United States, overall earnings in farming at any point in time usually have been unfavorable in relation to those in the rest of the economy. Thus, there is a long-standing farm problem, and it is not easily solved.

2. Farm income is highly vulnerable to the impact of rapid technological advance

The competitive structure of agriculture—the kind of market in which the farmer sells and his relation to it—makes farm income particularly vulnerable when new production-increasing techniques become available. Typically the individual farmer produces so small a share of the total output of any commodity that changes in his own production have no discernible effect on price. He is not restrained in expanding production by considerations of effects on prices.

The individual farmer has a strong incentive to adopt without delay each new efficiency that comes along even though such action by many farmers collectively may increase total output and depress price. The nature of demand for most farm products is such that the decline in price typically is substantially greater than the increase in production. Farm income falls. In a period when technological progress is rapid, farmers may literally produce themselves poor while consumers receive the principal benefits of rising efficiency in agriculture. The passing on of benefits of increased efficiency in one way or

⁵ Senator WATRINS. The conclusion most witnesses drew from the data presented in the preceding two paragraphs was that controls—acreage allotments and marketing quotas—have not been effective in reducing production and improving prices in the face of an inelastic demand for food products. In addition, as many of them observed, quotas and other restrictions on production interfere with producing the Nation's food and fiber requirements at the lowest cost.

another is an essential feature of an enterprise economy such as ours, and it has taken place on a massive scale throughout industry. In much of industry, however, individual producers are large, entry of new producers is difficult, prices tend to be inflexible, and production is geared closely to sales opportunities. Under these circumstances, more of the benefits of rising efficiency are likely to be retained by the firms that put them to use.

3. There is not one farm income problem, but several; and indicated solutions differ

The units classified as farms by the Census are a highly heterogeneous group. Three broad classes can be distinguished, though they overlap a great deal.

(a) In 1954, 24 percent of all farms sold less than \$2,500 worth of products each, but the operator worked off the farm less than 100 days and farm product sales exceeded the family's nonfarm income. In general, such farms, often called low-income farms, are much smaller than a family can handle with modern production methods.

(b) Thirty-two percent of all farms in 1954 were residential or part-time units each selling less than \$2,500 worth of farm products annually. Though the farms were unproductive, numerous families on them had average or better incomes because of nonfarm earnings.

(c) The remaining 44 percent of all farms in 1954 comprised "commercial agriculture"; sales per farm were \$2,500 or more, and in total they produced 91 percent of all products marketed. These are the farms upon which the nonfarm public depends for almost all of its domestic food and natural fibers.

The great majority of farms in commercial agriculture are family farms, in the sense that the family supplies at least half of the farm labor. Probably family farms, as so defined, constituted about 95 percent of all farms in 1954 and sold two-thirds of all farm products. On most of the remaining 5 percent of all farms, hired labor did not exceed the equivalent of three full-time men.

Clearly, the major reasons for income problems, where they exist, differ among the three broad groups. Underemployment of family labor is serious on low-income farms. The problems of this farm group were dealt with by the Subcommittee on Low-Income Families. Participants in the present study, however, pointed out that price policy for commercial agriculture is unlikely to help low-income farmers very much. Practicable increases in prices as a result of government programs, while often welcomed, cannot bring about a sufficient change in the economic status of families on such farms because they sell so little.

Similar remarks apply to residential and part-time farms—with the important modification that some of them do not have low incomes, and where low incomes do exist the solution almost always lies outside of agriculture.

In commercial agriculture, many farms are as efficient as can reasonably be expected in an imperfect world. Income problems on these farms are more likely to arise from price relationships or from sources of instability such as the weather than from lack of resources or their ineffective use. While an important proportion of the commercial farms are too small or lack sufficient capital to be reasonably efficient, needed adjustments would leave the operators of most of them still engaged primarily in farming. Price policy has great significance for farmers in the commercial group; most of them sell

enough so that a 10 percent change in prices received for a given volume of output has a substantial effect on net income.

4. Average rates of return on family labor and investment in commercial agriculture are low

Average family incomes in commercial and noncommercial agriculture compared with average nonfarm family income in 1956 are as follows:

	Noncommercial farm families	Commercial farm families	Nonfarm families
Number of families (USDA estimate).....	2,751,000	2,213,000
Net income from farming ¹	\$789	\$4,033
Net income from nonfarm sources.....	2,136	1,382
Total family income.....	2,925	5,415	\$6,900

¹ Net income from farming includes estimated values of house rent and farm-produced products consumed by the farm family.

The data point up the large differences between commercial and noncommercial agriculture. Even in the commercial group, however, nonfarm income accounts for about one-fourth of total income.

Average family income on commercial farms was 22 percent below the average for nonfarm families in 1956. Several adjustments would be needed to put family incomes on and off farms on a strictly comparable basis, and probably the net effect would be to narrow the gap between the two.⁶

The contrast between commercial farm and nonfarm families is greater when returns on family labor and investment are examined, although only very crude comparisons can be made. If interest at 5.6 percent (an average rate paid by farmers) is charged on family investment in commercial agriculture, earnings on family labor from farm sources are computed to be \$2,236 in 1956. This represents the labor earnings by about 1.2 man-equivalents of family labor doing farmwork. The average rate of return on net worth earned by private manufacturing corporations in 1956, after taxes, was 12.3 percent, and the average annual wage of nonsupervisory manufacturing employees (excluding fringe benefits and assuming 50 weeks of work) was \$4,000. While inconsistencies in the comparison may depress apparent earnings in agriculture, average rates of return are relatively low in commercial farming.

Investment per worker in commercial farming (real estate, equipment, livestock) is more than twice as high as investment per worker in manufacturing. Apparently, also, there are more workers in commercial farm than nonfarm families. If rates of return on labor and investment were the same in each sector, average family incomes would be higher in commercial agriculture than among nonfarm people.

Farm income has been supported by government programs in recent years. The contrast between incomes in commercial agriculture and those outside of agriculture would be greater if the operations of markets alone had determined income.

⁶ Senator WATKINS. As several witnesses noted, the lack of adequate income data by economic classes of farm make it almost impossible to place much reliance upon average comparisons both between farm and nonfarm incomes as well as within agriculture itself. However, it is not unlikely that the average family incomes for the *hard core* of commercial agriculture—the operators of the first three economic classes of farm (1.2 million), which comprise only 27 percent of all farms, but which sell nearly 80 percent of the value of all farm products sold—would equal if not exceed the average family incomes of nonfarm families.

Average income from all sources received by families in commercial agriculture declined 6 percent between 1947-49 and 1956. The experience of families depending exclusively upon farming is suggested by the 19 percent decline in farm income per commercial farm family. Between 1947-49 and 1956, however, the cost of living on farms rose 14 percent and the average income of nonfarm families increased 41 percent. The decline in farmers' relative position has been from a more favorable one than agriculture has usually enjoyed, but the drop has been unpleasant nonetheless. Present-day farmers who began farming when farm income was high and who assumed financial obligations in proportion now are badly squeezed.

Averages relating to all of commercial agriculture conceal enormous variation. Net income from particular types of farming operations in 1956 were as low as -\$1,245 (a loss) on typical southwestern cattle ranches and as high as \$21,059 on large-scale cotton farms in the Mississippi Delta (table 1). Variation among typical operations is large even within major commodity types and in the same general geographic areas; in addition, individual farm incomes vary from the typical situations. Incomes have been relatively low by almost any criterion on several types of farms (e. g., most tobacco farms, some important kinds of cotton farms, western Wisconsin dairy farms) and relatively high on others (e. g., certain wheat and cotton farms).

TABLE 1.—Average net farm income for commercial farms, by type and location, 1947-49 average and 1953-56¹

Type and location	1947-49 average	1953	1954	1955	1956 ²
All commercial farms ³	\$4,991	\$4,530	\$4,363	\$4,123	\$4,033
Dairy farms:					
Central Northeast.....	3,892	3,493	3,735	4,248	4,248
Eastern Wisconsin.....	4,365	3,760	3,219	2,816	3,365
Western Wisconsin.....	3,284	3,159	2,382	2,434	3,005
Corn Belt farms:					
Hog-dairy.....	5,639	6,027	6,379	4,372	5,092
Hog-beef raising.....	3,370	3,357	2,945	3,016	3,333
Hog-beef fattening.....	10,665	7,055	8,833	4,433	6,898
Cash grain.....	8,930	7,471	8,393	6,516	9,141
Tobacco farms:					
Tobacco-livestock (Kentucky).....	3,334	3,457	3,439	2,850	3,200
Tobacco-cotton (North Carolina).....	3,298	3,240	2,927	3,550	3,489
Small tobacco (North Carolina).....	2,354	2,611	2,380	2,885	2,526
Large tobacco-cotton (North Carolina).....	3,923	4,042	3,326	4,463	4,636
Cotton farms:					
Southern Piedmont.....	1,565	1,918	1,438	2,297	1,708
Black Prairie (Texas).....	3,090	3,491	1,724	2,502	974
High Plains (Texas, nonirrigated).....	6,411	-640	4,637	2,755	3,326
High Plains (Texas, irrigated).....	10,761	8,448	13,205	7,243	12,736
Delta (small).....	1,923	2,073	1,581	2,033	1,660
Delta (large scale).....	20,465	24,668	16,943	25,807	21,059
Peanut-cotton farms: Southern Coastal Plains.....	2,313	2,660	2,231	3,196	3,121
Spring wheat farms (Northern Plains):					
Wheat-small grain-livestock.....	6,323	4,075	2,133	6,052	6,992
Wheat-corn-livestock.....	5,972	4,201	3,397	2,547	3,356
Wheat-roughage-livestock.....	5,370	4,512	2,813	4,259	3,122
Winter wheat farms:					
Wheat (Southern Plains).....	10,017	4,961	7,240	4,914	3,252
Wheat-grain sorghum (Southern Plains).....	9,433	1,083	3,314	1,647	2,349
Wheat-pea (Washington and Idaho).....	11,864	14,705	16,048	9,989	13,895
Cattle ranches:					
Northern Plains.....	6,466	4,216	3,625	2,839	1,926
Intermountain region.....	8,665	5,324	4,481	4,626	5,720
Southwest.....	5,698	-490	323	3,121	-1,245
Sheep ranches:					
Northern Plains.....	6,908	5,287	4,299	4,367	5,696
Southwest.....	5,224	772	955	3,303	693

¹ Estimates for individual types and locations were prepared in the Farm Economics Research Division, Agricultural Research Service, U. S. Department of Agriculture.

² Preliminary.

³ With sales of \$2,500 or more.

5. *An imbalance currently exists between farm production and market outlets*

Total farm output in recent years has exceeded market outlets at prices that would provide labor earnings on well-run family farms comparable with labor earnings in industry. How much this excess has been is difficult to say; evidence presented to the subcommittee seems to place it at from 4 to 8 percent.

The excess is considerably less than the margin between output and capacity in many branches of industry. But in view of farmers' strong incentive to leave no resources idle, it neither corrects itself nor is readily correctible. Given the nature of demand for farm products, the imbalance is sufficient to have large effects on farm prices and incomes.

The imbalance is not evenly distributed over individual farm products. If production controls were removed and prices kept at about current levels, imbalance in the composition of farm output would be very marked, with wheat, cotton, and tobacco among the commodities in greatest oversupply.⁷

The stocks of farm products owned by or under loan to CCC (about \$7 billion in the fall of 1957) provide visible evidence of the existence of farm surpluses. But while the stocks are troublesome, they are a less serious problem than the lack of adjustment between current rates of output and the quantities that markets will take at reasonable prices. The inventory problem is diminished by the fact that the uncertain world situation and large livestock numbers make it desirable to carry bigger stocks than were usually accumulated in free markets in earlier years.

6. *Prospects are that unless new uses appear, farm production will press upon market outlets for a decade or more*

Participants who were asked to look into the future drew upon detailed studies, recently made or now in process, concerning long-range supply and demand projections for agriculture. These took prospective growth rates for the population and the total economy into account as well as probable changes in foreign markets. The projections could not take into account such possibilities as major wars, unforeseen but large-scale new uses for farm products, or revolutionary improvements in production methods. Essentially, the projections assumed the working out of developments at least dimly in sight at the present time.

Prospects are that the total volume of farm output needed for domestic and foreign uses in 1975 may be 35 to 45 percent greater than the record production achieved in 1956 and 1957. The average annual rate of increase required to achieve this level is about half again as large as occurred between 1910-12 and 1951-53. The expected percentage increase in requirements for livestock and livestock products is about one-third greater than that for crops.

Possibilities of expanding farm output through the application of new and improved production methods, increasing technical and managerial skill of farmers, and further shift of crop production to the best adapted areas remain great, however. Cropland brought into

⁷ Senator WATKINS. Some witnesses indicated this to be true in their best judgment. However, many other witnesses either expressly or impliedly suggested that over a period of time, if controls and subsidies are gradually removed, commercial agriculture can be relatively self-supporting in a reasonably free market. Under such conditions, as excess capacity is diverted into more productive economic activities, farm prices and incomes would steadily improve.

production by irrigation, drainage, and land-clearing projects may exceed the acreage withdrawn for highways, urban development, and similar uses.

When foreseen requirements are compared with production potential in the next 10 or 20 years, output seems more likely to run ahead of market outlets at satisfactory prices than behind them. This result may be particularly marked in the next decade; more distant prospects are less certain. The best guess seems to be that a surplus problem will confront agriculture at least well into the 1960's.

The declining trend in the farm labor force does not seem likely to be permanently halted in the near future, but the largest part of any reduction is expected to come in noncommercial agriculture. On balance, a need for a moderate increase in capital invested in agriculture is anticipated, and the use of supplies purchased from off-farm sources will increase.

Estimates of crop production requirements in 1965 and of increases in crop yields per acre likely to be attained by then indicate that a smaller acreage of cropland probably will be needed for foreseeable requirements than was harvested in 1956 when the soil bank was of minor importance. Perhaps by 1975 a slight reversal of the 1956-65 change will be needed. Under conditions assumed for the projections, however, it seems unlikely that more cropland will be needed than we now have, that acreages of wheat and cotton will need to return to precontrol levels, or that feed grains will be able to absorb all of the acreage diverted from cotton and wheat. More extensive use of some cropland for hay and pasture is indicated.

In total, commercial agriculture now is in, and for some time probably will be in, a particularly severe phase of the long-standing farm problem.³

7. Some changes in farm size and organization severely tax farmers' ability to adjust

Adjustments confronting agriculture as a whole pose extremely difficult problems for the individual farms that comprise agriculture. Participants in the subcommittee's study from all parts of the country indicated a need to increase the size of small and medium-size farms in the interest of efficient family operation. In general, farmers are keenly aware of the need. Farms can be built up by adding acreage or, under suitable circumstances, by fuller use of existing resources. Where a shift of the principal farm enterprise is needed—as in some wheat and cotton areas—alternatives are often poor and may require more land and a different type of capital investment. Then the obstacles to adjustment are particularly great.

The investment represented in a typical farm has grown rapidly as acreage has increased and as much more machinery and equipment are used. (One-third of all land purchases and 57 percent of land purchases in wheat areas were made for farm enlargement in 1956.) Transferring ownership from one generation to the next is becoming an increasingly difficult problem as investment rises.

³ Senator WATKINS. This is certainly true, unless the farm programs intended to assist commercial agriculture, as many participants asked to look into the farm problem and its relation to economic growth and development pointed out, are reoriented in the direction which is consistent with the laws of economics. This means a gradual return, policywise, because human welfare is involved, to a time when the price system is permitted to operate unencumbered by subsidies, which make for long-run imbalances between supply and demand. As Dr. Theodore W. Schultz summed it up: "The foundation on which we build farm policy must in this sense be in line with the economic growth requirements of the United States economy" (hearings, p. 9).

8. *Instability of farm income arising from weather and wide price fluctuations is a serious problem in several types of farming*

Uncertain rainfall in the Great Plains, extreme year-to-year price changes for several fruits and vegetables, and the cyclical swings of prices and production of cattle and hogs are examples of instability peculiar to agriculture. Data in table 1 illustrate the impact of some of these on farm earnings. High risk subjects farm families to constant uncertainty and reduces the satisfaction obtained from a given long-term level of income. Farmers heavily in debt are in particularly precarious positions.

B. GROWTH AND STABILITY: RELATIONSHIPS BETWEEN AGRICULTURE AND THE TOTAL ECONOMY

Several ways in which a concern about growth and stability of the economy involve agriculture were indicated by the participants in the subcommittee's study. One of the most significant of these has already been discussed: The roots of the farm problem are deeply imbedded in the way in which the American economy has grown and developed over the decades. From this standpoint, the overall farm problem is properly a matter of national concern.

The poor production opportunities of many members of the work force on noncommercial farms and, in less degree, of some workers in commercial agriculture result in significant underuse of resources in the total economy. There is little reason to believe that a similar lack of opportunity need be continued in following generations.

Instability in our highly interdependent economy tends to be transmitted from one sector to another, and agriculture is no exception. Booms and depressions typically have originated outside of agriculture, but farmers have been quickly caught up in them. Once farm income has been affected, changes in farmers' expenditures have, in turn, intensified current economic trends. Farm income has fluctuated widely with major business cycles. So also has the rate of movement of labor from agriculture to industry.

Price level instability historically has had strong, direct effects on the ratio of prices received by farmers to prices paid by them and on net farm income. During the slow inflation of recent years, under circumstances frequently described as a cost-push inflation, the usual relation did not hold. Rising marketing costs and prices paid by farmers tended to make price relationships less favorable to farmers.

Instability in agriculture resulting from weather, livestock cycles, and similar causes may have significant though restricted effects on the nonfarm economy. Businessmen and credit institutions in farm areas feel these disturbances. Wide swings in production of some farm products lead to inefficient relationships between capacity and average operating rates in processing industries, and employment in those industries is made more variable.

A steady rate of growth of employment and output in the economy at large and a stable general price level will be essential to a prosperous and stable agriculture in the future. Instability in the general economy will compound farming's difficulties in making the adjustments before it.

C. THE MARKET MECHANISM AS A GUIDE TO ADJUSTMENT AND AS A DETERMINANT OF INCOME IN AGRICULTURE

Interrelationships among prices, consumption, and production in open markets for farm products are founded on the biological and technological factors underlying farm production, on consumer preferences and incomes, on the desire of farmers to operate their farms profitably, and on other firmly established and basic characteristics of the economy. They control adjustments of resource use and income in agriculture when an open-market policy is followed, and they describe behavior that other policies must adapt to or administratively alter if farm programs are to be successful. Information on market supply and demand relations submitted by participants in the subcommittee's study is summarized here in nontechnical form.

Consumers' demands reach farmers through a complex processing and marketing system that, for foods collectively, currently absorbs about 60 percent of consumers' dollar expenditures. Marketing costs change mainly with wages, profits, and prices in industry rather than with farm prices. Because the marketing margin between farm and retail will be little affected, a large proportionate change in the farm price of a product may be a small one at retail. This is an important reason why price changes at the farm often have relatively small effects on consumption.

The farmer's share of the consumer's dollar, which varies widely among commodities, declined from 50 percent in 1947-49 to the pre-war level of about 40 percent in 1957. Margins taken for performing usual marketing services rose, and new services were added. Consumption of farm products will become less sensitive to changes in farm prices if marketing margins widen further.

1. *Demand elasticity*

At the farm level of sales, demand for most individual farm products is inelastic: other things equal, a 1 percent change in the quantity put on the market requires more than an equivalent change in the farm price to clear the market. Thus, farm income from a large total quantity on the market is smaller than income from a small total quantity. There are important exceptions, as for particular products or when foreign sales are a factor at the level of price in question.

Consumption of all foods collectively is affected relatively little by changes in farm prices. Consumers can utilize more of a single food, partly by substituting it for others, but they have little need or desire to increase their total food intake. Their chief response to low prices is to upgrade the diet to more expensive kinds of foods and to use more marketing services. As the Nation becomes wealthier, larger changes in prices probably will be required to bring about given changes in consumption.

2. *Supply elasticity*

It takes time for farm production to respond to changes in prices—from a few months for broilers to a decade for some fruits. Other things equal, production of an individual farm product responds strongly to relative price changes if close alternative products exist for farmers. Response to a high price usually is more vigorous than response to a low price.

Response is much slower, especially to a lower relative price, in circumstances where the next best alternative is much less attractive than the main product formerly has been—especially if the alternative utilizes land and labor less intensively, requires larger farms for efficient production, and necessitates large new investments. Wheat and cotton in some areas provide examples.

In some types of farm production, especially in cattle and hogs, the lagged response of output to price results in irregular but distinct cycles in production and prices. Changes in feed grain supplies and prices importantly influence the hog cycle.

The total output of agriculture responds much less vigorously and promptly to changes in the average level of all farm prices than does the output of a single commodity to its price. When all farm products collectively are involved, alternative uses of resources are very much more limited than in the case of most individual products. The question becomes one of shifting resources between agricultural and nonagricultural uses in response to differences in earnings on land, labor, and capital in the two sectors.

3. Factor markets

Though frequently overlooked in the general concern about farm commodity markets, "markets" for agricultural resources—land, labor, and capital—are, in the final analysis, extremely important to farm income in open markets for commodities or to the results of government programs for agriculture. Even if means are found to raise commodity prices and farm income by government programs, the long-run effect will be largely to raise land prices so long as large numbers of aspiring farmers compete for a foothold in agriculture and will accept low labor earnings in order to get one. The current high value of tobacco allotments, running to \$1,000 or more per acre, is a variant of this general effect. Obtaining satisfactory labor earnings for family labor in a family-type agriculture requires a reasonably good adjustment between the number of men seeking to farm and the well-paying farming opportunities available.

Experience indicates that a movement of labor out of agriculture takes place sluggishly but in substantial volume when the disparity between farm and nonfarm earnings is large and industrial jobs are readily available. When labor requirements in farming have been declining rapidly, however, farm labor earnings have been chronically depressed.

Agriculture has accumulated capital relatively quickly during prosperous times as farmers have reinvested their own earnings and as outside funds have been more readily available. Cropland has been the most immobile resource.

4. Production-consumption adjustments and income

As a result of demand and supply characteristics just discussed, imbalances in farm product markets typically have large effects on prices and incomes while they persist. An imbalance involving only the composition of farm output ordinarily is more easily corrected and likely to involve smaller deviations from normal prices and incomes than is an imbalance arising from relatively too much or too little total agricultural production—especially from too much. A small surplus of total production causes sharp declines in prices and incomes.

Resources are slow to shift out of agriculture, and the imbalance persists for a long time.

Total farm output usually has held fairly steady during the ups and downs of the business cycle because, for example, when production was becoming less attractive during depression, so were the alternatives available to farmers. There has been a slight tendency in recent decades, however, for total farm output to change with non-farm income during major business contractions and expansions, apparently due to variations in crop yields as farmers have varied the intensity of production.

5. Competitive structure

As indicated earlier, adjustments of output in an open market are made by individual farmers with no thought of repercussions on prices because each producer accounts for an insignificant part of total production. The short-run behavior of prices and output in agriculture is much different from that of prices, production, wages, and employment in industry, where administered pricing and collective bargaining for wages occur in a much different setting.

To the arguments of some economists that the competitive structure of agriculture puts it at a disadvantage, others reply that it can counter by shifting some resources out of farming and thereby restore its terms of trade. But this imposes an additional need for an adjustment that agriculture is called upon to make for other reasons and which it has difficulty in effecting. As suggested elsewhere in this summary, the competitive structure of agriculture probably makes it especially vulnerable to the income effects of rapid technological advance and may put it at a disadvantage in the circumstances described as a cost-push inflation.

6. Technological advance and the level of prices

The incentive of farmers to adopt new technologies when available is always strong. Many new methods are more profitable than the old whether prices are high or low. High wage rates for farm labor may hasten mechanization independently of product prices. Apparently, the rate of adoption of new technology in the past has been accelerated by high farm prices, at least partly because farmers could then accumulate or more easily borrow the funds for the machinery, equipment, or supplies likely to be involved.

The supply relations discussed under (2) do not involve changes in technology. When improved production methods are rapidly becoming available, both farm output and prices may decline over a period of years. This does not mean, however, that in other-things-equal situations, low prices stimulate farm output.⁹

D. ALTERNATIVES FOR IMPROVING INCOME IN COMMERCIAL AGRICULTURE

No brief summary can more than hint at the wide range of economic and noneconomic considerations involved in the participants' analyses of alternatives for dealing with the complex farm problem. The principal approaches discussed fall under four headings, and a fifth is added for additional points.

⁹ Senator WATRINS. It certainly does not, as several witnesses told the committee, for even in a "not other things equal" situation, such as a period of increasing inflation, adoption of new technology, accelerated by high price supports, is somewhat impeded by increasing costs and increased difficulty in covering them. This serves to retard production.

1. *Facilitating the movement of labor from farm to nonfarm occupations*

This is a historic trend going back to colonial days, and prospects are that it will continue for some time into the future. There was very widespread agreement among participants that Government policy might well undertake to reduce the obstacles farm-reared people encounter in making a successful and satisfactory shift to other occupations. All agreed that the aim should be to enable farm-reared people voluntarily to take their place in life as efficient and well-adjusted citizens.

Several ways of facilitating the movement were suggested, most of them long-term in nature. Young people are in the best position to make the change, and in fact mobility is highest among farm-reared persons in their late teens and early twenties. More education, training for nonfarm occupations as well as for farming, improved counseling regarding career opportunities, and other means of enabling young people to make the most of their opportunities were proposed. Means of assisting adults include training in industrial skills, better employment information, and financial assistance where relocation is involved. Developing local nonfarm resources is important because nonfarm employment near at hand is much more attractive than that at a distance.

The beneficial effects of the shift from farm to nonfarm occupations in the near future apparently will be largely confined to people now in noncommercial agriculture, as they have been in the recent past. Little contribution will be made soon to a better supply-demand balance for farm products. There is some evidence that consolidation of the smallest farms into more adequate and better managed units will slightly increase total farm output rather than reduce it.

In the long run, however, family labor earnings in commercial farming cannot be satisfactory if the large number of people born on farms remain there until extreme disparities open up between farm and nonfarm labor incomes. A high capacity to shift from farm to nonfarm occupations will be essential if farm income obtained either in an open market or under Government programs is to result in earnings for labor and management in a family-farm agriculture approaching earnings in industry.¹⁰

2. *Expanding the utilization of farm products*

Interest in expanding the uses of farm products is especially keen because success in this effort would reduce the need for some difficult agricultural adjustments.

Subsidized domestic food consumption.—When employment is high, diets are sufficiently good that correcting strictly nutritional deficiencies would add relatively little to total food consumption. A greater potential for increasing food consumption, in terms of farm resources used if not in pounds or calories, is to enable low-income people to adjust their diets toward the more pleasurable and expensive ones of higher income consumers. Subsidies for this purpose would shift the composition of food consumption toward more meat, fruits,

¹⁰ Senator WATKINS. The need for shifting resources to other segments of the economy does indeed involve extreme difficulties for some farm families. However, some participants indicated that many obstacles which limit resource mobility could be overcome by specific programs directed toward that objective. Some suggested that the real failure of agricultural policy of the past few years has been to impede rather than to provide means for enhancing much-needed resource mobility. The obstacles are not insurmountable, but they require a new policy approach.

vegetables, dairy products, and similar commodities and away from such products as cereals and potatoes. A shift of production toward the favored products and away from wheat, cotton, and others not helped would be indicated.

During depression, the potential effectiveness of a food consumption subsidy program in raising farm income would be greater and the nutritional advantages more important. Programs designed to increase food consumption in particular situations, such as the school lunch program, can contribute both to nutrition and to wider markets for some farm products, but the effect on total demand for farm output normally is small.

New industrial uses.—The report of the Commission on Increased Industrial Use of Agricultural Products¹¹ concludes that important new uses can be developed for farm products. It suggests research on new uses and new crops that appears to offer good possibilities of yielding high returns on investments made, both to agriculture and to the total economy. But results are necessarily uncertain, and farm problems will continue unless and until new uses and new crops demonstrate their ability to absorb farm resources.

Export disposal.—Considerable discussion by the participants of plans for selling products abroad at lower prices than realized at home left these impressions:

This is currently being done on a large scale. Special multiple-price plans now put forward would need to have due regard for the interests of other exporting nations and probably would not increase foreign sales over present levels. But the plans would be self-financed by higher domestic prices and would eliminate producers' dependence on congressional appropriations for export subsidies. Production of the crops probably would need to be controlled. Some special domestic problems would arise, for example, keeping wheat out of the feed grain market. Multiple-price plans appear most workable for wheat and rice. These products account for about 7 percent of total farm marketings.

Farm products apparently have been used to good advantage for famine relief abroad and in connection with economic assistance programs for underdeveloped countries. Much-expanded use for such purposes may be possible but probably would require large changes in present approaches.

3. Production control

There was virtually complete agreement among participants that acreage controls are poor instruments for controlling production of particular crops and are almost wholly ineffective in restricting total agricultural output. Two main difficulties arise: farmers intensify production on the land remaining in the controlled crop, and they divert the other acres to substitute crops.

Two proposals for increasing the effectiveness of controls and for promoting greater flexibility and better resource use were made. These were to put controls on volume sold rather than on land and to make quantity quotas negotiable.

If production control is approached crop by crop, some means of blocking the shift of resources from one to another is necessary. The soil bank, 1957 style, attempted to withdraw land entirely from production. Experience and research indicate that a successful program

¹¹ 85th Cong., 1st sess., S. Doc. No. 45, 1957.

will require larger payments per acre and many more acres than were involved in 1957. A program to shift cropland to grass would cost about the same for a given amount of reduction in total output and would promote better land use. Another means of blocking shifts from crop to crop is to require that producers of a controlled crop withdraw some land from production without compensation.

An alternative to the individual commodity approach to production control is to apply restrictions on all important products simultaneously. Conceptually, the possibilities of increasing farm income through production control are greatest when total output is directly restricted, for aggregate demand is extremely inelastic. Commodity differences may be an important difficulty for this approach, however. Probably long-run demand for a few commodities is elastic—cotton may be an important example—and production control would not increase income over a protracted period. Problems of administering controls appear to be particularly great for some products.

A feature incorporated in some commodity proposals is to arrange to pay producers a low price for production in excess of a fixed base allotment. Possibilities range from mild restrictions on future expansion of output to severe discouragement of above-allotment production.

4. *Direct payments*

This approach involves no direct interference with the market; payments are made directly to producers to compensate for differences between average market prices and other prices deemed desirable. Increments in farm income under a direct-payments program are paid for by the nonfarm public in taxes; under production control, increments are paid for in the form of higher prices. The total money cost to the nonfarm public of attaining any given level of gross farm income is, of course, the same regardless of type of program. Consumers receive a larger volume of farm products for their money under direct payments than under production control, but farmers incur the costs, which may be low, of producing the additional volume.

Unrestricted compensatory price payments benefit producers in proportion to volume of marketings, as does any price-improvement plan. Payments to individual producers can be limited under a compensatory price program; similar limitations are not possible with programs that raise market prices, and limitations on soil-bank types of programs reduce their effectiveness.

Difficulties with direct payments are most likely to arise on the supply side of the market. If compensatory price payments are made high enough to raise farmers' realized returns significantly above the market price on all they sell, a larger volume of marketings will result. In view of the potential of American agriculture for increasing output, a program to raise farmers' per unit returns well above open-market prices by unrestricted compensatory price payments probably would become prohibitively costly to the Treasury, unacceptably lucrative to the largest growers, and clearly stimulative of unwanted production.

The principal feasible applications of direct payments appear to be—

(a) Temporary use at modest levels to alleviate short-term, distress situations in markets, especially for perishables. Such use might be helpful in evening out the hog cycle through a forward-pricing system, for example.

(b) Income support for farmers during depression, when price support and production control might have particularly adverse effects on consumers.

(c) More or less permanent use, but with restrictions added to avoid stimulation of output. These might involve limitation of payments (not production) to fixed allotments, a mild form of restriction; or they might involve administrative production control.

A much emphasized shortcoming is the dependence of farmers on uncertain appropriations for direct payments. Another is the fear that limitation of payments to individuals will put large producers at an unfair disadvantage. Experience with the wool program has not shown reluctance on the part of farmers to accept direct payments.

5. *Miscellaneous*

Loans, purchases, and storage.—Loans and purchases by government can support farm prices and incomes at high levels for a short time. But since stocks cannot be piled up endlessly, such programs must be succeeded by others to dispose of commodities or to prevent their production in the first place. Storage can be used for stabilization of market supplies by accumulation in one period and liquidation in another. But enduring programs to raise prices or incomes must look beyond storage alone.

Marketing agreements and orders.—Marketing agreements under Federal and State laws have been applied mainly to fruits and vegetables produced in concentrated and homogeneous areas. Experience suggests that use of marketing agreements to reduce materially the average quantity marketed and to force prices to high levels is unlikely to be successful. Judicious adjustment of the flow to market, however, appears to have increased price stability and, in modest degree, the average level of price. Growers frequently believe that advertising and promotional programs under agreements have been beneficial to them. Apparently the feasibility of marketing agreements is substantially limited to the general kind of product for which they are now used.

Marketing orders for fluid milk appear to have stabilized and improved dairy producers' incomes. Protection of some markets in which such orders operate, achieved by other means, may account for part of the success with which they are credited. The existence of a large, price-supported, manufactured-milk market into which overflow production can be diverted has at times shielded them from some consequences of overpricing that similar orders for other commodities could scarcely avoid.

Parity prices.—Comparisons between prices received by farmers and prices paid by them—such as the parity ratio—are indications of short-term trends affecting farmers' economic welfare. As long as farm programs are in use, some general means of referring to the level of farm prices probably will be needed in legislating and administering programs. Parity computations are highly useful for these purposes.

Some impression of the difficulty of computing fair prices for farm products can be obtained by referring to table 1 and considering whether any price of cotton or wheat could be regarded as generally fair for all producer groups in one year or equally fair for all groups from one year to the next. Since a great deal more than price is involved in explaining farm income, a broader range of factors than price alone needs to be considered for farm policy. Parity price com-

putations of the kind now made can be an effective aid to communication and to understanding the current farm situation, as long as no more is read into them than is really there.

III. RECOMMENDATIONS

The analysis of the many-sided farm problem presented to us by the participants in our study indicates that agriculture will continue to face serious difficulties if long-established trends persist. If not corrected, the failure of demand for farm products to expand as rapidly as farm productivity, together with other factors, is likely to exert strong pressures toward persistent surpluses of farm products, fewer employment opportunities in farming, a need for important adjustments in individual farm operations, and generally unfavorable income in commercial agriculture.

A realistic farm policy must be prepared to assist farm people in dealing with these difficulties, in a manner consistent with the best long-run interests of agriculture and the economy as a whole. At the same time, farm policy should seek to eliminate the deficiencies in demand for farm products that limit income and employment opportunities in agriculture. To the extent this effort succeeds, several current difficulties facing farmers will be reduced.

When we consider the desirability of substantially increasing the demand for farm products and the main difficulties confronting farmers unless and until this is done, we conclude that four main lines of attack on the complex farm problem will be necessary. These are outlined below. We assume in discussing them that long-established research, extension, credit, rural electrification, and similar Government activities now assisting farmers in numerous ways will be continued, but modified as required to meet the needs of changing times.

Expanding outlets for farm resources

Agriculture should not be defeatist about expanding the market outlets for its resources. The instinct to expand rather than to contract is a sound one. There is no way of knowing how much success can be gained unless every effort is made to succeed.

The possibilities cover a wide range. A major one is the development of new industrial uses and new crops to tap wider markets than now exist for farm products. Others include the expansion of commercial markets abroad and increased demand through better marketing of farm products at home. Possibilities extend to numerous restricted but significant matters such as improving the quality of individual products.

We recommend that research on new uses and new crops be increased; that producers and the agricultural industries exercise all the ingenuity and enterprise at their command to expand markets; and that appropriate government assistance be given to this effort.

We also believe that the market for farm products should encompass the minimum nutritional requirements of all citizens. Programs that assist disadvantaged people to participate in markets for farm products to this extent should be regarded as welfare rather than farm programs. We favor such programs and recommend their further development.

While foreign assistance programs must be based on broader considerations than the existence of farm surpluses alone, the current and prospective farm situation has a bearing on future policy in this area. The United States now has resources committed to agriculture that can be only slowly and imperfectly shifted to other uses. These resources are available at low opportunity cost, especially in the near future, for use in feeding and clothing less fortunate people abroad if decisions are made on other grounds to undertake large-scale and continuing efforts of this type.

Properly utilized, farm surpluses can serve as a valuable national asset.

Assisting the normal flow of farm-reared people into other occupations

The shift from farm to nonfarm work, reaching back to colonial days, may continue well into the future. Farms have long served as a source of population supply to urban areas. Whatever the net change in population is to be, we should try to increase the ways in which farm-reared people freely enter upon the occupations promising to be most rewarding to them and to reduce the number of situations in which farm people are forced by adversity to turn to other work for which they are poorly prepared. The more effectively this can be done, the better off will be the people who cease to depend upon agriculture as their main support, those who continue to farm, and the economy at large.

Another main line of attack on the farm problem, therefore, should consist of programs to develop local nonfarm resources, to improve the education of farm people, to make training in industrial skills available to them, and to overcome obstacles faced by people who wish to make the transition from farm to nonfarm work. Success in this effort would have most direct impact on noncommercial farm families but is essential to the ultimate success of income programs for commercial agriculture. However, the effort is a long-run one, will not by itself close the gap between commercial farm and nonfarm incomes in the near future, and will have less effect whenever industry is depressed.

Assistance to farm families in making on-farm adjustments

Numerous families with reasonable prospects of success in farming will need assistance in making major adjustments in farm operations required by technological advance and shifting markets. We have reference to such widespread needs as building up the smaller farms sufficiently to make economic units for family operation and to such special difficulties as making major changes in farm enterprises in certain areas. Speeding such adjustments will promote better resource use in agriculture, improve the distribution of farm income, and bring farm income more in line with nonfarm income.

The need for farm adjustments is so widespread that the activities of appropriate public agencies now serving agriculture should be coordinated into a consistent attack on the problem. This effort should be assisted by making available new credit, suited to farmers' special needs, for the most urgent and the highest capital-requiring adjustments.

Income programs for commercial agriculture

Programs to improve farm income apparently will be needed for a decade and perhaps longer if family incomes in commercial agriculture are not to be materially below the average for nonfarm families. The large imbalance within agriculture that would now exist in the absence of production controls, the too high rate of total production (hardly touched by present controls), and prospects that production will expand faster than markets at satisfactory prices for at least a decade, all strongly indicate this.

We believe that no cure-all will be brought forth—that no miracles are to be expected—in this area. Problems and attitudes of various groups within agriculture are so diverse that no single, comprehensive program seems possible. The task, then, is to construct as consistent and as effective an overall policy as can be made out of a variety of programs.

In view of the economic setting likely to exist for farm policy in the years ahead, production control will continue to be a main reliance for improvement of farm income. But controls will need to be more effective than those used in the past and permit more interfarm adjustment of production. If programs are to be workable and in the best long-run interests of agriculture, they must be based on broader considerations than attainment of certain percentage-of-parity prices. Real limitations on production will need to be accepted without increasingly large Treasury payments to induce compliance. In general, even moderate success will require new administrative devices and a broader understanding than now prevails of what controls involve and their limitations.

Improvements in production controls appear to be possible, and controls can be supplemented by other types of programs. Two possibilities for making controls more effective and for promoting better resource use—restriction of quantities sold rather than acreage, and negotiability of quotas—merit careful consideration.

Some means of selling abroad at a lower price than at home, but within limits imposed by a regard for relations with other countries, probably will be necessary for wheat, cotton, and perhaps other export commodities. Marketing agreements, marketing orders, and independent cooperative action by farmers in bargaining for and marketing their own products can be increasingly useful in particular situations and should be encouraged.

Programs to subsidize food consumption of low-income families and to support farm income through direct payments will deserve special consideration whenever consumers' purchasing power is low.

The Commodity Credit Corporation should maintain storages for national emergencies and stabilization purposes. Excess stocks should be worked off as the opportunity arises, but they should not take priority in domestic sales or in dollar sales abroad over supplies from current output. Except for disposal of current excess stocks, CCC should buy and sell principally for stabilization purposes. Consideration should be given to enabling farmers to store their own production.

The programs suggested here are too diverse and uncoordinated, and the circumstances in which they must be worked out are too uncertain, for successful operation by any formula—price formula,

allotment formula, or another. Managerial decisions of the highest quality must be made if individual programs are to form a coherent farm policy in the best long-run interests of agriculture and consistent with national policy in other areas. But pressures now surround farm policy that appear to make attainment of these objectives impossible unless some better way is developed to provide managerial decisions. Careful consideration should be given to creating a board or commission to perform this function, subject, of course, to major policy determination by the Congress.

The existence of large government programs for agriculture and the controversy that surrounds them heighten the need for statistical information and economic research bearing upon the income position of agriculture, the effects of existing programs, and the desirability of revisions. We recommend the support of such statistical and analytical research.

INDIVIDUAL VIEWS OF SENATOR ARTHUR V. WATKINS AS TO ALTERNATIVES FOR IMPROVING COMMERCIAL AGRICULTURE

I cannot agree with my colleagues that the commercial farm problem stems from "deficiencies in demand." This places the cart before the horse. Never has the consumer demand for food crop, livestock, and fiber products been as great as it has been during the past few years. Personal consumption expenditures for nondurable goods such as food and clothing in 1957, for example, totaled \$97.7 billion—over one-third of total personal consumption expenditures.

In a capitalistic economy, consumer preferences and incomes, through the price mechanism, dictate what and how much is produced. By and large, these factors determine resource use in agriculture when not interfered with by programs which encourage production in excess of a relatively inelastic consumer demand.

Participants' analyses of the farm problem convince me that commercial agriculture (1) will fail to make the maximum possible contribution of which it is possible to economic growth and stability, and (2) that farmers will continue to "face serious price and income difficulties" if *gradual steps* are not taken to eliminate the artificial stimulants—government subsidies—which, to a large extent, induce a production of food and fiber products in excess of even the growing amounts consumers will take at reasonable prices to producers. Because we are dealing with people, this obviously must be done over a period of time.

On this score, our Subcommittee on Fiscal Policy only a few days ago concluded:

Whatever their initial justification, subsidy programs should be so contrived as to eliminate the necessity for their continuation. The broad changes which must be expected in our economy require frequent revision in the scope and character of these programs if they are to achieve their purposes. Failure to adopt the substance of subsidies to changing demands and opportunities may be expected to prevent most efficient use of resources in the subsidized activities as in other types of economic endeavor. Where this is the case, the subsidy not only fails of its immediate objective but also imposes real costs on the entire economy over the long run. (Federal Expenditure Policies for Economic Growth and Stability, January 23, 1958, p. 7).

This observation, as the Fiscal Policy Committee made explicit, is not applicable just to agriculture but *all* other segments of the economy as well. However, as concerns agriculture, the 1959 Federal budget makes it clear that 65 percent of the \$5 billion requested for the Department of Agriculture is for "stabilization of farm prices and farm income * * *" (p. 295).

As at the present time, supplywise, however:

* * * When all farm products collectively are involved, alternative uses of resources are very much more limited than in the case of most individual products. The question becomes one of shifting resources between agricultural and nonagricultural uses in response to differences in earnings on land, labor, and capital in the two sectors. (See the staff's summary of participants' opinions, p. 11.)

If there was a common theme which ran through the testimony of witnesses, it was this one.

EXPANDING OUTLETS FOR FARM RESOURCES

Certainly, agriculture should not be defeatist about expanding the market outlets for its resources. Efforts along this line are presently being done on a large scale and should be continued. To the degree they succeed in increasing demand beyond that quantity required by normal population growth and exports, these efforts will reduce the paramount need for shifting resources to the nonagricultural sectors of the economy. However, I believe it not wise to suggest that in the near future prospects for major breakthrough here are so imminent, that efforts being made to shift resources (land, labor, and capital) to more remunerative activities should be curtailed. Realism is important in this prospective realm to a solution of the commercial farm problem.

I certainly approve of the efforts being made by the Congress and the Department of Agriculture to expand utilization research aimed at increasing industrial uses of farm products. However, a word of caution as to what can be expected, demandwise, is in order. As one witness so aptly summed it up:

The key element here is the word, "profitable." It may be possible technologically to develop a wide variety of uses, but to make these profitable is another thing (hearings, p. 278).

Concerning three of the major problem crops—wheat, corn, and cotton—consistent efforts have been made over a 15-year period to find new uses which would remove the imbalances which exist between the supplies of and demands for these crops by the four regional utilization research laboratories established by the Department of Agriculture pursuant to the Agricultural Adjustment Act of 1938. Yet, in spite of prevailing low grain prices, for example, the USDA reported to the Congress in 1956 that although it is technically feasible to produce rubber and ethyl alcohol—

the problem lies in the unfavorable economics of grain (USDA report entitled "Disposition of Stocks of Agricultural Products Held by the Commodity Credit Corporation," August 27, 1955, p. 3).

A breakthrough on these crops does not appear likely in the near future. It is suggested, nevertheless, that new uses research should be directed primarily toward finding additional markets for wheat, cotton, and corn, because they now account for most of the cost of programs primarily for the stabilization of farm prices and incomes.

"At the moment", as I noted in my minority views to the 1956 Report of the Joint Economic Committee, "*new crops* development research seems to be the front which offers the greatest promise for more efficient utilization of resources in agriculture now being used to produce quantities of some crops greatly in excess of demand" (p. 71). I join my colleagues in urging that such research be increased, for it seems to offer the best possibility of keeping resources in agriculture (depending upon the degree of the demand substitution effect involved), that otherwise should be transferred to other economic pursuits, if greater returns by their owners are to be realized.

I believe that proposals to assist low-income families to increase the demand for food and fiber products should be thoroughly investigated, as I noted in some remarks I made on S. 43 (Congressional Record, February 7, 1957, pp. 1525-1527). However, in my opinion, it is not enough that the total demand for farm products "should encompass the minimum nutritional requirements of all citizens"; if such programs are to help shift resources from the problem crops—wheat, corn, and cotton—since, if all that is contemplated by my colleagues is an adequate diet in terms of nutrition, that can be supplied from the current production of cereal crops, which by and large today comprise our problem crops. However, if such programs are to aid in shifting agricultural resources—land, labor, and capital—from these crops to production of other food products, and thus keep additional such resources in agriculture at more profitable returns to farmers than otherwise would be the case, they must concern themselves not only with nutritional needs but with *quality* of diet as well; i. e., increased consumption of meats, fruits, and vegetables.

As one part of the staff summary of participants' observations on this possibility indicated, income supplements to low-income families—would shift the composition of food consumption toward more meat, fruits, vegetables, dairy products, and similar commodities and away from such products as cereals and potatoes (p. 13-14).

However, I cannot recommend adoption at this time of such programs as a means of solving the wheat and cotton price problem, as my colleagues have done, since the staff summary of opinions of expert witnesses in resource allocation, also indicates that—

Where a shift of the principal farm enterprise is needed—as in some wheat and cotton areas—alternatives are often poor and may require more land and a different type of capital investment. Then the obstacles to adjustment are particularly great (p. 18).

I have some reservations that consumer demand, being inelastic in nature, can be increased very much "through better marketing of farm products at home," based upon the present emphasis given to agricultural marketing research by the Department of Agriculture. As I indicated in my minority views to the 1956 Report of the Joint Economic Committee:

* * * mere improvement of the marketing mechanism—a real boon and subsidy to the processing, transportation, wholesaling, and retailing industries—does not necessarily mean that (1) resulting lower marketing costs are passed on to the

farmer in the form of higher prices or lower handling costs (quite to the contrary, I suspect that most of this "saving" finds its way into the profits account) and (2) the total demand is increased for the commodity in question where marketing costs are lowered (p. 70).

Expert opinion, as summarized by the staff summary, seems to add some credence to this view:

The passing on of benefits of increased efficiency in one way or another is an essential feature of an enterprise economy such as ours, and it has taken place on a massive scale throughout industry. In much of industry, however, individual producers are large, entry of new producers is difficult, prices tend to be inflexible, and production is geared closely to sales opportunities. Under these circumstances, more of the benefits of rising efficiency are likely to be retained by the firm that put them to use (pp. 3-4).

It is unlikely, therefore, in my opinion, that marketing economies beyond the farm, derived as a result of USDA research and charged to the agricultural budget, under these institutional conditions will be shared with farmers by processors, wholesalers, and retailers. Continued Federal expenditures for research in this area are not likely, therefore, to increase the demand for food and fiber products extensively enough to overcome the need for shifting land, labor, and capital to other economic pursuits.

Concerning foreign assistance programs, it is not so much "the current and prospective farm situation" which "has a bearing on future policy in this area," as it is (1) the fact that the United States is now using this means on a large scale to dispose of farm surpluses, and (2) a declining foreign interest in and resistance to buying our surpluses under barter and foreign currency arrangements, as well as giveaway programs, is developing. It seems unlikely that this approach to substantially improving commercial agriculture offers little else in the foreseeable future than a necessity to face reality about the need for moving some agricultural resources into more profitable economic activities.

Multiple-price plans as well, financed by higher domestic prices than otherwise would prevail, offer no permanent hope for increasing materially the demand for food and fiber products either. They also are likely to create ill will among friendly nations whose major commercial exports consist of crops which also constitute our problem crops, in the greatest need of production adjustment. In the last analysis, these proposals are indicative of the fact that it is uneconomic to devote the current quantity of resources to their production.

PRICE AND INCOME SUPPORT PROGRAMS FOR AGRICULTURE

For some 10 peacetime years, since World War II, we have relied upon price and income support programs to solve the commercial farm problem. Direct payment programs fit the same category; unless in the public interest an incentive is needed to get a production level in a shorter period of time than the price mechanism could reasonably be expected to bring forth.

Continuance of such programs at support and payment levels of the recent past, in light of large imbalance within commercial agriculture, it should be evident, as witness after witness stated, will only make for continued or perhaps greater imbalances which will leave commercial farmers facing more serious price and income problems than in the past. In addition, the providing of artificial stimulation to production, in excess of what effective consumer demand dictates, will retard economic growth and stability in other sectors of the economy as well.

Use of negotiable quantity quotas may lead to greater flexibility and better resource use for the crop in question, as some participants indicated. However, the problem of what to do about diverted acres and their use remains. This proposal in no way, therefore, would serve to remove the *general imbalance* which exists on the input side of commercial agriculture. Quotas and other restrictions upon production, whether used in conjunction with direct payments or non-recourse loans, lead to uneconomic use of resources and interfere with general economic growth and stability.

ASSISTING ON-FARM ADJUSTMENTS AND THE FLOW OF RESOURCES TO MORE PROFITABLE SECTORS OF THE ECONOMY

I wholeheartedly endorse the views of my colleagues concerning the need for developing programs to assist commercial farm families "in making major adjustments in farm operations," as long as sound economics indicates their desirability. This need, as well as a word of caution, however, were expressed in my minority views to the 1956 Report of the Joint Economic Committee as follows:

Many owners and operators of fifth- and sixth-class commercial family-type farms *in particular* can benefit from more *liberal long-term credit policies* coupled with intensive assistance along technical farming lines from Federal and State extension services and other Federal and State agencies.

More easily attainable credit would enable many such farmers to expand their farms to a size which could return to them and their families a decent level of living. For a great many other farms, lack of opportunity to acquire adjoining farmland, rather than lack of capital to purchase such lands, constitutes the "size of farm" problem. For others the need is for credit on liberal long-time terms to be used for the purchase of equipment, buildings, livestock, and so forth (p. 73).

Assistance to help particular farm families make on-farm adjustments, as desirable as they are, however, in no way will solve the chronic and general problem of imbalance which attaches to commercial agriculture.

Neither is solution to this national problem of continuing uneconomic use of resources in agriculture to be solved by merely assisting in a positive manner (through better education, vocational training, and development of nonfarm employment in rural areas) farm-reared people to enter other occupations. Through this is badly needed, it is viewed by farmers generally with much less concern than by some

politicians. Consider the following resolution, for example, adopted by the Cache County, Utah, Farm Bureau, recently:

We urge the county farm bureau to take an active part in stimulating the county school board to develop more opportunities for our children to obtain vocational training other than that in agriculture. We commend the teaching of vocational agriculture, but recognize the fact that an increasing number of our children will not be able in future years to engage in agricultural production and must, therefore, prepare for other occupations.

Because substitution of capital for labor is capable of producing greater yields, as one expert witness so sagely observed:

Any effective effort to reduce production must involve the simultaneous transfer of some combination of labor, land, and probably capital resources to nonagricultural pursuits. (See James T. Bonnen, "American Agriculture in 1965," Compendium of Papers: Policy for Commercial Agriculture, pp. 152-153.)

Imbalance in agriculture and its drag upon national economic growth and stability, as well as upon farm prices and incomes, will remain with us for many years to come yet, unless congressional attention results in a program for commercial agriculture which will assist the flow of currently underemployed agricultural resources into more profitable economic activities for their owners. The real failure of agricultural policies and programs during the past few decades has been that they have retarded rather than increased resource mobility.



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