

G. E. BRANDOW\*  
Pennsylvania State University

## *Current Programs in Relation to Needed Adjustments*

**T**HE farm problem<sup>\*</sup> has been impressed upon the consciousness of the American public for more than a generation. The farm problem of the early 1920's was due in part to the sharp postwar decline of the general price level when farm debts were high, and in part to the need for adjusting agriculture to changes in markets, particularly in postwar foreign markets. In the latter 1920's, cost-price relationships were less distorted than in the early 1920's, but power mechanization was increasing rapidly, and the farm income situation became more distinctly an adjustment problem.

The need for adjustments of various kinds continued to grow during the 1930's, but the overwhelming reason for the farm income problem of that decade was general economic depression. Even though the major pieces of farm legislation during the 1930's were called agricultural adjustment acts, the first need in this period was to increase the income of farmers and others in depressed sectors so that economic activity could be revived. The farm programs of that time were directed toward this end.

During World War II and for about two years thereafter, the farm problem ceased to haunt us. But it began to reappear in 1948 and 1949, and it has come strongly to the fore since the Korean inflation leveled off about five years ago. In its postwar form, the income problem of farmers is rooted almost entirely in the need for adjustment. Certainly, neither domestic nor export demand could be expected to be much better in a peacetime situation. Farm production has been too large in total and has not consisted of the right balance of individual commodities in recent years, and in the absence of government programs farm income would have been considerably lower than it was.

To many people, saying that the current farm income problem is essentially an adjustment problem somehow implies that the income consequences either are readily avoidable or cannot be very severe. But since the adjustments include a reduction in labor force, consolidation of uneconomic units, shifts to more extensive uses of land, and the like, they are in fact very difficult to achieve; and falling income

---

\*The suggestions of C. A. Becker, R. F. Hutton, R. H. McAlexander, and F. R. Robertson, all of Pennsylvania State University, are gratefully acknowledged.

hurts regardless of the reason for it. The main force behind the demand for farm programs in the past has been the desire to protect incomes, which is just as true today when the farm problem is almost entirely an adjustment phenomenon. The insistence on support is a reflection of the magnitude of the adjustments currently needed in farming. Moreover, inputs and market demands in agriculture are such that maintenance of perfect adjustment cannot reasonably be expected even under the best of circumstances. Certainly it would be unrealistic to assume that government programs can concentrate upon needed adjustments to the exclusion of income problems.

On the other hand, government programs must take needed adjustments into consideration even if the motivation for the programs is almost entirely income support. Economic forces in markets for farm products tend, in general, to force the methods and configuration of production and the pattern of consumption in the directions dictated by economic efficiency. The "invisible hand" of Adam Smith may be slow and clumsy, and it may have a paralyzed finger or two, but its sweep and power are nonetheless enormous. Economic forces in the market will work against farm programs that attempt to support income by insulating farmers from price stimuli. This does not mean that income support is an inferior objective, of course, but it does mean that successful administration of the programs may become very difficult. As evidence, we need only observe the enormous stocks that CCC controls, the necessity of absorbing large losses on agricultural exports, or the persistent tendency to use other inputs to offset the effects of reduced acreage on crop production.

### EFFECTS OF RECENT PRICE SUPPORTS, ALLOTMENTS, AND QUOTAS

I shall approach the task of appraising the effects of current programs on agricultural adjustment by reviewing our experience, particularly during the past four years, with acreage controls and price supports. Conclusions as to what this experience seems to portend for agricultural adjustment will be summarized after a brief discussion of the Soil Bank program. Such comments as I have about credit, crop insurance, and other non-price programs will be included at the end of the chapter, where suggestions for promoting needed adjustments are made.

#### Location of Production

Acreage allotments and marketing quotas, computed on a historical basis, necessarily tend to freeze the interregional and interfarm pattern of production. Though provision may be made for past trends and new producers, such corrections are typically small, and allotments

and quotas check trends that otherwise would develop. Cotton is an example of a commodity for which important shifts in the interregional pattern of production have been needed (in an efficiency sense) during the past 25 years of intermittent production controls. Acreage data show that allotments and quotas have maintained production in the Southeast at a higher level relative to the Delta and West than otherwise would have been the case. Tobacco production also has tended to be geographically immobilized by acreage controls, and shifts of types among areas have been restricted.<sup>1</sup> Similar, but usually less important, instances of this tendency can be noted among other basic commodities.

Allotments and quotas undoubtedly have prevented many shifts of production among farms that normally occur with the family cycle, change in ownership, variations in attractiveness of alternative enterprises, and the trend toward larger size of business. Also on occasion some farmers have obviously stepped up production of an uncontrolled crop in the expectation that quotas would soon be put into effect. If all the necessary data were available, they would perhaps show a significant loss of efficiency in production of cotton because of the freezing of the production pattern, but the loss for all of American agriculture probably would not be large. Acreage controls have been in effect for most basics for only a short time, after a long period of comparative freedom from them. Use of controls over an extended period would be another matter.

### Inputs Used in Agriculture

Total inputs used in farm production in 1956 probably were a little larger than they would have been without government programs during the period 1953-56. Price supports created a stronger incentive to intensify production than otherwise would have existed, and the more favorable level of income enabled farmers to maintain a high level of investment.

Use of fertilizer and lime probably has been influenced by government programs. A strong price incentive for their use has existed, though not so strong as in the best postwar years. Support of prices has given farmers: (1) greater confidence that they would recover their investment in fertilizer and lime and (2) more money with which to make such investments. Equally important, perhaps, has been the effect of acreage restrictions independently of price relationships. Some farmers may have tried to maintain the same volume on less land, and others may have felt only challenged to undo the effects of acreage controls. ACP payments for lime and fertilizer have had yield-increasing effects despite the attempt to emphasize conservation rather than greater output. The USDA diverted-acres study showed

---

<sup>1</sup>Benedict, Murray R., and Stine, Oscar C., *The Agricultural Commodity Programs*, The Twentieth Century Fund, 1956, p. 85.

that in some instances increased use of fertilizer was attributable to acreage controls, while in other instances it was not. However, farmers almost certainly were influenced considerably by the level of prices. Hence, price supports plus acreage controls probably have contributed importantly to the heavy use of fertilizer and lime in recent years.

Farmers' investment in equipment and machinery probably was bolstered by price and income support during 1953-56. The Federal Reserve index of production of farm machinery reflects changes in gross farm income fairly accurately. This index has declined each year, with one exception, since 1951. In the absence of farm programs, both the price incentive and the means for buying machinery and equipment would have been lower than they were, and the index would have declined more than it did.

The effects of the programs on size of farm labor force are not clear. Conflicting assertions are made: that small tobacco and cotton allotments have kept men in full- or part-time farming who otherwise would have given it up; that the impossibility of enlarging a small allotment has caused some men to quit farming; or that price support programs have led some farmers to be overly optimistic and to postpone movement into industry. Each is undoubtedly true in individual cases, but the relative frequencies are not known. According to the recent USDA diverted-acres study, the reduction (attributed by farmers mainly to cotton allotments) in the number of cropper and share-tenant families on cotton farms in the Delta and Southeast between 1953 and 1955 ranged from 17 to 34 percent.<sup>2</sup> But probably all influences of the programs have been minor compared with the powerful pull on the farm labor force exerted by high employment at very attractive wages in industry. The net change in population from farm to nonfarm locations averaged 848,000 persons annually between 1950 and 1956,<sup>3</sup> and probably farm programs have had little influence on the movement.

Acreage controls have resulted in a little idle cropland, especially on Southeastern cotton farms and in a very small shift from crops to pasture. On the other hand, price supports may have tended to hold some land in crops that otherwise would have been idle or used for pasture. The total cropland used for crops in 1955 was practically identical with the 1945-49 and the 1952-53 averages, and the slight decrease in cropland harvested was attributable mostly to an increase in crop failure.<sup>4</sup> The Soil Bank reduced the acreage harvested in 1956 by a small amount, but mostly by removal of acres on which production would have been low because of drought. In the short period during which acreage controls have been in use since the war, the effect

<sup>2</sup>"Effects of acreage-allotment programs, 1954 and 1955: a summary report," Production Research Report No. 3, ARS, USDA, June, 1956, p. 13.

<sup>3</sup>"Farm population estimates for 1956," AMS-80, USDA, Aug., 1956, p. 5.

<sup>4</sup>"Major uses of land in the United States: summary for 1954," Agr. Inf. Bul. No. 168, ARS, USDA, Jan., 1957, pp. 11-12.

on total cropland, both absolutely and in comparison with what might have been the situation in their absence, has been negligible.

### Size of Enterprise, Consolidation of Farms

Acreage controls adjust the size of enterprise downward, and unless substitute crops utilize equipment and labor already available on the farm, efficiency may be reduced significantly. If a little room is made for new producers and if minimum quotas are used, the effect is intensified. Census data for 1949 and 1954 reflect the reduction in size of enterprise. The increase in per-farm acreage of vegetables harvested for sale, a class of farm products not affected by allotments, was 25 percent; the increase in number of dairy cows per farm (1950-54), also unaffected by controls, was 18 percent; and the increase in per-farm acreage of corn, for which allotments in 1954 were not generally effective, was 12 percent. The figures indicate that a desirable adjustment was taking place in widely different kinds of farm production in the absence of controls. But for cotton and winter wheat, which were under quotas in 1950 and 1954, the acreage per farm decreased 9 and 19 percent respectively; and for tobacco, which was under quotas during the entire period, the per-farm allotment in 1954 was 4 percent less than in 1949.<sup>5</sup>

The effects of programs on farm consolidation and enlargement are as unclear as the effects on the size of the farm labor force, and the two are related. The increase in the number of tobacco allotments between 1949 and 1954, when Census data show a large decline in the number of small farms, may be a shred of evidence that allotments tend to retard farm consolidation. On the whole, however, the effects of the programs in this respect appear to have been small.

### Kinds of Commodities Produced and Total Output

Both aggregate statistics for the United States and the USDA diverted-acres study show that land withdrawn from basic commodities under the production controls of 1954 and later years was almost all shifted to other crops, particularly to sorghum grains, barley, oats, and soybeans. A little of the diverted land was used for hay and practically none for pasture.

Table 15.1 summarizes changes in U. S. acreage, production, and yields per acre for the six basic commodities between 1953 and 1956.

The foregoing acreage and yield comparisons are somewhat influenced by weather and by use of the Soil Bank in 1956 as a form of crop insurance. Nevertheless, the tendency for higher yields per acre to offset reduced acreage is striking. Experience in the 1930's was

---

<sup>5</sup>"Annual report of tobacco statistics," 1953 and 1955, USDA Stat. Bul. 138 and 169, p. 22.

Table 15.1. Changes in U. S. Acreage, Production, and Yields  
Per Acre for Six Basic Commodities  
Between 1953 and 1956

| Crop                 | Percent change    |                          |            |
|----------------------|-------------------|--------------------------|------------|
|                      | Harvested acreage | Yield per harvested acre | Production |
| Cotton <sup>a</sup>  | -36               | +26                      | -19        |
| Wheat <sup>a</sup>   | -27               | +16                      | -15        |
| Rice <sup>b</sup>    | -28               | +24                      | -10        |
| Tobacco <sup>c</sup> | -16               | +25                      | + 4        |
| Peanuts <sup>c</sup> | - 8               | + 8                      | 0          |
| Corn <sup>d</sup>    | - 6               | +14                      | + 8        |

<sup>a</sup> Marketing quotas in effect 1954-56.

<sup>b</sup> Marketing quotas in effect 1955 and 1956.

<sup>c</sup> Marketing quotas in effect prior to 1953 and during 1953-56.

<sup>d</sup> Compliance with acreage allotments a requirement for price support during 1954-56.

similar. Some of the increase in yield occurred because the acres diverted from production of basic commodities were often the least productive, and some of the increase was due to practices that would have been adopted in the absence of programs. As is argued elsewhere, however, the combined effect of the programs in force during 1954-56 probably was one of greater intensification of crop production than otherwise would have occurred. All things considered, it seems likely that total crop production, as measured by a price-weighted index, was not reduced.

Harvested acreage of the four feed grains as a group was about 10 percent higher in 1954 and 1955 than in 1953 as a result of acreage diversion from basic commodities. Drought, coupled with the Soil Bank, reduced the total feed grain acreage in 1956 to the 1953 level, but tonnage produced was 10 percent higher than in 1953. Price support and disposal operation diverted substantial quantities of feed grains into storage and export, however, and the feeding of wheat to livestock, which has appeared to be an increasingly desirable adjustment, was almost entirely prevented. A rough computation suggests that the amount of concentrates fed to livestock during the crop years 1953-55 was perhaps 6 percent less than would have been the case in the absence of programs. Probably the programs somewhat restricted the production of livestock and livestock products, but by diversion of grains rather than by means of allotments. Apparently any over-all restricting effect of the programs on total farm output was small.

### Support Prices and Adjustment

Price support has been used to sustain farmers' incomes; it has been extended only to a restricted list of products rather than to all; and, as is appropriate to the income objective, some commodities to which it has been extended were in particularly weak market positions. Since the supply and demand situations that made for these weak

markets were, in general, not temporary, the resulting price relationships have been inappropriate guides for adjustment of farm production. Several instances of this have already been mentioned.

Somewhat apart from this difficulty, price supports in recent years have had a perverse effect on agricultural adjustment because of their relation to the certainty of farmers' expectations. Supports have increased short-run certainty. Farmers have known before planting a particular crop that price support would be available at not less than an announced level. This knowledge has increased their willingness to invest in inputs having prompt effects on production — fertilizer, better and more expensive seeds, insecticides, weed killers, etc. The extra inputs have produced commodities that merely added to the CCC's stocks or to its losses on disposal programs.

The most important adjustments that agriculture faces, however, are long-run adjustments, those that change the entire farm organization, require investment in new kinds of fixed capital, and usually take years to accomplish. Most farmers need to be thoroughly convinced that such adjustments are highly desirable — or, in fact, essential — before they will undertake them. Supports have prevented market prices from indicating to farmers what long-run adjustments were needed. Equally important, the programs have operated on a year-to-year basis amid nation-wide political duststorms; farmers have had every reason to be confused about long-run outlook for their type of farming and what they ought to do about it. The USDA diverted-acres study showed that two years of drastic acreage controls on cotton and wheat had little effect on forage production or on livestock numbers. Two years is not much time in which to make such adjustments, but there was little evidence that farmers had even started. Why should they, when to do so might mean loss of base acreage, large outlays of capital, and assumption of the risk that, by some program, cotton and wheat would be made highly profitable crops in the future? Price supports as they actually have operated in recent years — not, perhaps, as anyone hoped they would operate — have befuddled farmers and have retarded needed long-run adjustments.

#### THE SOIL BANK, ASSOCIATED PROGRAMS, AND ADJUSTMENT

The Soil Bank has been added to the price support, acreage control, and export disposal program. It is an attempt to solve the diverted-acres problem, to reduce both basic commodity production and total farm output. There seems to be rather wide agreement that its immediate purpose is to prevent additions to CCC stocks while the Corporation's disposal programs reduce the present huge inventory down to "normal" levels. What is to happen afterward is not so clear. One hope seems to be that if present surpluses are eliminated, free farm prices will reach and remain at a level where income support programs will no longer be required. But agriculture at present is far out of

adjustment, and it will long have a strong propensity for expanding output because of the high birth rate on farms, adoption of presently known technology, and development of new technology. I doubt, therefore, that the elimination of current stocks can in large degree solve the income problem by creating a favorable level of prices.

A Soil Bank program must continue indefinitely if it is to be a means of dealing with the income objective, and the Soil Bank will have to be accompanied by other programs. Export subsidies will be necessary if we are to maintain a reasonable volume of foreign sales while holding domestic prices at levels satisfactory to producers. Marketing quotas will be needed to keep production of basic commodities within bounds. The present program, somewhat modified, seems likely to be continued if the Soil Bank is used as a means of solving the farm problem. It is appropriate, then, to bring together conclusions about the probable effects of acreage controls and price supports when used over a long period of time and when modified by the special effects of the Soil Bank.

First of all, total inputs used in agriculture are not likely to be reduced, although the composition of inputs may be changed. Withdrawing a little land on each farm from production will save some seed, tractor fuel, labor etc. Except on the larger farms, the saved labor will not have much monetary value to the farmer. Total expenditures on fertilizer may even increase as farmers seek to intensify production on land still in cultivation.

The question of whether heavier application of fertilizer and other yield-increasing inputs is desirable or not is a tricky one. Very often, the practice has been to use fewer inputs of this type than would be economically desirable if existing prices reflected the marginal value of output. So long as prices are kept at recent levels, by whatever means, added inputs are profitable to the individual farmer. But if prices are held there by acreage controls and costly disposal programs, the added inputs are undesirable from the social viewpoint expressed in the programs. Farmers' self-interest and the program methods are clearly at cross purposes in this situation.

But if agriculture ever becomes sufficiently adjusted to permit free market prices to be near recent levels, then the heavier application of fertilizer and of similar inputs not only will be profitable to the farmer but also will be socially desirable. We are in a situation in which too much land and labor stand ready to produce crops, but in which too little fertilizer (and similar inputs) typically is used. An ideal adjustment calls for reducing the first two and increasing the last. By and large, the "substitution" of fertilizer for land that has taken place so far will not be reversed even if controls on land are relaxed. Supports and controls are merely pushing fertilization and similar practices along faster than is consistent with the slow rate of other adjustments. The high potential for more production through the use of fertilizer, irrigation, etc., in corn, cotton, and several other crops is a threat to the Soil Bank program.

The program will impede adjustments in the location of production.



The tendency of acreage controls to freeze the interregional and inter-farm pattern of production has already been mentioned. The Soil Bank must take millions of acres of our best land out of production if it is to be successful, and success will tend to hold in crop production land better suited to pasture or forest. Preventing the law of comparative advantage from working is likely to result in increasing inequities of allotments and inefficiencies.

If operated on a sufficient scale, the Soil Bank can reduce production of basic commodities without increasing feed grain production. Limiting feed grain production will limit livestock marketings. Hog production is usually integrated with corn production, and the limitation of feed supplies will be practically painless to hog producers. But the dairy industry is already overextended in relation to its market, and a successful Soil Bank program may raise feed costs. Dairying is notoriously slow to adjust, and it may be squeezed long and fairly hard by the program. Poultrymen adjust more promptly but can scarcely be expected to be enthusiastic about the Soil Bank. On the whole, the adjustment of both total farm output and its composition will be in the right direction, but it can be maintained only by continuation of the Soil Bank. An adjustment that shifts marginal cropland to grass, achieves needed changes in farm organization, and retires some land from agriculture would be a permanent sort of adjustment. One that suspends land of all grades from production on hundreds of thousands of farms will retard, rather than encourage, changes in type of farming. The land, its fertility increased, will be returned into production of the original crops whenever controls are relaxed.

If industry is prosperous and continues to expand, the present set of programs probably will not have an important effect on the rate at which labor leaves agriculture for nonfarm work. Sharecroppers and tenants may be forced out a little faster by the Soil Bank than otherwise would be the case, but some operators of inadequate units may continue to farm in the hope that a marketing quota will eventually raise their income to a satisfactory level. Much the same conclusions apply to the number of inadequate farm units. The rates of decline in the farm labor force and in the number of too-small farms in recent years suggest that substantial adjustment between the agricultural and industrial sectors takes place when the general economy is prosperous. Some of the adjustment takes place when young men, having seen their fathers work hard at low wages for several years, refuse to go into farming themselves; the effects are cumulative and may be particularly important in the next few years.

#### SUGGESTIONS FOR MORE EFFECTIVE PROGRAMS

We are not likely to develop an effective and realistic farm program until a large majority of the policy makers in agriculture recognize that the need for adjustment is at the root of the farm income

problem and greatly limits what can be done about it. Many people want to create a price situation in which the "small farmer" — a man depending largely on 10 dairy cows, 10 acres of cotton, or 100 acres of wheat — can live as well as a steel worker in Pittsburgh or a farmer on an adequate family farm. Many people also want to prevent any further decline of the farm population or in the number of farms. But labor efficiency in agriculture has risen to the point that drastic controls and extreme sacrifices of efficiency would be necessary to achieve such prices. These objectives, widely held as they may be, are not going to be achieved.<sup>6</sup> To be practical, consideration should be given to non-price programs for farm people who do not have an opportunity to use their labor productively and to possible alternatives open to commercial agriculture. Ideally, programs should increase agriculture's ability to adjust and at the same time provide income protection for farmers.

### Modifications of the Present Program

The Soil Bank is just getting under way, and the first thing to consider is its possibilities. As earlier comments indicated, the program is likely to be a Soil-Bank, price-support, marketing-quota, export-subsidy combination. The program must really cut production, not just go through motions. The Soil Bank must make idle many millions of acres of productive land — not mostly drought-stricken acres or low-yielding tracts. Either "Soft evasions" in connection with the Soil Bank and marketing quotas must be eliminated or more money must be used to offset their effect. Per-acre payments must be high, especially when the Soil Bank is achieving its price objectives. Many of the old rules and formulas for computing allotments and quotas are now merely obstacles to effective operation of the complete program (witness the difficulty with corn), and they should be eliminated.

Flexible price supports plus full use of modernized parity will help to establish price relationships that contribute to desired adjustments within agriculture. This process will be slow and uncertain, however, for much more price freedom than will actually occur is required to make the new parity formula work well. Subsidies for lime and fertilizer, that directly or indirectly increase yields of field crops, are inconsistent with the production control objectives of the Soil Bank, and the list of approved ACP practices should be further revised to avoid payments having this effect.

The Soil Bank and associated programs are aimed more at income support than at agricultural adjustment. Pressures on the Soil Bank, some traceable to the need for adjustment, may cause it to gravitate toward the grassland program suggested by Dunbar and Bottum.<sup>7</sup> If

<sup>6</sup>Unless a serious depression puts industrial workers on relief and drives some of them back to the country, a solution nobody wants.

<sup>7</sup>Dunbar, John O., and Bottum, J. Carroll, "Adjusting farm production through grass and livestock," Economic and Marketing Information for Indiana Farmers, Purdue University, June, 1954.

this shift is made, payments would be made in such a way as to provide the greatest incentive for shifting from basic commodities to grass in areas and on farms where the change is most consistent with best land use. Grazing on diverted land would be permitted, and payments on existing grassland would compensate beef and dairy producers for the increased competition for their products. Though the details and possible difficulties of such a program cannot be discussed here, the plan would at least promote better use of resources than the Soil Bank as currently conceived.

### A Major Change: Direct Payments

The strategic advantages of having the price system work for a farm program rather than against it are obvious. The great objective against free prices at present, of course, is that farm income would be very unfavorable during several years of difficult adjustment. One way to retain most of the allocative function of price without pulling the rug from under farmers is to use direct payments for supporting income. Ordinary compensatory payments, however, may present farmers with as misleading a set of incentives as supported prices. To get around this difficulty, farmers would be given sales (not acreage) allotments equal to perhaps three-fourths of their marketings during the past three or four years. Farmers would sell their total production but would receive compensatory payments only on allotment quantities. The per-unit payment would be the difference between the market price and an "intended price" based on modernized parity — say, 85 or 90 percent of parity. As a result, market prices would reflect the marginal value of output, and farmers' decisions to expand or reduce production, or to shift from one product to another, would be guided largely by market prices.

In order to permit desirable adjustments and to avoid inequities, allotments would be shifted slowly among producers according to their marketings in the most recent three or four year period. (The total national allotment for each product would remain fixed, however.) This provision means that "intended prices" would have some influence on farmers' long-run adjustments. But with the modernized parity formula in use, relationships among "intended prices" would be fairly satisfactory guides to production.<sup>6</sup> A farmer producing a chronically surplus product would receive a low price for marginal output currently and would be aware that eventually the "intended price" for that product would fall relative to others. He would have no unwarranted incentive

---

<sup>6</sup>The modernized formula does not change the average level of all parity prices as a group, but it adjusts parities for some individual commodities upward and others downward, so that relationships among parity prices depend upon market prices in the most recent ten-year period. A product in chronic surplus gradually receives a lower parity price if market prices are permitted to reflect the oversupply; a product which has a persistently strong market price gradually receives a higher parity price.

to intensify current production, and he would be stimulated to adjust his type of farming if alternatives exist. As he shifted from one product to another, he would build up an allotment for the latter. Such adjustments would gradually eliminate the surplus of the particular product. While the need for adjustment was being registered and while adjustment was getting underway, direct payments would provide considerable income support for producers of overproduced commodities. A flow of payments would not necessarily go to producers of any single commodity indefinitely, but agriculture as a whole would be assured of income support.

I have assumed that modernized parity prices can be reasonably good long-run guides to production if market prices are allowed to change freely. I think most of us would agree that relationships among modernized parity prices at the present time would go a long way toward indicating needed adjustments to farmers if they took the relationships seriously. The parity prices are, of course, backward looking — at the most recent decade — but, if we are frank about it, so are most economic forecasts. The principal exception is when something unusual like a war occurs. Farm policy operates in too political an environment to permit the use of any forward-looking prices based on judgment. The modernized parity formula is the best alternative we have, and it is not a bad one.<sup>9</sup>

Time does not permit examination of the details and difficulties, but some of these have been discussed elsewhere.<sup>10</sup>

### Non-price Programs

Some of the adjustments needed in commercial agriculture involve changes in equipment, livestock, or size of farm, and capital requirements will be large. If a price policy is adopted that provides the necessary incentives, a government program to assist farmers in making adjustments will be desirable. The general approach might be (a) determine where adjustments are most badly needed and what they are, (b) make government credit available at very favorable terms to finance approved adjustments, and (c) coordinate Extension, Soil Conservation, Agricultural Conservation, and similar activities to achieve a consistent, across-the-board adjustment program.

If a modified compensatory payment plan similar to the one I have described is used, the government might offer to give farmers sales allotments for livestock and livestock products in exchange for sales allotments for wheat and cotton.<sup>11</sup> If appropriate exchange rates were

<sup>9</sup>The revised parity recently recommended by USDA is equally acceptable.

<sup>10</sup>Brandow, G. E., "A modified compensatory price program for agriculture," *Jour. Farm Econ.*, Vol. 37, No. 4, Nov., 1955, pp. 716-30.

<sup>11</sup>The new allotments for livestock would be added to the national livestock allotments; the allotments received for wheat and cotton would be subtracted from the national allotments for them. Farmers could always accumulate an allotment in another commodity, but a prompt and favorable exchange would be an added incentive for needed adjustments.

established, farmers would select themselves for participation in the program in much the same way that low-income families would select themselves under the Aiken Food Allotment proposal. In general, the most needed shifts would occur.

Another problem that we are particularly aware of now is the weather risk to which agriculture is subject. Two kinds of programs seem to be required, though each is very difficult to carry out effectively. One applies to the highest-risk wheat area just west of the 100th meridian. If we ever reach the point where prices are reasonably favorable without tight production controls, this area is very likely to increase crop production during a succession of high-rainfall years. When a dry interval follows, the area will be in serious distress. Some sort of program is needed to keep land in the area predominantly in range even when grain production temporarily seems highly attractive.

Many agricultural economists are better qualified than I to discuss what such a program might be. I feel certain, however, that it must be something different, a departure from methods so far tried. Crop insurance does not seem to be the answer. We need some new ideas, and we need them soon, for the people in the high-risk area and in the country as a whole are now as ready to do something about this problem as they ever are likely to be.

The other weather problem is the danger of drought, freezes, and similar hazards outside of the high-risk area. We may hope that some form of crop insurance can be developed that will deal effectively with it. Experience has not been especially promising, but the experimental crop insurance program has been too cautious to be a thorough test of the possibilities. Area and weather insurance approaches apparently have not been adequately tried.

## CONCLUSION

The principal reason for the current farm income problem is the need for agricultural adjustment. The current "Soil-Bank, marketing-quota, price-support, export-subsidy" program may be able to achieve satisfactory incomes for producers of basic commodities if it is somewhat modified, heavily financed, and applied unremittingly to agriculture. It will encounter serious administrative difficulties, attributable largely to the fact that the program thwarts needed adjustments or encourages undesirable ones. A major handicap is that the price system works against the program rather than for it.

A successful long-run government program must provide income protection for farmers while promoting adjustment in agriculture. The program should create a desire to adjust where adjustment is required and it should assist farmers with the reorganization and financial problems involved. A program that permits prices to reflect supply and demand conditions in markets, that uses direct payments on a part of production for income support, and that marshals credit facilities, research, extension, and conservation services into a coordinated adjustment effort may accomplish the job as well as can be expected.

PROFESSOR BRANDOW has presented quite orthodox comments on the role of governmental farm programs in a dynamic economy. Small inefficiencies and minor obstacles to adjustment appear to be the rule, although it was stated at one point that agriculture is far out of adjustment with respect to total resources used.

I am not so sure that this maladjustment in total resource use is so great, despite apparent unanimous agreement on this point at this conference. When only a small fraction of the labor force is producing few goods, or goods of relatively low utility, it may be difficult to convince many people that the maladjustment is severe. Professor Galbraith's comments on the possible low utility of alternative uses of excess agricultural labor has never been seriously challenged to my knowledge.<sup>1</sup>

However, whether the situation is serious or only troublesome, it is perennial. It is part of the price of economic growth and progress. If policy makers continue to expect an early end to farm product surpluses, we can expect nothing better than we have had, namely, programs hopefully initiated but reluctantly reformed. I believe that what we have had is about what the American public wants today. But even if the voters are unaware of the extent of production inefficiency, or are convinced that this inefficiency is negligible, we, as economists, still are not freed from our job of exploring the possibilities for speeding up production adjustments. We have been hired by a society wise enough to see that even though it has chosen its ends (alternatively, we may take them as given), information is needed not only for achieving these ends but also for deciding whether to change them.

I can see nothing in Professor Brandow's proposal for "modified compensatory payments" to suggest that it can move us more boldly toward production adjustment than do current programs. If old rules and formulas for distributing allotments cannot be discarded now, why should we expect to discard them by using direct payments? If the goal of equity now prevents enough flexibility in prices to encourage production adjustment, what reason is there to expect that the surplus fraction

---

<sup>1</sup>Galbraith, J.K., "Economic preconceptions and the farm policy," Amer. Econ. Rev., Vol. 64, 1954, p. 48.

of a crop under direct payments would be permitted to sell at prices needed to encourage adjustment? Given our estimates of supply response to lower prices, downward adjustments appear unlikely even if Congress would permit lower prices or price expectations.

Professor Brandow is right in saying that farmers in the Great Plains will produce a massive wheat and sorghum crop if it ever rains. There are two major possibilities for dealing with this unstable area. First, the nation may recognize the area as giving rise to a perennial problem, which needs to be reduced or eliminated. Power exists, I believe, to impose a major zoning, reseeding, and perhaps a land-purchase program in the area. Such a program would involve serious questions of community and personal adjustment, of local versus centralized control. However, the experience of land acquisition for reservoir construction is available for answering these types of questions.

The second possibility is continuing the status quo — alternately bailing out the unproductive Great Plains and then our wheat program because of Great Plains productivity.

The first alternative is not likely to be considered seriously although the time is more appropriate than ever. Farmers are willing to try new remedies, as Dr. Parks states in Chapter 17. But non-farmers are likely to make the crucial decision to zone and reseed the Great Plains. In my opinion, the problem simply does not yet seem serious enough for the general public to use a new approach. John Locke, in 1690 when speaking of democratic society in general, foresaw the impasse on Great Plains adjustment and of the farm economy in general. "Such revolutions," he said, "happen not upon every little mismanagement in public affairs. Great mistakes will be borne without mutiny or murmur."<sup>2</sup>

No apology is needed for failing to propose revolution in the Great Plains or in any other part of the farm economy. These are not yet revolutionary times. Perhaps a generation from now, if the farm labor force shrinks to the sometimes predicted 2.5 to 3 percent of the labor force, the time will be more appropriate for talk about agricultural monopoly or other extreme departures, as suggested for the Plains.

---

<sup>2</sup>Locke, John, *Second Treatise on Civil Government*, Everyman's Library, No. 751, 1924.