



*Economic pressures for adjustment;  
price supports and storage; other  
programs; limitations of income  
programs.*

## **Government Programs in Relation to Agricultural Adjustment**

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BY AND LARGE, free markets subject farming to economic pressures to adjust in ways that keep it an efficient part of a changing, progressive economy. The pressures show up as low earnings of farm resources that produce little or that produce for a market burdened by surpluses. It does not necessarily follow that the pressures, though strong, are always effective, or that responses to them, where they occur, are sufficiently prompt to make low earnings only temporary.

Without considerations of efficiency, the United States has had for more than 30 years a policy of protecting farmers — or at least certain groups of farmers — from falling

prices, whatever the cause of price decline. Sharp conflict between agricultural adjustment and such government programs is clearly possible, but the extent to which government programs actually have retarded adjustment or must necessarily do so is debatable and needs further research.

Other programs, in which some beginnings have been made, attempt to facilitate adjustment. To the extent that adjustment is achieved, earnings of resources employed in farming are improved. Such programs are income programs in a certain sense. These programs often involve the reduction in number of farms and farmers. As some people see it, this is not a satisfactory solution to the farm problem.

This chapter discusses the extent to which programs may eliminate the need for farm adjustment, conflict with it, or facilitate it. Only the briefest comments on the possibilities and difficulties of income programs for farmers can be made here. The principal question is the extent to which emphasis on agricultural adjustment is inconsistent with government farm programs.

### **PROGRAMS TO IMPROVE FARM INCOME**

Farmers gain economic advantages by adoption of new technology whether prices are high or low. This generally increases production. As explained in Chapter 3, an excess of production typically reduces farm prices much more than proportionately, and the income consequences for farmers are severe.

In a free-market situation, the way of restoring farm income is to withdraw farm resources, usually labor and often land, from production of farm products. One line of argument for income programs is that adjusting farm labor and land resources is not a flexible, precise enough process to maintain acceptable prices and incomes when technology is advancing rapidly. Lags in making downward adjustments (in labor and land) can be large and persistent, and income in most of farming is depressed. The earnings of

all farm resources are reduced — not just the excess farm resources—while the imbalance continues.

Several means of improving farm income have been tried, and many more have been proposed. Here they are grouped into principal types for the purpose of considering their relation to farm adjustment.

### **Price Support and Storage**

The government can effectively support prices and farm incomes, for at least a time, by diverting production from the market to government storage by a loan or purchase program. Essentially, the government takes over the amount the market will not absorb at the support price.

If supports are set high enough to be satisfactory to farmers from an income standpoint and if something like a war does not create exceptional demands, the gap between production and market takings will continue or increase. The accumulation of more and more stocks at high government cost will eventually force a change in policy. A means must be found to dispose of stocks outside commercial channels, production must be controlled, or supports must be lowered to an ineffective level.

The less storable the product, the more quickly the change is forced. An important reason for the great difficulty support programs encountered in the late 1950's was that a war did not interrupt the accumulation of surpluses as had happened in the early 1940's and again in 1950.

Price support and storage can smooth out annual variations in prices of storable commodities by accumulation of stocks in high production years and liquidation in low production years. Unless production could be controlled or demand in some way subsidized, this would be approximately equivalent to stabilizing free market prices.

Stabilization might be achieved at a higher price level with production control or subsidized demand. Though price support and storage might be essential, the burden

for sustained improvement in farm income would rest upon production control or subsidized demand. Even the best-run stabilization operation probably would involve some unrecovered storage costs for the government, and government would assume the function of carrying inventories not required in the day-to-day operations of marketers and processors.

Continuation of loan, purchase, and storage programs at scaled-down levels are also proposed as a means of transition from prices considerably too high to clear the market to substantially free-market price levels. Supports would be gradually lowered by using lower percentages of parity or by a formula that eventually worked down to the free market prices.

The effects of price supports on farm adjustment depend a great deal on the level and permanence of supports and on the extent to which they are coupled with other types of programs. Any price support creates incentives that work against the success of the program in more or less degree. If the incentives to widen the gap between production and market outlets are in no way offset, the accumulation of stocks and high costs defeat the program.

The higher the price supports, the more difficult it becomes to administer controls of production. A basic conflict between income programs and production adjustments is that a price serving the income objective exerts a pull on production in the wrong direction.

### **Programs to Expand Demand**

These might be undertaken to broaden markets domestically or abroad. Possibilities of expanding demand sufficiently to close the gap that existed in the late 1950's between production and commercial markets are discussed in Chapter 4. Though prospects for major accomplishments through this approach do not appear to be bright, it is useful to consider what farm adjustments would be necessary even if demand expanded.

A large-scale program to expand domestic food demand would require some important adjustments in farming to fit the new demand pattern. The greater demand would take the form mainly of a shift in the kinds of food eaten rather than an increase in pounds consumed. Use of red meats, dairy products, and several fruits and vegetables would rise; cereals, potatoes, beans, and some other foods would decline. The new diets would require more farm resources for their production than the old, but surpluses of such crops as wheat and cotton would be reduced only if some farmers shifted to crops benefiting from demand expansion.

Programs to broaden foreign outlets have been important in recent years (especially under U.S. Public Law 480). Programs to expand our agricultural exports call for less adjustment in old patterns of farm production because some of the leading surplus products have established export markets.

More labor and land would be needed in farming with successful demand expansion than would otherwise be the case, but several features of farmers' adjustment problems would remain. The severe economic disadvantage of farms much too small for efficient operation would be only slightly modified. The economic incentives to increase farm size would remain. A decline in numbers of farms and farmers would still be needed, and questions about the education of rural youth, off-farm work for farmers, farm consolidation, and community adjustments in rural areas would still be pertinent.

### **Programs to Control Production**

The principal form of production control has been restriction of acreage of wheat, cotton, corn (before 1959), and some other crops. Rising yields per acre weakened the effects on controlled crops, and shift of land to uncontrolled crops has made conventional acreage controls almost wholly ineffective in restricting total production. More

stringent controls would be less acceptable to farmers but would be required to provide a real test of the production-control approach.

Programs using government payments to retire unproductive cropland, as under the Conservation Reserve, attempt to restrict production by reducing the farm resource base. When land is retired in whole-farm units, labor and capital usually are withdrawn from farming along with land.

The program has the advantage of retiring the land least productively used in farming and most likely to stay out if once retired. But because most of the land is poor, large acreages must be retired to affect production very much. Local economic activity may be so much depressed by land retirement in communities where poor cropland is concentrated that objections from businesses dependent upon farming become a major obstacle to the program.

Withholding good cropland from production or using it less intensively, as in grass, would be a necessary part of a prompt, decisive curtailment of total crop production. An attempt to induce voluntary retirement of good as well as poor cropland by means of payments to farmers was made under the Acreage Reserve Program of 1956-58. The program was expensive but not sufficient to cut production much, especially in face of exceptionally good weather in 1958. Apparently, an effective program of this type must involve large acreages. Payments would have to be large to obtain sufficient acreage by voluntary participation.

Strict, compulsory controls of farm production are potentially more effective than the acreage restrictions used to date. Quotas might be placed directly on quantities marketed in the case of commodities not fed to livestock, and land not used for the production of controlled crops could be required to be held idle. Several difficult administrative problems would arise. The controls probably would be more objectionable to farmers than the old acreage restrictions.

When compulsory quotas are used on land or production, individual farmers can increase their incomes if they alone can expand production at the prices made possible by supply control. But if all producers did this, the program would break down and prices would fall. To make quota systems or compulsory land retirement effective, farmers must be willing to accept controls that prevent the breakdown of the program.

Demands for most farm products at the farm level of marketing are sufficiently inelastic to make supply control (smaller production) a possible way of improving producers' income. This is not true for every farm product, however, and for a few products, demand over several years may prove to be much more elastic than over a year or so. Persistently high prices for a crop like cotton might encourage production abroad and induce manufacturers to turn to synthetic raw materials.

Producers having control of only a part of the total supply affecting their markets usually cannot maintain prices for long. What is said in Chapter 4 about inelastic demand applies to the total demand for a particular product, not to the demand for a part produced by a fraction of the producers. Careful study of market possibilities is necessary before production and market control is undertaken.

Often controls attempt to adjust over-extended farm production in the same direction as free prices would. It is difficult to design controls that will bring about production adjustments in the same places as free prices. Quotas usually are assigned on a historical basis, and production is reduced over the whole producing area rather than in the regions of lowest comparative advantage. Probably cotton controls have prevented production shifts to the high-yielding Delta and irrigated areas of the West. Use of minimum quotas in tobacco, a crop for which the average acreage per grower was small when the program began, redistributed production of some types toward the smallest and least efficient units.

Though the over-all efficiency of farming has not been greatly modified by such effects, they could be important if extended to many products over many years. For this reason, it is often proposed that quotas on quantities sold (not on acreages) be made negotiable. Then production could be gradually transferred in a voluntary way to the most efficient regions and farmers.

Though production controls may have important, direct effects on production of particular products, major adjustments may be affected only slightly (such as reduction of the farm labor force and disappearance of uneconomically small farms). Regardless of the level of prices and income, there is a strong economic incentive to consolidate farms as long as costs per unit of production would be materially lower on larger farms.

Under production control, the opportunity for employment of labor on farms is sharply limited and farm workers who have the ability and opportunity to be successful in other occupations usually do not stay on farms where they are clearly not needed. However, excess labor existed on low-income cotton and tobacco farms both before and after farm programs began. Other causes, lack of education, family ties, age, etc. — beyond the level of prices and incomes — kept excess labor on many farms.

Despite price supports and acreage controls during the 1950's, farm size increased and the farm labor force declined about as much as previous experience would lead one to expect without these controls.

### **Direct Payment Programs**

If demand expansion, production control, or both cannot close the gap between production and market outlets at acceptable prices, payments might be made directly to farmers to make up part or all of the difference between actual and acceptable prices. If payments were limited to a base amount of production for each farmer, market prices might guide adjustments in use of farm resources and kinds



of farm products produced. Probably total payments to individual producers would have to be limited. The probable cost of a program containing both limitations would necessitate modest price and income objectives for the program.

Payments related to volume of sales would not ease the economic pressure to any great extent to these farmers with seriously inadequate size of farms. Reductions in the number of farms and farmers could be expected. If payments were large in relation to prices, however, there would be an incentive to hold farm size at about the point represented by the limitation on payments to a single producer. Limitation on payments should not handicap farms large enough for fully efficient operation. However, most farms are already too small for fully efficient operation.

### **Other Income Programs**

Two-price export plans provide for sales abroad at lower prices than at home. Enlargement of foreign sales would ease adjustment problems of farmers producing for export, but opportunities for expansion of market outlets by this means alone appear limited.

Marketing agreements and orders provide a degree of control over prices, marketings, or both under government auspices. Control over total sales or ability to divert products from their highest value use to secondary uses such as processing usually is necessary to raise prices importantly, though significant gains for farmers can sometimes be obtained from improved distribution between markets or product promotion. Chief examples have been in fruits and vegetables whose production is concentrated in small geographic areas.

Federal marketing orders in fluid milk markets establish minimum prices to be paid to producers for fresh milk sold to consumers, and state marketing orders may also set minimum retail prices. Prohibitions against sales at lower prices restrict sales to the quantity the market will

take at the minimum prices. Milk not sold in bottles and cartons goes into lower-value manufacturing uses. The existence of large manufactured milk markets supported much of the time by government programs has provided an outlet for surplus milk, but in several markets expansion of production has reduced the blended average of fluid and surplus prices to unsatisfactory levels. The need then arises for holding production in line with market outlets by administrative means when prices are set above free-market price levels under milk marketing orders that attempt to do more than stabilize the market.

The term "self-help" often is applied to programs in which farmer-dominated committees would use marketing orders or supply control to improve prices and incomes. Where a high degree of bargaining power is sought, effective control of market supply is essential. Control over supply under marketing orders has similar effects on efficiency and adjustment as previously pointed out in the discussion of government controls. One important comment applies to all forms of income programs for farmers. If more people stay in farming than can find well-paying job opportunities on the land, competition for farms to operate will gradually capitalize the benefits of income improvement into the price of land. The valuation put on certificates under some forms of supply control also would cancel out the benefits of income improvement programs. Then the labor earnings of farm people are not improved.

Maintenance of reasonable farm incomes should not have to depend solely upon farmers' adjustments of labor and other resources under pressure of free prices and rapid technological change. Income programs should facilitate rather than hinder adjustment of resources in farming in the long run.

### **PROGRAMS TO FACILITATE ADJUSTMENT**

Farm adjustment can be facilitated by a number of activities not having adjustment as their main purpose as

well as by special adjustment programs. Bringing about a better balance between the number of people seeking to make a living in farming and the number of opportunities for profitable farming illustrates this point.

Usually the most satisfactory adjustment of labor resources, from either the economic or the human viewpoint, comes about when young people choose the occupations in which their opportunities are greatest. The general abilities, special skills, and awareness of alternatives possessed by farm youth are highly important in this regard. Thus the general educational policy of the United States has an important bearing upon labor mobility. So also does the occupational training provided in rural areas. In view of what students will do later in life, heavy emphasis is misplaced on vocational agriculture as compared with emphasis on other vocational training.

The ability of farm adults to seek out their best opportunities would be increased by an employment service that regarded job-finding for rural people as a principal function and by training programs to teach industrial skills. Farm management advice through the extension service frequently should consider off-farm work as well as ways of improving the farm business.

The general economic climate is extremely important, for unless rapid growth provides ample job opportunities off the farm, labor will continue to be dammed up in farming. Social security and other potential welfare programs influence the age at which farmers retire and adjustments made at that time.

Reorganization and management of farms to fit future conditions require understanding by farmers of what adjustments will be needed. Farm management and technical advice through government agricultural agencies is important in establishing this understanding.

Credit programs to assist reorganization have a place where ordinary credit facilities will not suffice.

When a reorganized type of farming is needed over a

large area, special adjustment programs might be undertaken. For example, shifting from wheat production to range and livestock in the highest-risk areas of the Great Plains would require much reorganization of farms and several years for the establishment of grass and retraining of farmers in livestock production. A comprehensive regional program might be the most effective way to achieve so difficult an adjustment.

Growing population and rising incomes in our economy are increasing the demand for land for recreational, watershed, and other nonfarm uses often involving public investment. Purchase or lease of submarginal farm land for such use can aid in farm adjustment while providing for rapidly growing public needs. Probably opportunities for private development of fishing, hunting, camping, and other recreational resources now devoted to unproductive farm uses are going unrecognized. Public policy and land owners ordinarily have paid little attention to expanding recreational use of land under private ownership.

Several approaches to adjustment involving farm people are brought together in the Rural Development Program. Development of local nonfarm resources is particularly effective in broadening employment opportunities for underemployed farm workers. Assistance to small farmers with good potential for managing large and more efficient farms is closely related to this, because farm consolidation can proceed most rapidly when other operators of small farms are turning to off-farm work.

### **CONCLUDING REMARKS**

It is not likely that any feasible income program can maintain the number of farm people at the 1960 level or prevent the disappearance or consolidation of many small farms. These are not matters in which farmers really have a wide choice.

Choice does exist with respect to the degree of adjustments. The desire to maintain the status quo in farming

may conflict with objectives held for the economy at large. A growing, technologically progressive, and adaptable economy is essential to raising the level of living and to bearing the burdens thrust upon the nation by dangers and responsibilities abroad. Farmers can justifiably ask to share more fully in the benefits of the progress to which farming has contributed so much.

Probably the natural adjustments made by farmers with assistance would not maintain acceptable incomes in farming during the 1960's, and income adjustment programs will be required. Adjustments toward efficient farm production will be needed if income programs are to work and to serve their purpose. Minimizing conflict with adjustment is one consideration in shaping income programs; conflicts may have to be accepted in some respects, especially in the short run. Programs can also be utilized to facilitate adjustment, and to the extent this is accomplished progress will be made toward better farm incomes and a more efficient total economy.

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