ALTERNATIVE POLICIES FOR COMMERCIAL AGRICULTURE

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As has been made abundantly clear from over thirty years of discussion, active experimentation, and evaluation of federal farm programs, no easy panacea exists for the ails of commercial agriculture which can meet the criterion of mutual acceptability to taxpayers, legislators, commercial farmers, and other politically active interest groups. Programs which bring income gains to farmers in the marketplace by reduced volume of marketings involve higher prices to consumers and lessened availability, as well as constraints on production which many farmers resent. Programs which increase volume of marketings and lower prices of food work to the advantage of agricultural input suppliers, food distributors, and consumers while lowering net farm incomes. And programs such as we have now which adjust output and encourage participation by diversion payments and price support payments improve farm net incomes at the expense of the taxpaying base.

SOME FEATURES OF THE COMMERCIAL FARM PROBLEM

Most current diagnoses of the problem of commercial agriculture continue to be based on the notion of active excess capacity in terms of available dollar markets and a presumption that technological progress in agriculture can continue to outdistance the growth of domestic and effective export demand.

The growing Congressional reluctance to support foreign aid does not augur well for utilization of excess capacity through expansion of noncommercial international trade in farm products. Further, many students of farm policy have decided that efficiency considerations alone would rule out the kinds of "feed the world" notions which have found a warm spot in recent years in the hearts of farm people with joint interests in human welfare and expansion of opportunity to "sell" (presumably via tax dollars) U.S. farm products to the growing population abroad.

*This statement is not intended to define my policy position with respect to commercial agriculture. Rather its purpose is to promote discussion of one area of alternatives to present-day policy.

To the casual observer, at least, the U.S. Department of Agriculture, too, now views the future world food balance (for 1980) with much less alarm than a few months ago.

It is well known that the costs of farm programs continue at near record levels despite reduced surpluses. Last year government payments to farmers amounted to almost $3.3 billion, about 20 percent of realized net income to agriculture. This averages just over $1,000 per farm. Payment rates reported for the first five months of this year were 12 percent higher than for the same period a year ago. Realized net income to agriculture for the first half of 1967 is estimated to be 11 percent lower than the first half of 1966. If these estimates are representative, government payments for 1967 could comprise 25 percent of realized net income to agriculture. Direct payments by their nature as payments for not producing probably irritate nonfarm taxpayers at least as much as price support losses.

If taxpayers do begin to develop a real sensitivity to farm program costs, pressures may mount for shifts in programs to reduce financial losses currently being sustained by the government. It has also been made fairly clear that mandatory programs of government supply management are, with minor exceptions, *not* popular with farmers.

Today's commercial farm program can be characterized as one which features voluntary cropland retirement for the major crops in exchange for price support direct payments and diversion payments, and market clearing prices. True, we also have market order programs, some loan-and-storage price support and marketing quota programs, and many other individual programs for agriculture. However, the main pattern set by feed grains, wheat, and cotton programs fits my characterization generally. My comments will apply primarily to those areas and will not deal with the specifics of specialty crops or livestock for which unique programs have been established, such as wool or tobacco. Most farm policy alternatives seriously considered will not involve the sudden dissolution of present farm programs. I subscribe generally to the statement that U.S. farm policy is evolutionary, not revolutionary.

LAND OR PEOPLE AS THE POLICY FOCUS

The focal points for commercial farm policy to alleviate the problem of excess resources or surplus capacity in agriculture are people, farm land, or some combination thereof. That is, such policy is concerned with adjusting the amount of land used, or adjusting the number of people in agriculture, or both. Most of the U.S. farm program experience has been in adjusting the use of land. Adjustments in numbers of people in agriculture directly by programs have been minor although this idea has received continuing attention in farm policy recommendations. I tend to view the problem of the untrained, undertrained, or educationally deprived citizens as a problem in education and welfare, and not a unique problem of agriculture to which commercial agricultural policy should be directed. In short, people-oriented policies pointed toward the improvement of education, the acquisition of job skills, awareness of job opportunities, and facilitative mobility to match people with available jobs are intended for all the people, not for those in commercial agriculture alone.

Having recognized and endorsed the importance and relevance of policies to adjust the human resource in a broader context than commercial farm policy, I would like to discuss as an alternative some ideas—by now pretty well worn although unused—for gradual modification of the present land-oriented, direct payment fueled program of production adjustment and income support for agriculture.

The choice of land as the input to be adjusted is not an altogether happy one for several reasons. For example, the well-known ability of fertilizers to substitute for land hardly requires comment. About one-third of the increase in crop production per acre in recent years is attributed to increases in rates of fertilizer application. Land as an immobile resource is consequently more limited in adaptability than other production inputs such as capital, labor, or management. Accumulation or capitalization of program benefits in the value of land as the controlled resource is well demonstrated too. Nonetheless, the adjustment potentialities of land in the short run and the intermediate run have made it the practical choice upon which to focus adjustment for agriculture.

THE LESSONS OF EXPERIENCE IN AGRICULTURAL ADJUSTMENT THROUGH LAND

The experience of the United States in retiring cropland from use in the interest of achieving a supply-demand balance has been less than fully satisfying. The early experience with the Soil Conservation and Domestic Allotment Act of the mid-1930's demonstrated that adjustment by rental of cropland acres could be quite inefficient in reducing output. The poorest cropland acres are selected and substitution of other inputs offset in large part the land withdrawn from production. Thus, under normal weather conditions, production does not decline nearly as much as acreage withdrawn.

The experience of the Soil Bank during the mid-1950's also did not stimulate interest in land retirement programs by rental. Total crop production continued to rise after inauguration of the Soil Bank Program in 1956. Crop yields increased more than enough to offset the acreages withdrawn. At its peak the Soil Bank had about 28 million acres signed up, but harvested acreage was reduced only 14 million acreas. Over the years we have learned that rental programs which seek to retire whole farms rather than parts of farms offer more promise, as do programs which retire marginal acres, provided rental payments are set at levels which reflect the differences in the quality of lands rented. We also know that voluntary programs of land retirement by rental have tended to be more popular with farmers than mandatory programs to retire land.

PRESENT LAND DIVERSION PROGRAMS ARE EXPENSIVE

Retirement or diversion of cropland is down somewhat from the near 65 million acres of cropland withdrawn from use in the early 1960's but appears likely to continue in a modest range between 40 and 70 million acres in at least the near future. While producers, in deciding whether to participate in the diversion program or not, doubtless respond to the attractions of price support payments as well as diversion payments, recent experience illustrates costs of diversion payments. In 1965, for example, diversion payment costs per acre of corn diverted were $31.71; for grain sorghum $20.65; and for barley $12.23. The three feed grains averaged $27.38 in diversion payments per acre removed. Adding price support payments in the feed grains brings the payment total to $39.80 per acre for feed grains. Ken Robinson of Cornell has estimated that the cost of the 1963-64 feed grain program was about equal to the value of production reduced. If we take the price support and certificate payments in combination with the diversion payment for wheat, and impute average yields to the lands diverted, we find that the cost per bushel of output reduced in the 1965 wheat crop was something in excess of $8.00.

The message of these statistics is clear. Retiring cropland by a voluntary program incorporating diversion payment and direct payment price support incentives *is expensive!*

THE TRADITION OF GOVERNMENT INVOLVEMENT WITH THE LAND RESOURCE

The entire history of government involvement in agriculture in the United States has revolved around the land resource to an important degree. Essentially since the beginnings of the United States as an independent nation, government has been in the business of controlling the land resource. The first hundred years of the nation's history were devoted to the acquisition of public domain and the redistribution of the land to its citizens—farmers for the most part. Today the federal government owns one-third of the total U.S. land resources. In farm policy, however, aside from the purchase of about 12 million acres of submarginal farm land in the 1930's, the Congress and the Executive Branch have steered clear of this prospective device for significantly reducing the cost of farm programs focused on adjustment of supply to demand at acceptable price levles. As a consequence one might say figuratively that the taxpayer has continued to buy milk without considering the possibilities of owning the cow, or perhaps more concretely the taxpayer continues to rent when it is cheaper to own.

THE ALTERNATIVE OF ADJUSTMENT BY GOVERNMENT PURCHASE OF LAND

The withdrawal of cropland from use by government purchase may offer significant advantages over present methods of land retirement and merits consideration as an alternative, *if the federal government is to continue to try to balance demand and supply of farm products at price levels which hold promise of favorable incomes to commercial agriculture.*

While the right of eminent domain makes government purchase of farmland in large contiguous blocks a technical possibility, it seems unlikely that such a drastic step could be justified unless, indeed, the purpose for which the contiguous areas were needed was quite urgent. A more likely acceptable approach is the gradual acquisition of farmland by government purchase as it becomes available through voluntary sale and settlement of estates. Guidelines for acquisition could be established, including limits on maximum area density of government farmland purchases, acceptable ranges in prices to be paid for land relative to value of crops produced, and over-all annual rates of land acquisition as well as cropping patterns and terrain characteristics of lands to be purchased. Whole farm purchases, while increasing the amount of land purchased to achieve a particular amount of cropland retired, would have the advantage of withdrawing more farm related resources from use. To avoid the problem created for state and local governments by removal of property from the tax rolls, the federal government would need to make payments to state and local governments in lieu of taxes. Maintenance costs for farmlands retired would need to be included also to accommodate the possibility of return to agricultural use and to protect the investment.

Availability of farmland through voluntary sale and estate settlement may vary somewhat from year to year and may be influenced by the existence of the program, if it were enacted. In the year ending in March 1966, nearly 114,000 farms with a total of 26.5 million acres were transferred in voluntary sales or estate settlements. A conservative estimate would be that over 10 million of these acres were cropland. It follows, therefore, that such a program would be gradual in operation and might have a target of ten to twenty years for full withdrawal of cropland currently projected as excess capacity. Phasing out of the current cropland retirement programs and their payment incentives would be geared to the progress of government land purchase and prospective demand for farm products relative to current supplies. Temporary return to use of government lands acquired in the program by year-to-year rental to interested producers would be feasible to meet weather generated shortages.

Some notion of savings can be gained by comparing per acre outlays of land purchase versus the present program. At current average land values of $200 per acre, a program to acquire 60 million acres would cost $12 billion, and the annual interest charge at 5 percent would be $600 million. Maintenance and payments in lieu of taxes at $3 per acre would add $180 million for a total annual cost of $780 million. This is less than one-third of the diversion and price support payments for wheat, feed grains, and cotton for the first nine months of fiscal 1967. Furthermore, the gains in land value to be realized upon ultimate return to private ownership of lands purchased by the government would offset a significant share of the cost, if the present land value trend continues. The increase in farmland values has averaged about 5 percent per year over the last fifteen years.

The preference for a program of government land purchase rather than the purchase of crop limiting easements, which has been suggested by some, is based primarily on economy. Estimates obtained in a Nebraska study by Griffing and Fischer suggest that easement costs would range from 67 percent to 97 percent of the owner's estimated value of the property. Resale at some future date by government would be more difficult due to the limited market, and the recovery rate on investment is less firmly attached to the land market.

In the present environment of a Congress generous in its financial treatment of agriculture, a move in the direction of land retirement by purchase seems fairly unlikely. A significant shift toward reduction in federal spending for agriculture, however, and the continuation of present income objectives of commercial agriculture may lead to consideration of such a plan.

Points favoring government purchase of cropland as a method of cropland retirement include its voluntary nature, its consistency with historic patterns of government involvement with the land resource, its flexibility to accommodate changed needs via leasing into agricultural use to meet temporary shortages, its adaptability to accommodate nonfarm uses for contiguous acreage, and finally its prospects of sharply lowered taxpayer costs for retiring cropland.

POLICY MODIFICATIONS TO MEET POSSIBLE CHANGES IN AGRICULTURE'S COMPETITIVE STANCE

Any extended comment on policy for commercial agriculture calls for some attention to those aspects of farm policy which focus on the marketplace and the competitive aspects of agriculture in relation to the rest of the economy. Marketing orders and price supports have been in limited use for many years for some parts of the product complex of agriculture as devices to work in part toward balancing bargaining power between farmers and other interests (while improving farm prices). These devices have been used in addition to the land retirement efforts to balance supply and demand. Also, since the 1920's farmers banding together in cooperatives have been protected by special provisions of law from prosecution for activities in restraint of trade. And more recently some farm wage workers have been brought under the minimum hourly wage provisions of the Fair Labor Standards Act.

It seems likely that continuation of present trends in size and number of farms and advancing technology will bring changes in farmers' market behavior patterns which call for reassessment of government's role in this sphere of activity.

If the trends of absolute change in U.S. farm numbers of the last eight years were to continue, the growth in number of farms with sales over $20,000 would meet the decline in over-all number of farms in about twenty years, and no smaller farms would exist. While we realize that this is unlikely to occur, it does suggest that in longer range policy for commercial agriculture important recognition will need to be given to bargaining power aspects of sharply reduced numbers of farms which are primarily large, highly specialized, single enterprise (or single end product) units. Many of these farms in twenty years may be approaching—or will have passed—the threshold of farm firm decision making which begins to take account of the effects of volume of production and sales of the individual unit on market price of its product. Recent developments in farmer bargaining point to the interest of farm people in *self-generated* effort to achieve income objectives by bargaining rather than government determined terms of trade. Serious experimentation may begin to develop over the next several years with general farm or farm commodity organizations making continued attempts to bargain with processors for favorable terms of sale contracts extending over significant ranges of time. Experimentation may also include the efforts of farm wage workers to organize and bargain with farm operators in areas of greatest susceptibility to enforce wage demands and to obtain continuing contracts.

If hints of the development of bargaining strength in agriculture are indeed forerunners of more elaborate and effective use of agricultural bargaining power, it appears that policy needs for this aspect of commercial agriculture will move away from direct government intervention in the form of market price guarantees or marketing orders. The notable lack of farmer response to the proposal of the National Commission on Food Marketing last year for the creation of federal agricultural marketing boards with broad powers to interpose a government sponsored structure to bargain and regulate marketings on the producers' behalf is significant. Government's role in this area of activity seems much more likely to become that of *referee* in the ensuing conflicts of interest between agricultural input suppliers, farm operators, processors, and consumers in the production, processing, and marketing of food and fiber. Early establishment of rules to be applied in such conflicts, recognizing both the precedents of existing regulatory legislation concerning competition and labor-management relations and the peculiarities of farming as an economic activity, would seem to be a timely first step.

SUMMARY

For reasons of brevity at least, this statement has not attempted to deal with many of the policy issues affecting commercial agriculture. For example, the entire question of appropriate target pricing level or levels for farm products and its implications for domestic and international agricultural markets has received no direct comment. Similarly, goals for commercial agriculture in terms of level of net income or returns to resources of farm families versus nonfarm families has not been mentioned. Rather this statement has tried to focus briefly on the potentials and limitations of agricultural production adjustment via land diversion or retirement, some of the public cost reducing possibilities (and limitations) of government land purchase, and the emerging role of government in the more active bargaining struggle of farm operators, farm labor, and those with whom the farm business deals as well as those it serves. Despite these limitations it may be that the areas of concern of this statement carry implications for some of the omitted issues as well.