Other Methods of Stabilizing Farm Income

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The contents of this paper are divided into three major sections containing: (1) a statement on the general problem of designing acceptable stability devices, (2) a brief discussion of devices not previously discussed at this conference, and (3) comments on the presentation and discussion of relevant policy issues.

THE GENERAL PROBLEM

The major challenge and general problem in stabilizing farm income is the development of a program that will also serve the other objectives of agricultural policy. Three major objectives dominate agricultural income policy: (1) stabilizing income, (2) raising the income of major farm groups, and (3) increasing the efficiency of agricultural resource use. By ignoring the other goals, it is easy to think of price-support and income-payment programs that will stabilize farm income throughout the business cycle and in good crop years and bad. The hard task is to design programs that provide for farm income stability and at the same time solve the low-income problem and encourage more efficient resource use. The chief role of the extension economist is to draw attention to the resource and income effects of various policy proposals and to teach appropriate methods of analysis.

We are confronted with a critical conflict between the income stability programs of agriculture and the general welfare goals of society. When consideration is given to the long-run welfare of agriculture and to the broader general welfare, we may conclude that too much of the effort in national policy has been spent on price supports, production controls, and storage programs, and not enough on resource adjustment, mobility, and training of farm people. The long-run solution to the farm income problem is not to be found in the realm of price supports and production controls, even though certainty is a necessary condition for optimum efficiency. The solution must come through greater mobility and resource adjustment of the farm firm. To solve the income problem, greater emphasis must be placed on the contributions made by agricultural research and extension, the contribution to the farm income problem that might be made by broader educational opportunities, and the great gains in efficiency that might be made by proper use of credit and farm-home planning. Resource adjustment and mobility is crucial. Stability programs that hinder mobility will not enhance the welfare of

agriculture or of society over the long run. The two-fold test of any stability program is: (1) its contribution to certainty and stability and (2) its effect on efficiency and mobility.

ALTERNATIVE STABILITY PROGRAMS

Five methods of stabilizing farm income not previously discussed at this conference are: (1) crop insurance, (2) use of credit as a stabilizing device, (3) two-price systems for exportable commodities, (4) consumers' food subsidy, and (5) use of monetary-fiscal countercyclical policy. I would like to discuss the general possibilities of each.

Crop Insurance

The chief problem in crop insurance is actuarial. No conflict of interest is involved unless we get into the question of whether or not crop insurance should be subsidized. Perhaps some subsidy may be justified as a safeguard against the insolvency of a farm area. There are, however, what I consider good reasons for holding such a type of subsidy to a minimum. The chief problem in my view is one of defining the type of actuarial structure that will be most appropriate under given conditions. The solution of this problem is a task for the economist.

The three main types of insurance are: (1) all-risk insurance, such as has been offered by the Federal Crop Insurance Corporation; (2) area-yield insurance, in which indemnities are collected by all insured farmers whenever the average yield of an area falls below the stated level; and (3) weather-crop insurance, in which indemnities are paid whenever the risks insured against, such as drought or frost, are encountered. In public policy education, extension economists can explain how each type of insurance would operate and its limitations. A more thorough understanding of the actuarial problem and the possibilities of area-yield and weather-crop insurance is desirable.

Farm Credit as a Stabilizing Device

National farm credit policy can be used to help alleviate hardship in agriculture. During the 1930's the lending program of the Federal Land Banks and the Land Bank Commissioner greatly alleviated the hardship of the great depression. From May 1933 to December 1935, the banks made loans totaling almost 2.2 billion dollars, an amount exceeding that loaned during the entire sixteen-year period of operation prior to 1933. By 1936 the Land Banks had almost doubled the farm mortgages they had outstanding in 1933. Also the intermediate credit banks operating through the newly formed Production

Credit Association, had about doubled their loan volume. This countercyclical action occurred at a time when other lenders were withdrawing from the farm credit field. Life insurance companies, commercial banks, individuals, and other lenders, who held almost 8 billion dollars of farm-mortgage debt in 1929 had reduced their farm mortgages outstanding to almost 4 billion dollars by 1936. Since the late 1930's, however, the Federal Land Banks have been following a rather conservative lending policy and the proportion of the market served has declined.

The possibilities of using national farm credit policy as a means of counteracting financial cycles in agriculture is certainly an important topic for public policy discussion. The question of the effect of such policy on farm income is important. Increasing the farm debt in depression may alleviate hardship, but it may also contribute to an increase in agricultural output, which is income depressing; and it will, of course, add to the interest charge assessed against agriculture over the years. Also, the point can be made that a depression period is not the ideal time to bring about the fundamental shifts in agricultural resource use that are in agriculture's long-run interest. Although national farm credit policy can be an aid in alleviating hardship, farm people need to understand the implications of such policy and to recognize that superior alternatives for combating depression are available.

Two-Price System on Major Exportable Crops

Two-price systems are a means of subsidizing exports with the object of keeping prices in the domestic market higher than those in the foreign market. To understand how a two-price program would work we can profitably turn to discussions of the McNary-Haugen plans. Debate on these plans dominated national farm policy in the 1920's. The following illustration seems to be useful: A tax would be levied against the sales of a major exportable crop, such as wheat. A tax of 15 cents a bushel on a billion bushel crop would yield a fund of 150 million dollars. This would be sufficient to subsidize the export of 300 million bushels, assuming domestic price (discounting transportation costs) was to be held 50 cents a bushel higher than the world price. Such a subsidy, of course, could also come from general funds.

Two-price plans are again being suggested as a means of solving the farm price problem for wheat and cotton. They have been opposed by most economists. Questions are raised about just what problems such a program would solve. Export subsidy can very easily be nullified by the imposition of tariffs and quotas in other countries.

Dumping is not consistent with a freer trade policy. If exports of one commodity are to be increased, then payment would require increased imports of other commodities. The whole question of how much a particular commodity should be subsidized becomes a question of national debate. The two-price program and export subsidy, however, is a direct corollary of support programs for export crops, such as wheat and cotton. If we are to hold the price of our large export crops higher than the world price, then we must either subsidize exports or restrict our output to a shrinking portion of the world market. Those who advocate high-level price supports can scarcely fail to recognize the role of export subsidy. Economists have the task of pointing out the inconsistencies of advocating high supports and freer trade.

The important point in discussion of price supports and trade policy is to illustrate the type of policies that are consistent, internally and externally. Freer trade policies, toward which we have been attempting to work for many years, are the antithesis of two-price or multiple-price systems and production regulation in agriculture. I usually consider that a discussion of two-price systems, with their implications for tariffs and trade, is not complete without consideration of the broader question of the trade position of agriculture as a whole. Agriculture is a large net export industry. Policies that work to disrupt trade or reduce its volume do not improve the relative income position of agriculture. The problem is to develop a trading position approximately in balance that will maximize the flow of international commerce. State trading is, of course, part of the picture. At the same time, however, the validity of free trade policy and the gains for the free world to be had through United States leadership should be recognized.

Consumers' Food Subsidy

Discussion of the National Food Allotment Program helps to illustrate the workings of the food subsidy. Assume that a minimum adequate diet for a family of four costs $5.00 per person per week and that the cost of food coupons is not allowed to exceed 40 percent of the weekly wage. Then,

If weekly earnings are:	Amount of family income spent for food would be:	The subsidy would be:
$40	$16	$ 4
30	12	8
20	8	12

The consumers' food subsidy has three general purposes: (1) to improve the diets and nutrition of low-income consumers, (2) to act as a countercyclical device in stabilizing purchasing power of the community, and (3) to stabilize the demand for farm products. How much of each it will do depends on the type of subsidy and the amount appropriated to run the program. One of the points that appears most appealing in discussion of this program is the welfare aspect of increased consumption. Farm policy is on firmer ground before the general public when it is directed at consumption expansion than when it is dominated by production control.

Monetary-Fiscal Policy

Farm people have a deep and abiding faith in the free market and in the role of monetary-fiscal policy in providing stability for the market. Yet the questions that are important in monetary-fiscal policy can only be touched upon in most policy discussions. Perhaps the greatest service that the extension economist can provide is in outlining the elements of a consistent policy. Anti-inflation policy, for example, calls for increased taxes in many instances and a tightening of credit; but people often are against both inflation and taxes without realizing that taxing and budget balancing are part of the process of combating inflation. Also, people often fail to develop a clear understanding of the conditions associated with deflation and shun policies such as deficit financing, when this may be appropriate. The economist has the responsibility of defining these conditions, outlining consistent monetary-fiscal policy, and discussing the appropriate action. The most important service is the teaching of a method of analysis and an appreciation of rigorous thought.

RELEVANT POLICY ISSUES

The purpose of a discussion of stability methods is to provide a framework for analysis of alternative programs. The factors in stability are yield and price. Yield instability can be counteracted by crop insurance, farm storage, or a savings program. Diversification, of course, may lessen the adverse impact of crop failure. Judging from past experience, farm storage and savings are usually insufficient or inadequate to counteract yield instability in most areas. Crop insurance offers a more general solution.

The problem of price instability presents a wider range of possibilities and offers more room for disagreement. The major cause of price instability for agriculture as a whole is an uneven growth in demand superimposed on a rather steady rate of growth in output

or supply. The big declines in farm income, such as occurred in 1920-21, 1929-32, and even the more moderate drops, such as occurred in the past year, have been associated with a relative slackening of aggregate demand. Storage and price supports are inadequate to cope with the larger shifts in demand. That, perhaps, is the outstanding contention to note in our discussion about stability programs. If this is the case, we are confronted with the need to go beyond price supports and storage programs, and acreage control programs. The larger swings in agricultural income can only be prevented by action that stabilizes demand or that directly compensates agriculture for weaknesses in demand.

Monetary-fiscal action is the first line of defense for agriculture, as well as for the country, against depression. Discussion of farm price programs can properly start, therefore, with a general discussion and comments on monetary-fiscal action. This presents the general problem and suggests definite policies such as: (1) increasing taxes, tightening credit requirements, raising interest rates, rationing, and price control to prevent inflation; and (2) reducing taxes, lowering interest rates, and unbalancing the federal budget to prevent or alleviate depression. Such discussion provides a general framework for analysis and discussion of the role of the specific farm stability programs, such as price supports, income payments, etc.

SUMMARY

The function of the educator is to bring important issues before the group, help define the problem, and discover the objectives for policy held by the various individuals. Once the problem situation and objectives are defined, the economist has the peculiar task of bringing economic analysis to bear. The purpose is not just to analyze the problem but to show others how it can be analyzed. Definite conclusions can be presented, providing the basis for these conclusions is clearly demonstrated.

I usually find it helpful to begin with a discussion of the situation — amounts in storage, possibilities for demand and trade—and work out from the situation to the objectives we would like to accomplish. How much stability do we want? How can such a degree of stability be obtained? The problem comes into being as a difference between situation and objective, and the discussion of means or methods provides a basis for testing the solution to the problem. Working from the situation (where we are), to objectives (where we want to go), to programs and policies (how to get there) often provides a stimulating basis for discussion.

PART III

Increasing the Effectiveness of Public Policy Education