NEW DEVELOPMENTS IN FARM PRICE AND INCOME POLICY PROGRAMS[1]

Part I. Situation and Problem

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A. Introduction

Agriculture is out of balance with the rest of the economy. The imbalance arises because the adjustments made in the use of resources in agriculture have not kept pace with changing supply and demand conditions. Numerous factors influence the slowness of agriculture to adjust use of resources to the changing economic conditions.

Some of the major factors on the supply side within agriculture which impede adjustments include: (1) the competitive nature of the agricultural industry with its millions of farm units and their individual decisions; (2) the nature of fixed costs in agriculture; (3) risks and uncertainties revolving around prices, new technology, yields, health of operator, etc.; (4) lack of knowledge of alternative opportunities within or outside of agriculture; (5) lack of training resulting in relative immobility; and (6) inertia or the reluctance to change to new methods or new employment.

Other restraining factors include: (1) government programs and (2) other social, family, or institutional influences. On the demand side one of the major considerations is that a given percentage increase in the market supply of farm products prompts a greater percentage drop in the price of food products or vice versa. These factors will continue to impede needed resource adjustments in agriculture.

B. Changing Structure of Agriculture

An average of about 1 million people have migrated from agriculture to the nonfarm segment in recent years. The number of farms has been declining about 100,000 annually as seen in Table 1. Man hours worked have declined 2 percent per year since 1940. The table also shows that cropland harvested is about the same as in 1910 but has declined since 1952. Capital inputs in agriculture have been increasing about 2.3 percent per year since 1940 replacing some of the labor resources. This combination of resources is increasing output.

[1]The several parts of this report were prepared by the individuals shown. The other members of the work group who reviewed the preliminary draft and assisted in the development of the final report were: Bushrod Allin, G. W. Campbell, Jr., Willard W. Cochrane, Eber Eldridge, Foy Helms, Virgil D. Kennedy, L. F. Miller, C. Kyle Randall, Warren L. Trock, E. D. White, and G. B. Wood.

TABLE 1. CHANGING PHYSICAL REQUIREMENTS OF AGRICULTURE

Year	Number of Farms	Acres of Crops Harvested	Man Hours	Capital Inputs	Outputs	Population
	Millions	*Millions*		*Indexes*	*(1947-49=100)*	
1910	6.4	325	132		66	63
1920	6.4	360	140		70	72
1930	6.3	369	134		72	84
1940	6.1	339	119	73	83	90
1950	5.4	345	89	108	100	103
1951	5.3	344	91	114	103	105
1952	5.1	349	89	119	107	107
1953	5.0	348	88	115	108	109
1954	4.8	346	85	117	108	110
1955	4.7	340	85	118	112	112
1956	4.6	326	83	118	113	114
1957	4.5	326	79	119	113	116

SOURCE: "Changes in Farm Production and Efficiency," Statistical Bulletin No. 233, and "The Balance Sheet of Agriculture," Agriculture Information Bulletin No. 201.

Mechanization and automation of the agricultural business have contributed to the decrease in number and increase in size of farms. New production technology has been adopted at a fast rate. Alternative off-farm employment opportunities continue to attract some farm people. The growth of vertical integration and contract farming is another facet of the changing agricultural structure.

C. Where Are We Heading in the Next Three to Five Years?

In recent years farm earnings have failed to keep pace with earnings in the rest of the economy. Real income of farmers in terms of constant dollars has declined since the early 1950's, while the real income of other segments of the economy has generally improved. Indications for 1959 and the three to five year period ahead point to a continuation of the widening spread between the real income of farm people and of the nonfarm segment. The decline in real income of farmers is related to changes in the demand and supply of agricultural products.

1. DEMAND FOR AGRICULTURAL PRODUCTS. Barring emergency situations, any significant increase in foreign demand for our products during the next three to five year period is unlikely. Domestic consumption of agricultural commodities has increased primarily due to increasing population. Although the American diet will likely continue to improve, domestic demand for food will probably increase only slightly more than the population during the three to five year period under discussion.

2. SUPPLY OF AGRICULTURAL PRODUCTS. Agricultural output has continued to outrun demand in recent years. This is a major reason

for the income lag of agriculture. During the last five years, the annual net additions to stocks of major crops have amounted to little more than 5 percent of the harvested cropland.

Assuming for the next three to five years that we continue an average rate of economic growth, no wars, existence of present farm programs, average weather, and current trends in productivity, we can expect continued high output and further accumulation of stocks.

3. INCOME PROSPECTS. Prospects point to expanded livestock production and lower prices and income in the feed grain-livestock economy. Feed grain use is not likely to increase enough to halt further accumulation of feed grain stocks. If the wheat problem were to be solved by expanding the use of feed wheat, the price and income problems of the livestock producer would become even more serious. With huge wheat stocks in CCC storage, production potentials, and possible changes in legislation, a substantial reduction in wheat prices and incomes could occur. Cotton prospects are not bright in the three to five year period ahead.

Prices, particularly of livestock products, will fall more than output will rise. Wheat, cotton, and feed grain stocks probably will increase above current levels. Farm costs likely will increase in the three to five year period and combined with the general supply-demand situation will cause net farm income to decline substantially.

D. Problem

American agriculture will in the foreseeable future face the difficult problem of balancing production to market outlets at prices to producers that are considered reasonable. With relatively slow growth in the demand for farm products accompanied by rapidly improving technology and the lag in adjustment of agricultural resources, the stage is set for large production and relatively unfavorable returns to agriculture in the period ahead.

Adjustment of resource use in agriculture will need to be continued. Total resources currently devoted to agriculture produce an output which causes incomes of farm people to be lower than those of nonfarm people. The general feeling is that adjustment of resources should be encouraged along lines which are naturally developing, i. e., more capital relative to land and labor devoted to agricultural production.

Of the many possible approaches for adjusting resources in agriculture in the next three to five years, the following were chosen for elaboration:

1. A voluntary land retirement program.
2. A voluntary transfer of human resources out of agriculture.
3. An effective production control program.
4. A modified free market price program.

Part II. Resource Adjustment Through Voluntary Land Retirement Programs

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A. How the Alternative Would Work

If a market cannot be found for expanding supplies of farm products and the free economic forces are allowed to work, some of our high-cost crop producing areas will shift to other uses. An intelligent and properly administered land retirement program can ease this shift. In the early stages, fairly uniform shifts throughout the country may be required to obtain immediate but temporary adjustments, but eventually the shifts should be directed heavily toward the lower returning plow land. In our dynamic economy, the adjustments brought about by normal economic forces are more likely to succeed than programs which attempt to reverse the natural trend or to maintain the *status quo*.

The United States has a total land area of approximately 1,904 million acres. Of this, about 450 million acres are in plow land. Approximately 965 million acres are in permanent hay and pasture. The remaining acreage is in nonpasture forest land, waste, and nonagricultural uses. If a land retirement approach is used to bring present agricultural production and demand into a more desirable balance, something like 50 million acres of this 450 million acres of plow land would need to be shifted out of production. The required acreage adjustment may vary 20 percent either way from the 50 million acres depending upon the type of land taken out and the type of program followed.

The 50 million acres equal 11 percent of the total plow land. The question may be raised of why so large a percentage shift is required. We need to recognize that the lower producing land will be taken out of production and that some slack in the administration of the adjustment programs should be expected. We likewise should recognize that some production arises from the 965 million acres of permanent pasture and hay land. Little adjustment would probably occur in this area under a land retirement program.