



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Remedies are offered for situations in which surpluses are created in other commodities as allotments are reduced for controlled crops. With quotas on some crops and a total allotment on nonquota crops, shifting from restricted crops to nonrestricted crops is essentially prohibited. For example, if a farmer chooses to produce his tobacco quota on less acreage through the use of more intensive practices, he is free to do so, but total cropland used in production would be reduced. If enabling legislation and enforcement under this approach are sufficiently rigid, commodity prices and farm incomes of producers would be held, at least in the short run, above the level which would have existed with no production controls. This is due to the inelastic demand for farm products.

2. ECONOMIC GROWTH. One of the prerequisites for economic growth is that basic materials such as food and fiber be produced with a minimum of resources in order that other resources may be devoted to production of goods which will raise the over-all level of living. If direct sale of production rights is used as a transfer technique, the compensation for those releasing quotas and allotments would encourage the movement of underemployed farm people to nonfarm employment where available.

C. Cost of the Program

The total government cost for this program would likely be below the cost of previous programs. The administrative and enforcement costs would probably rise but will be more than offset by drops in other costs. No compensation is necessary if a farmer reduces acreage in quota crops, or if total allotment for nonquota commodities is reduced. Costs of government storage should be reduced since farmers are responsible for costs of storing excess quota crops. Under these circumstances any governmentally controlled reserves for defense or other emergencies can be appropriately charged as national defense expenditures rather than as an agricultural cost. Costs to the consumer would be raised to the extent that prices were held above the free market level.

Part V. Resource Adjustment Through Modified Free Price Programs

*John O. Dunbar, Extension Economist
Purdue University*

Various estimates indicate that a 5 to 8 percent reduction in output would bring farm production into balance with demand. To do this, either: (1) land must be shifted from intensive crop production to less intensive uses more rapidly, (2) labor must flow out of

agriculture more rapidly, (3) capital must flow in more slowly, (4) farm operators must apply new techniques of production and management more slowly, or (5) some combination of these conditions must occur.

These adjustments would all take place under a policy of free prices for agriculture. However, farm prices would have to be allowed to fall below 1959 levels and remain low enough long enough for the adjustments to occur. The extent to which free prices are modified will help determine the timing and rate of adjustment.

The purpose of this analysis is to point out the probable consequences of one of the recently proposed programs for modifying free prices—namely, supporting prices of commodities at 90 percent of their most recent three-year average. In this analysis, effects of (1) free prices and (2) current price-support programs are used for comparative purposes. In order to understand the effects of *modified* free prices we need to analyze the effects of free prices.

A. The Proposed Alternative Program

Under the present program price supports are set at some percent of parity, depending upon the commodity.⁴ This ties farm price supports directly to nonfarm prices. It uses acreage allotments with marketing quotas for wheat, rice, peanuts, tobacco, and cotton to control production of those commodities, leaving acreages of other commodities unrestricted.

Under the proposed program, on the other hand, individual commodity prices would be supported at only 90 percent of their average for the three preceding years. This program would be applied only to feed grains, food grains, and cotton for the next three to five years. Acreage allotments would gradually be discontinued for all crops except tobacco.

Wheat and cotton acreage would probably increase very rapidly. Therefore, to bring about an orderly adjustment to the new program, a transitional period would be required to avoid a further large build-up of wheat and cotton stocks. Other present price-support programs (export subsidy, purchase and donation, subsidizing new uses, marketing agreements and orders, consumer subsidies, sugar program, and IWA) could be continued under either the present or proposed programs.

B. Economic Effects of the Program

1. **PRICES WOULD DROP TO NEW POSTWAR LOWS.** If all farm price supports were withdrawn for the next three to five years, farm

⁴For this analysis, levels of support are those prevailing January 1, 1959.

prices would drop well below 1959 levels, even if surplus stocks were frozen at current levels. Various analysts estimate that they would fall to around 60 to 70 percent of parity.

If price-support programs in effect January 1, 1959, were continued with no change in allied programs, and with disposal operations at 1958 levels, estimates by Kutish at Iowa State College indicate disastrous drops in feed and livestock prices from now to 1961. On the other hand, prices would also drop drastically if supports were set at 90 percent of the most recent three-year average and if CCC sales policy were such as to keep prices near those levels (Table 2). More livestock will be produced, reducing prices under either program.

TABLE 2. PRICES RECEIVED BY U. S. FARMERS, 1958, AND ESTIMATES FOR 1960 AND 1961 UNDER PRESENT AND PROPOSED PROGRAMS

Commodity	1958 Prices	Estimated Prices Under Present Programs ¹		Estimated Prices Under Proposed Programs ²	
		1960	1961	1960 ³	1961 ³
Corn per bu.	\$ 1.14	\$.95	\$.88	\$ 1.04	\$.96
Oats per bu.	.59	.52	.50	.54	.50
Sorghum grains per bu.	1.80			1.60	1.53
Soybeans per bu.	2.09			1.80	1.68
Wheat per bu.	1.84			1.70	1.61
Rice per cwt.	4.95			4.32	4.18
Upland cotton per lb.	.301			.259	.268
Tobacco per lb.					
Burley	.66			.559	.555
Flue cured	.58			.496	.486
Peanuts per lb.	.106			.092	.087
Hogs per cwt.	19.60	12.00	13.00		
Cattle per cwt.	21.90	20.00	19.00		
Calves per cwt.	21.00	22.50	21.00		
Lambs per cwt.	21.00	21.00	20.00		
Milk per cwt.	4.15	4.10	4.10		
Butterfat per lb.	.58	.57	.57		
Eggs per doz.	.38	.32	.29		
Broilers per lb.	.18	.155	.15		
Turkeys per lb.	.24	.21	.20		
Cash receipts from crop					
marketings, billions	14.2			12.9	
Index all crop prices	232			213	202

¹Francis Kutish, "Prospects for the Next Three Years," Proceedings of the Iowa State College Feed-Livestock Workshop, February 16-18, 1959, Ames, Iowa. Assumes programs in effect on January 1, 1959.

²John Schnittker, "Reduce Wheat Production," Proceedings of Iowa State College Feed-Livestock Workshop, February 16-18, 1959, pp. 121-36. Assumes CCC policy to maintain prices at 90 percent of latest three-year average.

³Assumes average prices for year are equal to the support price.

2. FARM INCOMES WOULD DROP DRASTICALLY. Realized net U. S. farm income was about 11 billion dollars in 1957 and 13 billion dollars in 1958. Kutish and Schnittker indicate that under either the

program in effect January 1, 1959, or the proposed program, farm income would drop to around 10 billion dollars by 1960. Under free prices, they would be still lower.

3. FARM OUTPUT WOULD CONTINUE TO INCREASE IN THE SHORT RUN, BUT AT A SLOWER RATE. If the parity ratio falls much below 80 percent during the next three to five years, the rapid expansion of farm output would be curtailed. Farmers could cut variable expenses, such as fertilizer. But land and labor costs cannot be cut much. Many farmers would plow up a hay field and plant more cash crops and work longer hours to produce enough to meet fixed costs. If off-farm jobs were available, many would probably take part-time, or full-time, jobs as in recent years.

However, the net short-run result would likely be greater farm output. More crop acres would probably offset reduced fertilizer. And better farmers would probably take over the land as others obtained nonfarm employment.

But in the longer run, if aggregate farm income remains around 10 billion dollar levels during the next three to five years, owners of the resources in farming would most certainly put enough of them into uses where returns would be higher to bring farm production into balance with demand sometime in the next ten to twenty years.

4. "PAINFUL" ADJUSTMENTS WOULD BE FORCED ON FARMERS. Even under normal conditions of economic progress, many farmers who have already started farming must get other jobs. This is painful even when they increase their income.

During the next three to five years, many more farmers will probably go into debt for land, buildings, and operating capital. If a prolonged period of low prices and incomes follows, many would be unable to feed and clothe their families adequately and pay interest, taxes, and principal. Since land would probably be recapitalized at lower levels, a farmer in debt could not sell out and go into some other line of work without considerable loss. After struggling against impossible financial odds for several years, many would eventually lose their farms.

The proposed program would do little more than the present program. The main difference is that it would probably treat producers of each class of farm commodities more nearly the same, i.e., it would not dump the problems of cotton and wheat farmers on the feed-live-stock economy.

5. PRICES OF WORLD TRADE COMMODITIES WOULD FALL TO COMPETITIVE MARKET LEVELS. Present programs which hold prices

of wheat, cotton, and tobacco above world levels either reduce the amount taken by foreign countries and enable foreign competitors to get a foothold or require export subsidies and create problems of foreign relations. The proposal to support prices at 90 percent of the preceding three-year average would reduce the extent of this problem. However, it would not eliminate it entirely, since it, too, would hold prices above world levels at least part of the time.

6. **PRICES WOULD DROP LESS RAPIDLY IN THE SHORT RUN THAN UNDER FREE PRICES.** Prices would fluctuate more than under present programs. However, aggregate farm incomes would neither rise nor fall as much in any one year under either the present or proposed program as under free prices.

7. **PRICES WOULD GUIDE PRODUCTION MORE EFFICIENTLY.** Under free prices, prices of individual farm commodities could seek their normal level in relation to each other and to the rest of the economy during the next three to five years. Under present programs, prices of some farm commodities would be held above free market levels. Others would be allowed to fall. The proposed program would be more like free prices—prices of each commodity could fall a little each year until they reached their normal relationship. Thus, prices would guide production more efficiently.

C. Costs of the Program

1. **COSTS TO THE TREASURY WOULD BE REDUCED IN THE LONGER RUN.** Complete reliance on open market prices would cost the public treasury nothing. On the other hand, costs of programs in effect January 1, 1959, would increase during the next three to five years. Estimates are that CCC investment would amount to nearly 12 billion dollars by 1963 compared with about 9 billion dollars in mid-1959. Storage, transportation, and interest are expected to increase from .8 billion dollars for 1959 to 1.4 billion dollars a year (75 percent) by 1961.⁵ To this must be added CCC losses on sales, export subsidies, etc.

If prices were supported at 90 percent of the latest three-year average, government storage stocks would likewise rise in the next two or three years, because prices of most commodities would still be above open market levels. The cost to taxpayers would rise accordingly. However, if this program were continued long enough, grain prices would drop far enough to encourage their use in livestock production. Dropping price supports a step at a time would eventually reduce prices to free market levels. Then the cost to the treasury

⁵Statement by Secretary of Agriculture Ezra Taft Benson before the House Committee on Agriculture, July 9, 1959.

would be greatly reduced except during periods of prolonged farm price declines. Also, the cost of individual farm acreage allotments and quota administration would be eliminated.

2. **COMMUNITY COSTS WOULD BE MORE THAN UNDER PRESENT PROGRAMS BUT LESS THAN UNDER FREE PRICES.** During periods of rapid movement of labor from farm to city employment, many rural schools, churches, and other facilities are left idle while overcrowded conditions develop in schools, churches, etc., in urban areas. With full employment at high wages in urban areas, and low farm prices and incomes, the rate of population movement, hence the social cost, is increased. Thus, during the next three to five years, to the extent that the proposed program holds farm incomes above free price levels, this movement may be slowed down and the social cost decreased.

E. Other Considerations

1. **GOVERNMENT INTERFERENCE WITH FARM OPERATION WOULD BE LESS THAN WITH PRESENT PROGRAMS.** Under either free prices or prices supported at 90 percent of the last three years, individual farm allotments and quotas could be gradually eliminated over the next three to five years. After that, each crop could be grown on acres best suited to it, i.e., substantial shifts from feed grains back to cotton and wheat would probably occur.

2. **FARMERS WOULD NOT BE AS LIKELY TO DEMAND EXTREME CHANGES IN THE ECONOMIC SYSTEM AS UNDER A FREE MARKET.** If farm prices were allowed to fall to free market levels during the next three to five years, economic pressures on farm people would be so great that they would demand and be willing to accept panacea programs to solve their short-run problems—almost anything to get them out of the jam. The result of this might well be substitution of a system of government controls and regulation for consumer and producer activity in the open market in deciding what and how much farm products ought to be produced. In addition, the program would require much regulatory manpower. Over-all economic and social efficiency would most certainly be reduced. Modification of the effects of free prices to prevent farm prices from falling to disaster levels would help forestall such an event. The extent of the modification, and its timing, will determine its result.

BIBLIOGRAPHY

Part I. Situation and Problem

Barton, G. T., and Daly, R. F., "Prospects for Agriculture," *Farm Policy Forum*, Vol. 11, No. 3, Iowa State College Press, Ames, Iowa, 1959.

A Basebook for Agricultural Adjustment in Iowa: Part I—"Agriculture in the Mid-Fifties," Special Report No. 20; Part II—"Prospects for the Years Ahead,"

Special Report No. 21; Part III—"The Opportunities," Special Report No. 22; Iowa State College, Ames, Iowa, October 1957.

Johnson, Sherman E., and Bachman, Kenneth L., "Basic Roots of the Farm Problem," *Farm Policy Forum*, Vol. 11, No. 3, Iowa State College Press, Ames, Iowa, 1959.

McMurtry, Gene, Bottum, J. C., Kohls, R. L., Dunbar, J. O., "Farmers' Attitudes Toward the Income Problem and Its Solutions," Mimeo EC 157, Purdue Agricultural Experiment Station, Lafayette, Indiana, August 1958.

Ogg, Wallace E., and Malone, Carl C., "Our Changing Agriculture," Series of Pamphlets 245-A through 245-G, Cooperative Extension Service, Iowa State College, Ames, Iowa, December 1957.

Policy for Commercial Agriculture: Its Relation to Economic Growth and Stability, Report of the Subcommittee on Agricultural Policy to the Joint Economic Committee, Congress of the United States, February 10, 1958.

Proceedings of Feed-Livestock Workshop, Special Report No. 24, Center for Agricultural Adjustment, Iowa State College, Ames, Iowa, 1959.

Part II. Land Retirement

American Bankers Association, Agricultural Commission and Economic Policy Commission, "The Farm Problem," October 1958.

Benedict, M. R., *Can We Solve the Farm Problem?* Twentieth Century Fund, New York, 1955.

Bottum, J. C., "The Conservation Reserve," Unnumbered Mimeo, Agricultural Economics Department, Purdue University, 1959.

Brandow, G. E., "A Framework for the Farm Problem," *Increasing Understanding of Public Problems and Policies*, Farm Foundation, 1957, pp. 69-77.

Brown, William G., and Weisgerber, Pius, "An Appraisal of the Soil Bank Program in the Wheat Summer Fallow Area of Oregon," *Journal of Farm Economics*, Vol. XL, No. 1 (February 1958), pp. 142-48.

Clawson, Marion, "Agricultural Adjustment Reconsidered: Changes Needed in the next 25 Years," *Journal of Farm Economics*, Vol. XL, No. 2 (May 1958), pp. 265-77.

Jesness, O. B., "Changes in the Agricultural Adjustment Program in the Past 25 Years," *Journal of Farm Economics*, Vol. XL, No. 2 (May 1958), pp. 255-64.

McMurtry, Gene, "The Response of Farmers to Various Soil Bank Proposals in Selected Areas of the Corn Belt," Unpublished Ph.D. Thesis, Purdue University, 1958.

Policy for Commercial Agriculture: Its Relation to Economic Growth and Stability, Hearings Before the Subcommittee on Agricultural Policy, 85th Congress, 1st Session, U. S. Government Printing Office, Washington, D. C., 1957.

Schmid, A. Allan, "An Appraisal of the Soil Bank in a Corn and Dairy Area of Wisconsin," *Journal of Farm Economics*, Vol. XL, No. 1 (February 1958), pp. 148-53.

Schultz, Theodore W., "Are We Solving Our Farm Problem?" *Increasing Understanding of Public Problems and Policies*, Farm Foundation, 1957, pp. 78-84.

Soil Bank Program, Hearings Before the Committee on Agriculture, Serial A, 85th Congress, 1st Session, U. S. Government Printing Office, Washington, D. C., January 1957.

U. S. Department of Agriculture, Commodity Stabilization Service, "County Conservation Reserve Handbook" (1-SB), Amendment 23, Washington, D. C., September 18, 1958.

U. S. Department of Agriculture, "The Conservation Reserve of the Soil Bank," PA-354, Washington, D. C., January 1958.

U. S. Department of Agriculture, Office of Information, "The Soil Bank Conservation Reserve: A Profitable Way to Build for the Future," Washington, D. C., January 1957.

U. S. Department of Agriculture, Office of Information, "The Soil Bank Program for 1957," Washington, D. C., Revised February 1957.

Part III. Human Resource Adjustment

Farm Policy Forum, Vol. 10, No. 3, Iowa State College Press, Ames, Iowa, 1958.

Niederfrank, E. J., "People and Agricultural Resource Adjustment," Federal Extension Service, U. S. Department of Agriculture, June 1958.

Schultz, T. W., "Homesteads in Reverse," *Farm Policy Forum*, Vol. 8, No. 5, Iowa State College Press, Ames, Iowa, 1956.

Part IV. Effective Production Control

Benedict, Murray R., "The Supply, Price and Income Dilemma," *Journal of Farm Economics*, Vol. XLI, No. 2 (May 1959), pp. 173-77.

Brannen, Stephen J., "Direct Restraints on Farm Marketing," *Increasing Understanding of Public Problems and Policies*, Farm Foundation, 1958, pp. 56-63.

Policy for Commercial Agriculture: Its Relation to Economic Growth and Stability, Report of the Subcommittee on Agricultural Policy to the Joint Economic Committee, Congress of the United States, February 10, 1958.

Turner, W. L., Pugh, C. R., and Allgood, J. G., "Changing Market Supply by Restricting Inputs," *Increasing Understanding of Public Problems and Policies*, Farm Foundation, 1958, pp. 51-55.