Our "Farm Problem"

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Our "Farm Problem"

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OUR FARM PROBLEM dates back to well before World War I, but it was not generally recognized as a national problem until the 1920's.

By then it was evident that living levels of American farmers were, on the average, below levels of nonfarm people with similar education, managerial ability, and capital investment. The public, both farm and nonfarm, became convinced this situation was undesirable from all standpoints: economic, political, and social.

The farm problem with its many special and local aspects and the discouraging attempts at its solution is all very confusing, especially to the nonfarmer. Yet conditions underlying the problem are relatively simple and easily understood.

This circular reviews these conditions briefly but does not discuss solutions, either attempted or proposed.

The Problem

The economic, or financial, difficulties of the American farmer for the past 45 years stem chiefly from three basic physical situations:

First, the persistent tendency of farm production to increase faster than population, and thus create *surpluses.*

Second, the continuing improvements in labor-saving farm machines, making the farm that kept the owner busy yesterday too small to furnish him a full-time job today.

Third, the relatively high rural birth rate, requiring farmers to rear and educate more children than needed on farms, and to divide the inheritance between more young people than the farms can fully employ.

Surpluses

For 45 years normal production of United States farms has been in excess of peacetime needs. By *in excess* we mean more than the people of this country would buy, and more than we could export at satisfactory prices, except during wartime.

During these years our population increased 75 per cent, but farm production kept ahead of this increase. Also, there has been a slight increase in acres farmed and cattle are now raised on land that used to produce horse feed. But most of the increased production has resulted from improved farming technics based on science and engineering.

The surplus sometimes appears as wheat, sometimes cotton, sometimes pork, etc., etc., but it is actually in total production. Shifting from one crop to another merely shifts the surplus.

Behind this surplus lies an agricultural potential which, if turned loose, would produce even greater surpluses. Our agricultural know-how is not fully utilized despite our educational activities. The extent of this producing power can only be estimated. It has never been tested. Even our all-out effort of the last war was handicapped by shortages of manpower, machinery, and fertilizer.

Current studies indicate that if our science and machinery were fully utilized, production would be increased between 50 and 85 per cent.

Increased farm production through improved technics is not limited to the United States. It is especially marked in northern Europe and in the New World. It is beginning in the Orient.

Increased production in other countries makes the export of agricultural commodities from the United States more difficult.

Can consumption be increased?

Demand for food in the United States is very *inelastic;* that is, lowering prices does not raise consumption. Lower food prices often mean more money for other things, not more for food.

True, there are distressed families who do not have enough money to buy necessities, but they require aid for their entire living and not merely lower food prices. Then, too, more than half the price of food to the consumer lies in costs of transportation, processing, and handling. These costs are not affected by prices paid to farmers.

The needy millions of other countries, especially of the Orient, are separated from American farms by vast distances. Even if American farmers should give away their produce, some large expenses would have to be met before that food could reach the distant people who need it.

While our food consumption, measured in pounds or calories, cannot be materially increased, proportions of the various kinds of foods may be changed. Such changes may affect number of acres and amount of labor needed to produce that diet and, therefore, cost of the diet.

A diet heavy in animal foods, juicy fruits, and salads is more palatable and nutritious than one that leans more heavily to cereals, bread, and potatoes. Such a diet is more expensive, however, since it requires more acres and more labor.

The American people have been gradually shifting toward this more desirable diet, but only to the extent that farmers have been able to produce it at no greater cost. The average American has not been willing to increase the percentage of income that he spends on food.

If diets recommended by home economists of the U.S. Department of Agriculture were followed by all our people, there would be some shifts between kinds of foods. But total production would not be materially changed, and the surplus problem would remain.

Can markets be expanded?

We have tried to expand our markets in various ways, but results have been disappointing. Most effective has been subsidized exports, but that has its limitations. Other countries try to increase their own food supplies and thereby reduce imports from us. Even where food is badly needed, most foreign governments have been reluctant to permit their markets to be depressed by subsidized shipments from us. While we ex-

port large amounts, we are not able to export our total available surplus.

Much money has been spent in developing new and expanded uses of farm products, including possible industrial uses. Definite progress has been made but not enough to offset increasing production.

Will increased population take care of the surplus?

Population would soon catch up with farm production, if farm production would only remain stationary. This it does not do. American farmers can feed more than 200,000,000 with the science and technics now available. By the time our population reaches 200,000,000, these sciences and technics may make still further advances. We cannot say that population will never catch up with food production, but that situation is not now in sight.

Can economic forces bring about adjustment?

Free play of supply and demand can indeed force adjustment of agricultural production, but we would not like either the economic difficulties involved or the kind of adjustment we would get.

During our two World Wars, the demand for food was far above peacetime level. Farmers increased production in response to war demand supplemented by strong government urging. This was all very fortunate.

With the advent of peace, this wartime demand shrank to the peacetime level. Neither farmers nor the nonfarming public have been willing to force the production cuts that the change from war to peace seems to require. Farmers wish to avoid financial loss. Nonfarmers wish to avoid the economic disturbance always involved in agricultural distress.

Finally, our entire citizenry believes that war or increased population may raise the need for food far above its present level. All agree that any adjustment of production to consumption should be temporary or elastic, subject to change as needed.

Does farm efficiency lower costs?

The United States was pretty well out of new land by the beginning of the century, but improved technics have kept farm productivity ahead of increasing population. Increasing efficiency has greatly reduced the percentage of population needed to grow our food.

New farming methods are not patented or monopolized, but available to all. Competition forces farmers to adopt them. In the long run, much of the benefit goes to consumers rather than to producers, just as improved technics off the farm have given farmers many new comforts and conveniences at lower costs.

In recent years, however, the public has demanded more marketing services and conveniences, more complex processing and packaging, and offseason supplies. These tend to offset the lesser labor required to produce the raw food on the farm.

Why adjustment by legislation?

Adjustment of total United States farm production, other than that brought about by wholesale bankruptcy, requires cooperation of the entire farm population. In the absence of any legal nationwide farm organization, such cooperation must be secured by Federal legislative action. Otherwise, a small minority could wreck any farm program the majority might wish. Congress has been trying for many years to work out such legislation, but results to date have been far from satisfactory to anyone, city dweller or farmer, Republican or Democrat.

The first Agricultural Adjustment Act (AAA) of 1933 made a start toward nationwide production control through farmer cooperation enforced by Federal legislation. This act was financed by a tax on farm products benefited, and was declared unconstitutional by the Supreme Court.

This decision caused a great deal of confusion. The important result was to require the cost of farm programs to be paid out of the general treasury rather than out of a tax on farm products benefited. This has made it almost impossible to distinguish between legislation to help the farmer help himself, and mere legislative "handouts."

Production adjustments are commonly opposed by processors and handlers, since their profits depend on total number of units handled rather than on prices received by farmers.

Consumers might be expected to oppose any effort to raise or maintain food prices. Actually, American consumers have not opposed efforts of farmers to improve their situation, even though much legislation has been unsatisfactory. Consumers have apparently accepted the concept of *parity prices.*

What is parity?

The word, *parity,* as applied to farm prices was first used in the 1920's to indicate a price that would put farmers on an equal footing with nonfarmers. When the first Agricultural Adjustment Act of 1933 was framed, Congress defined *parity prices,* and thereby gave the term legal standing. Since that time, when we speak of parity we mean parity as defined by the United States Statutes. This legal definition is now in such common use that we find it summarized in *Webster's New Collegiate Dictionary* as follows:

> Parity—(3. Econ.) Balance between the prices received by the farmer for his products and the prices he had to pay for labor and for equipment, necessities, and comforts. In computing the farmer's purchasing power and for legislative purposes such a balance is assumed for the period August, 1909-July, 1914 in U.S. Hence, parity price, that price for a given amount of a farm commodity which will pay for as much in factory goods, taxes, etc., as the same amount of this commodity paid for in the 1909-1914 period.

Note that this legal definition does not give specific prices, but merely the rules under which a parity price for any commodity may be determined.

The dictionary definition is essentially that of the first Agricultural Adjustment Act. Since then laws for determining parity have been revised until it sometimes takes an expert to interpret them. The general idea remains unchanged. Parity is a price that has the same purchasing power it had at some previous time which Congress considers normal, or proper. Congress has intended that these prices be fair to both farmer

and consumer. Parity has served, therefore, both as a goal and as a ceiling for farm price legislation. The justice or desirability of parity as established by Congress is naturally subject to debate.

What is government price support?

Government price support means that the government guarantees the farmer a certain price, usually some percentage of parity, for a specific crop. The government maintains this price by nonrecourse loans, purchase agreements, and outright buying. Loans and purchase agreements help iron out temporary market difficulties but, if the open market will not take all the product at the fixed price, the government must eventually buy.

The surplus the government thus accumulates is disposed of in whatever ways can be devised, ranging from subsidized exports and charity to outright destruction. These means of disposition have so far proved inadequate or politically objectionable.

As this is written in the fall of 1956, our government owns or has under loan enough wheat to feed the American people for at least two years. It therefore becomes necessary to "do something."

Price supports do not remove surpluses, but merely transfer their financial burden from the farmer to the government. They even tend to increase surpluses unless accompanied by adequate measures to reduce production. The higher the price supports, the more radical must be the production adjustments.

Do farmers favor production control?

No, not as long as there is any other hope. Farmers do not like to reduce production and they do not like regulation. They often vote for production controls and marketing restrictions, but only after everything else seems to have failed. Farmers may vote for production control again, but not until they have to.

Is the farm problem partisan?

The farm problem is nonpartisan, although its political aspects are serious. Each party criticizes the other's program. Both parties try to avoid production controls. Both adopt them reluctantly and never go further than the immediate emergency necessitates. Both parties recognize the unpopularity of production controls, and both seek eagerly for some palatable but adequate alternative. So far, the search has been in vain.

What are our basic production needs?

We need an adequate, adjustable supply of good food at all times. We need prices as low as possible but high enough to permit the accumulation of capital necessary to maintain a farm of economic size with proper equipment, and at the same time provide a level of living comparable to nonfarm people with similar education, ability, and capital accumulation.

We do not need food production beyond our needs plus normal exports. More than that serves to keep agricultural prices below costs of production, and to disrupt our economy.

We do not need prices that keep more people on the farm than are required to do the job.

The Too Small Farm

From the standpoint of size, our farms may be divided into three groups:

First is the farm too small to fully occupy the operator if he had modern machinery.

Second is the *family* farm, large enough to fully use the time of the operator and his family with modern machines. He may hire some labor especially at harvest peak.

Third is the very large *factory* farm on which labor is hired, and the operator is essentially a manager.

The first group is not efficient. Labor expenditure is excessive and total production is small. The second group, or *family* farms, is very efficient and forms one of the most substantial social and economic groups in our economy. This group produces more than three-fourths of our total farm produce. The third group of very large,

or *factory* farms, is not important in this country. It has been financially successful only in certain types of agriculture that can be handled by *gang* labor; for example, some vegetable and specialty crops.

From the economic standpoint, farm size is not a matter of acres but of man-hours. The *too small* farm may be a few acres or several hundred acres, depending on the type of farming and the proportion of plow land to grazing land.

How many are too small?

Excluding part-time farmers and rural residents who do not make farming a full-time occupation, it appears that one-third of the Nation's farmers are on farms too small to operate economically. On these farms total production would not support a family adequately, even if it were all sold. In this group, however, are some with pensions or other investments who are not wholly dependent on farm income.

Approximately half of the Nation's farmers are on farms large enough to keep the operator busy, using good modern machinery. These farms produce enough to support a family, at least when farm prices and farm costs are not too far out of line. This group includes a few very large farms, not more than 5 per cent of total, that operate largely with hired labor.

These estimates leave another one-sixth unclassified. These are unclassified because data are not sufficiently complete to show with certainty which are too small and which are not.

Oregon is similar to the United States as a whole in this respect. The number of too-small farms is higher in the Old South.

In the cities there is a popular idea of the "small farm well tilled"; that is, that the farmer may increase his production indefinitely by applying more and more labor to the same acres. This is not true. When the soil receives the proper cultivation, more is harmful. When the cows have been cared for, more labor merely disturbs their rest and their digestion. Of course, an acre in berries uses more labor than an acre in wheat, but berry production must be kept in line with our nutritional needs, eating habits, and consumers' willingness to pay.

Why are they too small?

Offhand, we might expect economic pressure to move people from country to city as rapidly as conditions demand. Actually, this has been far from the case. Our farm population is reluctant to move as rapidly as economic conditions warrant.

The farm-raised boy knows how to farm, but may know no other trade or occupation. His friends and associates are in the country. He wants to "be his own boss" and does not want to work for wages. If the man on the *too small* farm should wish to move to town, he must sell out to a neighbor, but the neighbor may not have the necessary money or credit.

People have never liked to move out of old established industries, whether farm or city. The makers of buggies were "bitter-enders."

City folk often resent any movement of farm people to the city where they may increase competition for jobs. City Chambers of Commerce even spend money on "back to the farm" programs.

The desire to "be my own boss" creates some unwise movement from city to country especially of people with capital enough to buy a *too small* farm, but not capital enough to buy and operate an economic unit.

Statistics show what appears to be a large net movement from country to city, but the various factors mentioned make this movement slower than economic conditions warrant.

The problem of the *too small* farm may be with us for a long time, since farm machinery is still improving and the amount of land one man can handle is still increasing. This problem is found in all countries where improved machinery is reducing farm labor requirements.

The most helpful factor so far is education—education regarding the need for movement from farm to city—plus education to help rural people adjust to city life and city occupations.

The man in the city cannot help much, but he should at least not resist the normal movement of people from farm to city.

The Farm Birth Rate

While the percentage of population needed to man our farms is steadily decreasing, the birth rate continues to be higher in the country than in the city.

Birth rate and education

The farm rears and educates a substantial part of future city population, while the city escapes this much of the burden. The result is either a greater expenditure on the farm for child rearing and education, or a lower level of living and education.

Birth rate and debt

The higher farm birth rate also tends to increase farm debt. Land, machinery, and livestock accumulated by one generation normally passes on to the next generation but, if there are too many heirs to stay on the farm, the heir who does stay must buy out the others. This he can do only by debt to be amortized out of future earnings. If the farm is already mortgaged, this debt must also be assumed. The situation may be further complicated by inheritance taxes, probate fees, funeral and hospital expenses, etc., etc. Many a good farm boy has gone broke trying to buy out the other heirs, even though the father left a fine farm free of debt.

Active farmers of today must buy out city-bound heirs, as well as city-bound owners of *too small* farms. And in addition, constantly increase their investment in machinery, buildings, and livestock. A farmer must, therefore, increase his net worth substantially and must do it during his period of active life.

This problem of a high farm birth rate is not confined to the United States. In many parts of Europe, especially in southern Europe, the surplus population largely remains on the farm. The farms are divided each generation until there is nothing worthwhile for anyone. With a minimum of fertilizer and equipment, production is low and the nonfarm population has to import much of its food supply at high prices.

Summary

• Our farm production has tended to exceed demand for 45 years—in spite of a rapidly increasing population. With modern science and machinery our farmers can, and would like to, produce far more than they ever have.

• The city consumer needs an adequate supply of good food at prices consistent with efficient production methods, and a farm economy that is financially sound.

• Americans generally do not eat more food when prices are lowered, but do shift from one food to another when relative prices change. Improved nutrition would increase consumption of some foods but decrease consumption of others so total consumption would not change materially.

• Federal legislation seems necessary to bring about participation of all farmers in any form of production control. Programs designed to improve markets, increase exports, and increase consumption, have tended to reduce but not eliminate the surplus. Programs designed to limit production are unpopular, but our legislators have so far been unable to devise anything better.

• *Parity,* a legal term, is a relationship between farm and nonfarm prices. Congress established parity as being fair to both consumers and producers and, therefore, a reasonable yardstick for farm price legislation.

• *Price supports* transfer the financial burden of surpluses from the farmers to the government but, by themselves, tend to increase rather than decrease surpluses.

• Improved farm machinery increases the amount of land one man can farm. The farm that kept one man busy yesterday may not be large enough to keep him busy today. Farm people are reluctant to leave the farm. While the movement from country to city has been large, it has apparently been less than economic conditions warrant.

• The relatively high rural birth rate forces farmers to rear and educate many children who must go to the city for work, or to divide farms into too small units, or to make rather large investment outlays.

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