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THE FARM POLICY DEBATE: DISCUSSION*

Criticism comes quickly from those of us who are not burdened with the responsibility for public acts, pressed by a feverish immediacy, tyrannized by tight deadlines, or subject to unrelenting political attack. Nevertheless, and with all deference due Dr. Paarlberg, I am duty-bound to catalogue certain major shortcomings in the Administration's farm program:

1. At the outset, there was endorsement of an excessive parity standard, against which some modest achievements could register only as dismal failure. Little progress has been made toward formulating attainable goals appropriate to present-day farm conditions.

2. The dimensions of the surplus problem have been repeatedly underestimated. This has been reflected in overemphasis on gradualism, and in the promise of too much freedom to plant, too soon, and at too little price decline.

3. A policy commendable for having faced up to hard political and economic facts has yet suffered from a certain lack of candor. Transitory improvement in the current agricultural situation has too often been claimed as evidence of program success, until events proved otherwise. If the charge is now made, mistakenly, that the record 1959 corn crop is a consequence of lower price supports, the Administration must itself bear some of the responsibility for widespread misunderstanding of the relevant facts.

4. Positions taken up with conviction and held with firmness have on occasion become unduly rigid. Several important instances warrant mention. A policy taking the hard but virtuous road through short-run sacrifices toward long-run gains has lost possible support for lack of positive measures to ease transitional difficulties. Advocacy of a more rational price structure for farm commodities has sometimes seemed to imply that there is no separable income problem for commercial farmers. The goal of a liberal agricultural program might have been approached more quickly by measures less voluntary in their initial impact.

5. At the other extreme, too warm an endorsement has on occasion been given to expedients forced upon the Administration by hard political realities, even while important principles were being compromised.

* Comments on papers presented by the Honorable Don Paarlberg, Special Assistant to the President, and Professor Robert L. Clodius, University of Wisconsin, at a meeting of the American Farm Economic Association held in Washington, D.C., on December 29, 1959. All papers presented at the session, the sub-title of which was "The Administration's Position and an Independent View," will appear in a forthcoming issue of the *Journal of Farm Economics.*

6. The magnificent research resources of the United States Department of Agriculture have been called upon for far less than their optimum contribution to evaluation of past programs and appraisal of new proposals. Research efforts along just such lines were urged upon a conference of this Association by high authority in 1957.

To Dr. Paarlberg's experienced ear, these objections may suggest counsels of perfection and knowledge after the fact. That they add up to a troublesome list is itself a kind of virtue, for there has indeed been a sustained line of agricultural policy from which aberrations might be measured. And since the word "independent" appears in the sub-title of this session, I would call attention to the high caliber of independence required to defend the policy positions with which Paarlberg has been associated these past seven years. Let the academician always exercise equal courage when conflicting claims are made upon his scholarly conscience!

In turning to an instrumentality like tight production or marketing controls, we must make due allowance for the hearty enthusiasm of proponents, like Professors Clodius and Cochrane, as well as for the opposite biases of the excessively timid. The gap between speculative inference and substantiated fact is necessarily wide, and one reasonable man's "myth" is another's categorical imperative. It is certainly true that acreage restrictions and land retirement are ineffectual means of coping with surplus agricultural capacity when the modern alchemy can transmute minerals and steel into food and fiber. But marketing agreements have heretofore succeeded where the pattern of supply closely approximated conditions of natural monopoly, which is hardly the situation for major field crops. The sugar program is frequently cited as a prototype, but the market structure for sugar beets and cane is decidedly atypical. In particular, special relationships between individual growers and a limited number of processors make administration of market controls unusually easy.

Beyond this, it seems to me that on three fundamental points the Administration is clearly right and Clodius seriously in error. First, the economic logic of the present situation strongly argues for lower farm prices, not higher ones. The technological transformation of American agriculture, about which so much is written, surely implies a decline in the real costs of producing farm commodities. In longer historical perspective, recent cost reductions may well compare favorably with those resulting from the opening up of the prairies in the nineteenth century, and appropriate market prices could involve major shifts in the volume and composition of commercial exports. Thus far, we have largely denied ourselves the advantages of lower prices, but instead have permitted the gradual inflating of cost structures. While once there was concern over "capital rationing" in agriculture, we have of late encouraged excessive rates of capital investment. The legacy of unwarranted investment is of various undesirable sorts: the operator becomes committed to a higher level of cash expenditures in subsequent periods; computed depreciation charges rise, and subsequent estimates of net farm income are accordingly reduced; we can confidently expect future requests for Congress to insure a standard rate of return on imprudent investment; and, as agricultural-supply industries become attuned to higher rates of sales, problems of excess capacity spread out to other economic sectors. Greater mobility of labor will benefit agriculture little if overcompensated by capital inflow.

Second, reliance on market prices to induce needed adjustments does have genuine advantages over more direct, more coercive, controls. These advantages commend themselves to liberal and to conservative, to capitalist, communist, and Keynesian; rarely have they been expressed more forcefully than in Keynes's own *General Theory.* It is surely possible to make better operational use of the price mechanism without relying exclusively on the incomes generated by free-market prices. Unfortunately, short-run price protection is a typical response of public policy when market factors adversely affect particular commodities, farm as well as nonfarm. But agriculture has been plagued by commodity-itis in an especially virulent form. Artificially high prices mean high marginal incentives to produce, and to that extent are in direct conflict with efforts to restrain output or marketings.

Third, the Administration has properly argued that high price supports are not a satisfactory device for redistributing income to agriculture or within agriculture, and marketing controls are similarly defective. Such public subsidy or aid as is funneled to the farm sector needs to be granted according to a more rational principle than strict proportionality to volume of marketings.

While skepticism concerning Professor Clodius' proposal is accordingly justified, every serious effort to invent improved farm programs is much to be welcomed. In agriculture, and not in agriculture alone, changing circumstances and rapid advance in technology require major modifications in our key statisitcal indicators, in our preconceived ideas, and in our inherited institutions. Consider the statistical front first. The statutory parity ratio becomes seriously misleading as the number of farm people declines and agricultural efficiency rises. What significance should be given to a series on farm operators' net income when depreciation allowances approach 50 per cent of the net figure, asset values are at record levels, and off-farm sources of income become increasingly important? This commingling of farm and nonfarm activities even complicates the definition of a farm as a distinctive occupational or residential category, at the same time that city and countryside become more alike in production skills, amenities of household operation, and basic cultural environment.

The policy implications of one statistical series are especially interesting, that on net outmigration from agriculture. The cumulative total since 1935 is roughly equal to the number of persons remaining in agriculture. Low-income folk from the South have contributed heavily to the outmigration figures. In decades past, that particular group served to artificially depress national estimates of farm income per capita, a statistic of which much political capital was made. Ironically, the numerical decline of more recent date for this same population group now biases the per-capita averages in the opposite direction. Meanwhile expensive programs for farm commodities, justified in the name of agricultural disadvantage or poverty, have diverted public funds and energies from serious social problems in the major metropolitan centers to which millions of these very farm people have in fact been drawn.

Farm policy in the more limited sense can benefit from a sharp distinction between measures that regulate productive capacity and those that support operators' income. Confusion between these two objectives is at the root of much of our present difficulty. We are in need of income programs that face up to the realities of present-day agriculture. The high productivity of some cheap inputs and the further technological improvements that are in clear prospect must affect market prices sooner or later. We are entitled to look with suspicion upon any devices that make continued output of unneeded crops a condition of receiving public funds, or that keep the grower completely insulated from the low returns realized through surplus disposal. With production expenses absorbing so large a proportion of total receipts, overt transfer payments become an increasingly attractive alternative. By shifting the emphasis to net income of individual farm operators, we can take proper account of the particular contribution that off-farm earnings make to the well-being of low-income farmers, and we can specify an appropriate ceiling on the size of individual income that is of direct public concern. Social ingenuity can surely devise programs that provide solid benefits for farm people while avoiding the familiar pitfalls of commodity parity.