Chapter 5

Progress and Problems in Agriculture

AGRICULTURE is one of the most progressive segments of the American economy. Productivity has grown faster there than in any other major economic sector. U.S. agricultural abundance is the envy of the world. Yet incomes of most farm families continue to fall short of those earned in other occupations. And agricultural employment is steadily declining. This paradox is a perennial source of confusion and protest.

For many years our commercial farms have had a total capacity to produce far in excess of the ability of our markets to absorb at reasonable prices. The causes of this are not hard to understand. As incomes have expanded, an ever smaller fraction of them has been used to buy the products of our farms. Over the past 50 years, disposable real income per capita in the American economy has nearly doubled; per capita consumption of farm products has risen by only 17 percent. As we become more affluent, we eat better and dress better. But most of our additional income goes for other goods and services that require little or no input from farms. Because the "income elasticity" of demand for farm products is low, the fraction of the labor force engaged in agriculture would be expected to decline as total incomes rise.

This relative decline in the need for farmers' services has been greatly intensified by another essential fact: the productivity of farm workers has been increasing much more rapidly than productivity in the economy generally. Because of the slow growth of demand and the rapid increase in productivity, there has been a persistent tendency for farm products to be overproduced, depressing farm prices. But the "price elasticity" of demand is likewise low: lower market prices do not result in greatly increased consumption of most farm products in the U.S. market.

Exactly 50 years ago, the American farm population reached its peak—32.5 million people—32 percent of the total population. One American farm worker produced sufficient food and fiber to supply himself and 7 other people. Today, farm people total less than 13 million and make up 6.4 percent of the population. Each farm worker produces enough food and fiber to meet the needs of more than 33 persons.

The steady and rapid decline in the demand for farm labor and the natural increase of the farm population have meant that agriculture is rapidly expelling a sizable fraction of its actual and potential workers.

Since 1940, 25 million people—on the average, 1 million a year—have left the farm. Although the vast migration from farm to nonfarm occupations and from rural to urban areas proves that mobility is high, the outward movement has never been fast enough to improve significantly the economic position of farm labor relative to labor in the nonfarm economy. Despite programs designed to minimize the income gap, farm incomes historically have been depressed relative to incomes elsewhere.

Today, incomes of many farm families are low, particularly incomes of those who live on small inefficient farms and who have been unable to adapt to modern agricultural technology. However, a substantial number of farmers who have successfully adapted and who produce the bulk of our food and fiber are realizing incomes nearly equal to what their resources could earn off the farm.

For many low-income persons, a move to nonfarm occupations is not possible. Some farm residents are too old, do not have or cannot acquire the necessary skills, or simply lack the resources needed to finance a change. Consequently, the least mobile portion of the farm labor force remains stranded in eddies of rural unemployment or underemployment—on small farms, or in barely remunerative rural nonfarm occupations. Poverty is one of rural life's most urgent yet neglected problems. And some of those who do move to cities in hope for a better life often find themselves ill equipped for the jobs that are available and socially unable to adjust to the ways of urban life.

Farm people who are able to migrate successfully usually earn more than they could in farming. Those who remain are helped as well, since the transfer of labor out of agriculture reduces the excess resources which hold down average farm incomes.

These few basic considerations oversimplify the complex factors at work in U.S. agriculture and the difficult issues involved in framing agricultural policy. Some of these issues and complexities are discussed in the sections which follow: the changing importance of labor, land, and purchased inputs in farming; the potentially vast but uncertain world market for our farm products; the increasingly separate problems of commercial agriculture and of rural poverty; and the various public policy approaches for dealing with these problems.

COMMERCIAL AGRICULTURE IN THE 1960'S

Midway through the 1960's commercial agriculture is a highly efficient, competitive industry adjusting to market forces and a rapidly changing technology. Labor and, to a lesser extent, land are being replaced by such other inputs as fertilizers, insecticides, machinery, and equipment. Bigger and faster machines enable the individual farmer to operate on a larger scale. Thus commercial farms are becoming fewer in number and larger in size.

Between 1950 and 1965, farm output increased by 35 percent while the quantity of total inputs rose by only 3 percent. Output would have risen more if there had not been production control programs. The production gains were achieved with 11 percent less cropland and 45 percent fewer man-hours than in 1950. But the use of fertilizer more than doubled, and somewhat more mechanical power was employed. Today, 56 million acres of cropland are withheld from production through Government programs—about one-sixth of the crop acreage in the United States.

Productivity per acre has grown rapidly. Crop production per acre in 1965 was 18 percent greater than the 1959–61 average. Wheat yields rose by 12 percent, cotton 19 percent, and corn 29 percent. Increases in yields will continue as farmers adopt the new technology constantly being devised by university and Department of Agriculture scientists, agricultural chemical companies, and machinery manufacturers.

STRUCTURAL CHANGES

The economic development of U.S. agriculture is producing two distinct sectors—one expanding and one contracting—within the farm economy.

The contracting sector, presently comprised of about 2 million farms with gross annual sales of less than $10,000, is characterized by a rapidly declining number of farms. It has been the source of much of the labor flow from agriculture. The decrease in the total number of farms between 1960 and 1965 is estimated at 573,000—with most of this decline resulting from a decrease in the number of full-time farms with annual sales of less than $5,000. Many of these small units disappeared through consolidation with other farms; some grew in size and entered agriculture's expanding sector. This trend of declining numbers of small farms is expected to continue.

The expanding sector, made up of farms with annual gross sales in excess of $10,000, is growing rapidly. Many of the farmers in this sector are realizing returns nearly comparable with what their resources could earn in nonfarm occupations. During 1960–65, the number of farms in this sector increased by one-fifth, to slightly more than 1 million, or 31 percent of all farms; the share of farm marketings provided by these farms rose from 73 percent of the total to an estimated 83 percent. Yet the farms in the expanding sector typically remain family enterprises: the percentage of family farms (farms with families as risk-taking managers and using less than 1.5 man-years of hired labor) has not changed since 1960.

Adjustments in agriculture's expanding sector have required greatly increased amounts of financial capital. Total farm indebtedness has increased more than 50 percent since 1960, largely in the form of higher farm real estate debt. Rapid farm consolidation has required additional real estate credit as well as shorter term credit for equipment and working capital. Active bidding for available farm land has helped to raise agricultural land values by 6 percent during the past year. The average value of real estate per farm now exceeds $50,000. Increased land values permitted farm proprietors' equities to grow to record levels in 1965. Although the increasing ratio of farm debt to total farm assets and incomes is evoking some concern, foreclosure rates remain very low.

FARM INCOME

Gross farm income, including marketing receipts, Government payments, and nonmoney income from farms, has risen steadily since 1960. Gross income in 1965 totaled $44.4 billion, an increase of more than 5 percent from 1964 and 17 percent from 1960. Total marketing receipts in 1965 rose sharply above those in 1964, largely as a result of higher prices for meat animals. Receipts from crops increased moderately, reflecting higher prices and larger marketings of vegetables and oil crops. Direct Government payments to farmers are estimated to have been $250 million more than the $2.2 billion paid in 1964.

Realized net farm income (excluding net inventory change) in 1965 is estimated at $14.1 billion, nearly 9 percent above 1964 and the highest since 1952. On a per farm basis, operators' realized net income in 1965 reached a record $4,175, a 12 percent increase over 1964 and 41 percent higher than in 1960.

The 1966 prospect for commercial agriculture appears favorable, owing in large part to continued prosperity in the nonfarm sector. Rising levels of income at home and abroad will strengthen the demand for many farm products. The Food and Agriculture Act of 1965 will provide some income gains to farmers. Net farm income is expected to rise moderately. Much of this gain will accrue to the 1 million farms in agriculture's expanding sector.

POVERTY IN AGRICULTURE

Even in a prosperous economy, many rural people are unable to earn a satisfactory living in agriculture. Estimates based on the 1960 Population Census indicate that 4.9 million farm people in 1959 were living in poverty, as defined by the Social Security Administration's poverty-income standard. Many of these were families living on low-production farms, seriously undercapitalized in equipment and livestock. Today, nearly all families operating full-time farms with gross sales of less than $2,500 a year fall into this classification; many of those with annual sales of between $2,500 and $5,000 are also poor. Families on most of these farms derive relatively little benefit from Government price and income support programs.

Underemployment is the common malady of the farm poor. Their hope for a more adequate income lies in their ability to obtain work off the farm. For some, this requires migration to localities where nonfarm jobs are available. For many, it means occupational migration—remaining on the land but earning a livelihood from some occupation other than farming.

But others, for health, age, or financial reasons, may find neither type of migration possible. These persons constitute the "hard core" of rural poverty. Their problems are the most intractable of all.

Both occupational and geographic migration have been occurring at a rapid pace in recent years. Net migration from farms during the early 1960's is estimated at 816,000 people annually. Preliminary data from the 1964 Census of Agriculture indicate that much of this movement occurred in the Mississippi Delta and other areas of the South.

Included in this migration have been large numbers of Negro farm families—a group with a particularly high incidence of poverty. Between 1960 and 1964, the numbers of nonwhites on farms decreased by 35 percent whereas the white farm population fell by 14 percent. Nonwhites account for one-third of the total decline in the farm population since 1960.

Although the number of farm people in poverty has declined substantially in recent years, this has resulted more from outmigration than from an improvement in the earnings of low-income farmers. Some of those who give up farming earn more adequate incomes in their new jobs and thus escape poverty. Those less fortunate in their search for other employment may drop out of farm poverty only to find themselves among the nonfarm poor.

Prosperous conditions in the nonfarm economy have aided many of the farm poor by facilitating their transfer to higher paying jobs outside of agriculture. Government programs emphasizing education and regional economic growth will also assist rural low-income people. The Manpower Development and Training programs are providing some persons with the skills necessary to compete effectively for nonfarm jobs. During the summer of 1965, 156,000 rural children participated in Project Head Start. The Economic Opportunity Act of 1964 provides health facilities, day camps, and special education programs for children of migrant workers. Education in rural areas will be improved through the Elementary and Secondary Education Act of 1965 which allocates Federal funds to school districts with heavy concentrations of children from low-income families. The Public Works and Economic Development Act of 1965 authorizes funds for regional economic development programs in low-income areas. The Department of Agriculture's newly established Rural Community Development Service will facilitate the extension to rural areas of services provided by Government programs.

But the remaining tasks are great. In 1964, the incidence of poverty among farm households was 30 percent, compared with 19 percent for nonfarm families. Money income that year for poor farm households averaged $954; income for other farm households averaged $5,671.

Farm poverty exists in many rural areas of the United States but is particularly prevalent in the South and in Appalachia. Scattered but significant farm poverty persists in the Ozark region and some areas of the Southwest and Northwest. Migrant and other hired farm workers continue to be among the most disadvantaged people in America. National prosperity scarcely touches the lives of these individuals.

THE EXPORT MARKET

The export market for U.S. farm products has grown rapidly in recent years. Strong foreign demand and measures to assist some exports have raised the value of total farm exports by more than 35 percent since fiscal 1960. In fiscal 1965, agricultural exports accounted for 17 percent of the cash receipts from farm marketings; in recent years, the foreign market has taken two-thirds of our total annual wheat production, nearly two-thirds of rice, almost one-half of soybeans, one-third of cotton, and nearly one-fourth of tobacco.

Between 1959–61 and 1965, feed grain exports rose by 56 percent; soybean exports increased by 66 percent. Today, the United States provides nearly half of all feed grains moving in world trade. In 1965, shipments of soybean meal, a component in animal feeds, were more than three times those in 1959–61. The large gains in these exports reflect the growing affluence of the developed world and the increased preference by consumers for the better foods derived from these products—cooking and table fats, poultry, eggs, dairy products, and meats. If access to the markets of the developed countries can be maintained, the United States will continue to be an important supplier of these products.

Exports of wheat and tobacco have grown much less rapidly than shipments of feed grains and soybeans; and cotton exports have fluctuated sharply in recent years. Export competition in these products is likely to increase in the future. Greater competition in the world wheat market may come from traditional wheat exporters; and larger supplies may be expected from Western Europe. Several developing countries view cotton and tobacco exports as important sources of foreign exchange, and they may provide larger supplies to the world market. Increased competition from foreign producers of synthetic fibers may also restrict the growth of U.S. commercial cotton exports.

Most U.S. farm exports are sold commercially for dollars, although sales through special export programs at noncommercial terms are also very large. Concessional exports in 1964 through the Food for Peace program accounted for two-thirds of wheat exports, two-fifths of milled rice shipments, and about one-fifth of cotton and edible vegetable oil exports. In fiscal 1965, the total value of farm exports was $6.1 billion, of which approximately 73 percent constituted dollar sales. Since 1959–61, dollar sales have risen by 47 percent and shipments through Food for Peace by 21 percent.

The dollar excess of agricultural exports over imports contributed $439 million to the U.S. trade balance in fiscal 1965. The local currencies generated by Food for Peace sales conserve dollars through their use in payment of some U.S. Government expenses abroad. Long-term dollar credit sales of Food for Peace shipments will generate exchange earnings in future years.

FARM COMMODITY STOCKS

Because of large export demands and recent modifications of domestic commodity programs, the size and composition of U.S. Government controlled stocks of farm products have undergone substantial change in recent years. The repository of these products accumulated under price support programs is the Commodity Credit Corporation (CCC). This agency acquires products during periods of excess supplies and adds to market supplies when demand warrants, thereby contributing to price stability at the farm and retail levels. Reserves held by the CCC have proven valuable in times of national and international emergency. But excessive stocks are burdensome to taxpayers and cause concern among our international trading partners.

Between June 30, 1960 and mid-1965, total CCC investment in farm products declined by approximately 13 percent (Table 21). Total investment in wheat and wheat products, rice, feed grains (corn, barley, grain sorghums, and oats), and peanuts declined by 41 percent. By mid-1965, carryover stocks of wheat were the smallest since 1953. Strong foreign demand, particularly from developing countries with food shortages, should lead to further reductions in grain inventories.

TABLE 21.—*Investment of Commodity Credit Corporation in commodities, fiscal years 1960–65*

[Millions of dollars]

Fiscal year	Total	Feed grains [1]	Wheat and products	Cotton [2]	Tobacco	Other commodities
1960	7,323	3,122	2,615	889	418	280
1961	7,039	3,360	2,707	352	388	232
1962	6,657	2,594	2,292	840	305	626
1963	7,257	2,450	2,329	1,470	437	570
1964	7,098	2,489	1,798	1,750	667	394
1965	6,387	1,968	1,433	1,898	826	261

[1] Includes corn, barley, grain sorghums, and oats.
[2] Includes upland and long staple.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Department of Agriculture.

Stocks of cotton and tobacco have continued to grow. By mid-1965, Government held stocks of upland cotton totaled 11.9 million bales, valued at $1.86 billion—a supply adequate to meet domestic mill requirements for more than 15 months at 1964 consumption rates. A further increase of 2 million bales is expected by August 1966. Government held stocks of tobacco have more than doubled since 1962. Clearly, stocks of these commodities are excessive. The prospect for reducing them rests on the 1965 cotton and tobacco legislation which is designed to lower production and raise total consumption.

FARM POLICY IN THE 1960'S

The dominant problem in agriculture, as manifested by a long history of farm legislation, is that average farm income is low relative to incomes in the rest of the economy. The income problem exists primarily because the capacity to produce has grown more rapidly than consumption. Under present demand conditions, too many resources are committed to farm production in the United States.

One set of policies has approached this problem from the supply side—by attempting to reduce the resources used in production through various controls and land retirement programs. Other measures have been designed to expand domestic and foreign demand for American farm products. Few of the programs of the past three decades have been unqualified successes. Many have produced income benefits; all have provided experience useful in improving old policy tools and forging new ones.

THE FOOD AND AGRICULTURE ACT OF 1965

The Food and Agriculture Act of 1965 is based upon experience gained from these policies of the past. It recognizes the national goals of a prosperous, efficient agriculture and of abundant, moderately priced food for consumers. It reflects the fact that agriculture must export to remain prosperous and therefore that American farm products must remain competitive on world markets. It recognizes the increasing productivity of American agriculture and the need to withdraw excess resources from production in order to balance supply and demand at reasonable prices. Yet it provides flexibility to meet present and future needs for food and fiber.

The legislation deals with the problem of excess supplies in agriculture and the need to divert some farmland from crop production. Through the Cropland Adjustment Program, up to 40 million acres of farmland can be shifted from crop production to other uses. The land adjustment contracts, running for a period of up to 10 years, promise to move land out of production at less Government cost than would be required under annual diversion programs. The Program will also help to meet the rapidly growing demand for land for recreational and conservation uses.

The 1965 agricultural legislation continues the trend of American farm policy toward lower price supports and a modified system of direct payments to producers. Direct payments, for several years a part of domestic wool and sugar programs, have only recently been applied to major farm commodities. In 1961, a modified version of this principle, together with low price supports and land diversion payments, was implemented for feed grains. Later, it was applied to wheat; the 1965 legislation applies it to cotton.

This approach separates to a substantial degree the price mechanism from the income support operation. Price supports are set at low levels, and producers' incomes from the market are supplemented by direct Government payments. Consumers enjoy favorable food and fiber prices, producers realize adequate incomes, and exporters can compete more effectively in the world market.

The principle of direct payments is illustrated by the cotton provisions of the Food and Agriculture Act. For the 1966 crop, the average cotton support price to producers will be set at 21 cents a pound, compared with 29 cents in 1965. Producers who participate in the program and divert some land from cotton production to soil conserving uses will receive a direct payment of approximately 9½ cents a pound on that part of their production used domestically. This lower support rate will permit cotton to move abroad without the export subsidy required in previous years—equal to 5.75 cents a pound for the 1965 crop. Domestic mills will also be able to purchase cotton at lower prices. Larger total consumption of American cotton should result.

The Act gives the Secretary of Agriculture important new flexibility in the administration of commodity programs. This will assure that the programs can be adapted to changing production and market conditions.

NATIONAL COMMISSION ON FOOD AND FIBER

Existing agricultural programs do not end the search for sound farm policy, but provide a good base upon which to build. This search will be carried on aggressively within the Government and by the President's newly established 30-member National Advisory Commission on Food and Fiber. The Commission is to make a penetrating and comprehensive study of agricultural and related foreign trade policies of the United States. This review will consider consumer interests, the welfare of agricultural suppliers, producers and processors, and the national interest. It is expected that the recommendations of this group will move American agricultural policy further toward the objectives of abundant farm products at reasonable prices, parity of opportunity for farm people, and efficient use of our agricultural resources.