AN ADAPTIVE PROGRAM FOR AGRICULTURE

A STATEMENT ON NATIONAL POLICY BY THE RESEARCH AND POLICY COMMITTEE OF THE COMMITTEE FOR ECONOMIC DEVELOPMENT

Library of Congress Catalog Card No. 62-191-45
Design: Harry Carter
Printed in U.S.A.
Committee for Economic Development
477 Madison Avenue, New York, N.Y. 10022
First printing: July 1962
Second printing: October 1962
Third printing: November 1963
Fourth printing: October 1965
Fifth printing: November 1968
Single Copy: $1.00

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An Adaptive Program for Agriculture

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INTRODUCTION

by T. O. Yntema
Chairman, Research & Policy Committee

Rapid technological advances, and increasing capital investment, have made it possible for fewer and fewer American farmers to supply the food and fiber needs of larger and larger numbers of people. American farmers have shown great initiative and competence in responding to the opportunity thus created. They have taken up the latest production methods with a speed that amazes the administrators of agriculture in planned economies.

Net migration out of agriculture has been going on for 40 years, and at a rapid rate. Nevertheless, the movement of people from agriculture has not been fast enough to take full advantage of the opportunity that improving farm technology and increasing capital create for raising the living standards of the American people, including, of course, farmers. Costs of movement, lack of knowledge of nonfarm job opportunities, lack of training for nonfarrn work, in some periods inadequate nonfarm job opportunities, and other obstacles, have stood in the way of an adequate rate of movement out of agriculture. National agricultural policy has not focussed on removing these obstacles, but has tended itself to deter the outmovement by concealing the necessity for it.

Our purpose in this policy statement is to suggest a program that will assist farmers in making the adaptation they have been making. We hope thereby to enable farmers, both those leaving agriculture and those remaining in it, to earn higher incomes.

This is the fourth statement on American agriculture by the Research and Policy Committee of CED. The use of too many resources in agriculture, the unsatisfactory income of many farmers, the excessive government expenditures and the network of government controls that result from failure to solve the farm problem would by themselves explain our continuing interest in this subject. But we see in it something more. We see in it an example both of the costs and dangers of departing from the free market and of the positive measures needed to make the free market work well and to regain it once it has been lost. The important lessons of agriculture are that the free market is precious and that its preservation requires positive action. These lessons apply far beyond agriculture.

The Research and Policy Committee is indebted to its Agriculture Subcommittee, of which Mr. W. Harold Brenton is Chairman, for preparing a draft that approached the farm problem in a fundamental and constructive way. The Subcommittee and the Research and Policy Committee had the advice of four experts: Professor Dale Hathaway, Michigan State University, who coordinated the research; Professor Henry B. Arthur, Harvard Graduate School of Business Administration; Professor Richard B. Heflebower, Northwestern University; and Professor Theodore W. Schultz, University of Chicago. We are grateful to them.

Three studies written as background for our work will be published shortly as a Supplementary Paper of CED. They are:

- Karl A. Fox—*Commercial Agriculture: Perspectives and Prospects*
- Vernon W. Ruttan—*The Human Resource Problem in American Agriculture*

- Lawrence Witt—*Potentials of New Markets for Agricultural Production*.

An Adaptive Program for Agriculture

I. THREE POSSIBLE APPROACHES
to the problem of agriculture

The problem of agriculture is not unique. It is the leading case in a large class of problems. Other problems in this class include the industry in which workers are being rapidly displaced by technological changes; the industry experiencing increased competition from imports; and the area depressed by the exhaustion of some natural resource.

> The common characteristic shared by these problems is that, as a result of changes in the economy, the labor and capital employed in the industry cannot all continue to earn, by producing goods for sale in a free market, as much income as they formerly earned, or as much as they could earn if employed in some other use; that is — ***the industry is using too many resources.****

*** MEMORANDUM OF COMMENT, RESERVATION OR DISSENT**

*****By FRED C. FOY: "I agree with all of this paragraph except the italicized statement. It is true that in some industries or areas of the economy labor and capital cannot earn as much income as they could if employed in some other use, but who is CED to say that in this situation "too many resources" are being used. In a free economy the owner of the labor or capital must be free to decide how he wishes to use them. It will always be true that some capital will earn less than others in the market place, but their earning less does not necessarily mean that they are being wasted or should be withdrawn."

Agriculture is the largest problem in this class, as measured by the number of people involved. It is also the case in which we have the longest experience with a variety of attempts to find a solution. This experience, if properly interpreted, holds valuable lessons for dealing with other similar problems.

There are three general kinds of policy possible in the kind of situation we have described.

The Laissez-Faire Approach

If nothing is done to prevent it, the incomes of labor or capital or, usually, both in the affected industry or area will decline, at least relatively to incomes earned by similar resources elsewhere, and often absolutely. This will deter the flow of new labor and capital into the industry or area. Some of the resources engaged there will not be replaced when they are retired. Other resources engaged will move to other uses. The resources that move will raise their incomes, and the incomes of those that remain will be improved by the reduction of the resources still in the industry. This is the process upon which we normally rely for adjustment to economic change, and normally it works well. It works best — that is with the smallest and shortest decline in the incomes of resources in affected industries — when: (1) opportunities for employing labor and capital in the rest of the economy are numerous, (2) the shift of resources needed to restore incomes in the affected industry or area is relatively small, and (3) there is no serious obstacle to the movement of the resources involved. Where there is a substantial departure from these conditions it is necessary to consider other approaches.

The Protectionist Approach

This approach to the problems of an industry using too many resources attempts to sustain the incomes of persons attached to the affected industry, or area, even though the incomes they could earn by selling their product in a free market have declined. This approach usually requires government action. In some cases it can be followed by concerted action of the workers or businesses involved, although this in turn often depends upon government support or sanction. A variety of measures can be employed. For example, the government may purchase the product of the industry at prices above the free market. The government may limit the industry's production or sales in order to keep prices up. The government may, as in the marketing orders and agreements used for perishable farm products, try to support prices, and income of producers, by regulations aimed to secure "orderly marketing" of output. The government may attempt to sustain prices and income by limiting imports. The businesses and workers concerned may adopt rules limiting the introduction of new technology or holding hours of work artificially low. In particular areas the government may subsidize the continuation or introduction of industries that would be unprofitable without the subsidy. Whether such measures in fact help to sustain incomes depends upon circumstances that vary from case to case. But even where successful this approach sacrifices the basic national interest in efficiency and growth; it must be regarded as inferior to approaches that would reconcile this interest with the interests of the particular industries or areas affected. At its worst it can grossly distort the use of the nation's resources.

The Adaptive Approach

The adaptive approach utilizes positive government action to facilitate and promote the movement of labor and capital where they will be most productive and will earn the most income. Essentially this approach seeks to achieve what the laissez-faire approach would ordinarily expect to achieve, but to do it more quickly and with less deep and protracted loss of income to the persons involved than might result if no assistance were given. The adaptive approach requires improved knowledge of available employment opportunities, and measures to finance movement and retrain workers; that is, a generally improved labor market. It works best when there is a high rate of economic activity and employment.

The adaptive approach seeks to achieve adjustment to economic reality without imposing hardships, by means of programs that promote adjustment, but cushion the effects upon people and property.*****

*MEMORANDUM OF COMMENT, RESERVATION OR DISSENT

*****By ALLAN SPROUL, in which Messrs. EMILIO G. COLLADO, FRED C. FOY and THOMAS B. McCABE have asked to be associated: "What we are seeking is a return to economic reality without imposing unnecessary hardships upon particular people or property. Adjustments to the economic realities of a free market do impose hardships on some people some of the time. Attempts to protect everyone from hardship all of the time eventually throttle free markets."

Although the adaptive approach, like the protectionist approach, requires government action, the objectives of the government action are entirely different. The adaptive approach calls for action by government working with the free market, not against it. It seeks to achieve the results of the free market more quickly and easily, rather than to keep those results from occurring. The adaptive approach works by permitting full production, rather than by limiting production. And, government adaptive programs applied to particular industries can ordinarily be temporary, whereas protectionist government actions generate the need for their own indefinite continuance.

We seek solution of the agriculture problem in the adaptive approach

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II. LESSONS OF THE PROTECTIONIST APPROACH

Agricultural policy in the United States has predominantly followed the protectionist approach. The history of farm policy is largely a testament of the inadequacy of that approach and of the need for much greater emphasis on the adaptive approach. It is evident that protective measures can indeed cushion the decline of incomes that would otherwise occur. But it is also evident that such measures at best do nothing to assist, and are almost certain to retard, the adjustments that would enable persons in the industry to earn incomes equivalent to those prevailing in the economy generally by using equivalent resources of labor and capital. The dependence of the affected sector upon government policies for its income is perpetuated, and with it the burdens upon the rest of the economy. These burdens show up in high taxes, or high prices, or both. In fact, in a dynamic situation both the dependence and the burdens grow, as the industry gets increasingly out of adjustment Charts 1 and 2 illustrate this.

Chart 1 inserted here

The rest of the country becomes increasingly restive at the growing burden, continuation of the program becomes more and more uncertain, and standards of support are whittled away. The burdens on the rest of the community and the income loss to the affected industry, which is only cushioned, not eliminated, are reflections of a basic national waste. This waste results from the continued retention of labor and capital in industries and areas where they produce less of value than they could. The waste may be tangible and visible in huge stocks of commodities for which there is no use. It may be in a less visible form, as resources denied productive use. It may be still less visible in the form of commodities diverted into uses worth less than their cost. Whatever its visibility, the waste is present and is the root of the problem.

Chart 2 inserted here

These costs and evils of too much reliance on the protectionist approach are clear in the case of agriculture. We do not conclude from this experience that it would have been desirable in the past, or is desirable now, to rely exclusively upon laissez-faire.

We conclude that agricultural policy should in the past have put much more emphasis on the adaptive approach, and should do so now. We believe that if a small fraction of the money, effort and thought devoted to protecting agriculture in the past decade had been devoted to adapting agriculture, the nation would be at least in sight of a solution today. This is the main lesson that experience offers for the future of agricultural policy. And, it is not a lesson for agricultural policy alone. It is a lesson of broad applicability in an economy facing and seeking dynamic change.*****

***MEMORANDUM OF COMMENT, RESERVATION OR DISSENT**

*****By THOMAS D. CABOT, in which Messrs. EMILIO G. COLLADO, FRED C. FOY and J. CAMERON THOMSON have asked to be associated: "The adaptive approach is well suited for agriculture because of the size and obduracy of the problem, but this does not mean that a similar approach would necessarily be preferable for other depressed segments of the economy. Prescribing strong medication for a major ill does not indicate similar medication is advisable for a minor ill. Even if we are successful in devising a program which is a cure rather than a palliative, we may find it hard to discontinue the medicine. All government programs tend to be self-perpetuating because of the pressures from the personnel employed." It has been common for many years to say that although the agricultural programs were unsound they were politically impossible to change. We do not know if this was true in the past. But the fact today is that the programs are being changed and will be changed further. There is no longer a question whether we shall have a change. The question is what kind of a change. This is the question to which this statement is addressed.

III. ROOTS OF THE AMERICAN FARM PROBLEM

**are to be found in a combination of five conditions,
no one of which, alone, would have caused it**

Swiftly Rising Productivity

1. Total productivity has been growing very rapidly in agriculture.

The total amount of resources — land, labor and capital combined — required in agriculture to produce a given quantity of agricultural products has been falling rapidly. Chart 3 shows a 25 percent rise in farm productivity from 1950 to 1960. This indicates that total resources used declined by 20 percent, per unit of agricultural output. This resulted from large public and private outlays for research and education affecting agricultural equipment, materials and management, and quick adaptation of American farming to these improvements.

Chart 3 inserted here

Declining Use of Labor Relative to Capital

2. It has become efficient to use less labor, and more capital, in farming.

The amount of farm labor *[Here and elsewhere, "farm labor" refers to everyone working at farming, whether proprietors or hired workers]* required to produce a given amount of agricultural product has declined relatively more than the total amount of resources required. The character of technological change has been such as to make substitution of capital for labor efficient. The increase in the cost of labor relative to capital has also worked in that direction. While total resources used in agriculture per unit of agricultural output declined 20 percent from 1950 to 1960, farm labor used per unit of output declined 45 percent. (The use of nonfarm labor —and capital — as an adjunct of farm production also rose sharply. An instance is the use of industrially produced fertilizers and other chemicals.) It would have been even more efficient to have used still less farm labor.

Chart 4 inserted here

The Slow Growth of Demand for Farm Goods

3. The total demand for agricultural products has grown slowly, and this is typical.

In the aggregate, the quantity of agricultural products that can be sold at unchanged prices does not rise much from year to year. The American people are at a level of diet where they wish to spend only a very small percentage of any increase in their per capita incomes on increasing their food consumption. In a lesser degree this is true of textile consumption (where the growth of demand for farm-produced fibers has been further slowed by the increased use of synthetics). Thus, although there are differences from one product to another, aggregate consumer expenditure for agricultural products grows only a little more rapidly than population. (See Chart 5) Foreign markets are also important for agriculture, but contribute little to the rate of growth of demand, for two main reasons. One, in the underdeveloped countries dietary levels are low and population is growing rapidly, but these countries can spare little of their income for buying imported food. Two, the countries of Western Europe have rising incomes, but also rising productivity in their own agriculture and most of them have tight restrictions on imports of farm goods.

Chart 5 inserted here

The Low Responsiveness of Demand to Price Changes

4. A relatively large decline in prices of our farm products brings about only a small increase in consumption of them.

Foods are not close substitutes for other objects of consumer expenditure, so that a decline in the price of foods does not cause people to shift from buying other things to buying foods. But since food is a large item in most people's budgets, a decline in the price of the food they have been buying does have a considerable effect on their ability to buy either more food or more of other things. For reasons mentioned above, they will spend relatively little of the saving on more food. Numerous studies show that to induce an increase in consumption of farm products as a whole by 1 percent, other things being equal, requires a price decline of about 5 percent, although consumption of particular farm products is more responsive to changes in their prices.

Rapid growth of farm productivity, and the slowness of growth of overall demand for farm products, together, means that if the resources being used in agriculture are unchanged, their product can only be sold at declining prices. The large decline in prices of farm goods needed to increase consumption substantially means that income per unit of resources used to produce the goods will fall. Income per unit of resources in agriculture can be maintained only if the amount of resources being used is reduced. And, since it has become efficient to use less labor and more capital in farming, this reduction of resources would have to be largely, perhaps exclusively, a reduction in the labor used.

The Inadequate Flow of Resources Out of Farming

5. Resources, most importantly labor, do not flow freely out of agriculture at the rate necessary to avoid falling incomes.

The point here is not primarily that resources flow out of agriculture less easily than out of other industries, although this is probably true, but that the outflow of resources required from agriculture has been extraordinarily large relative to the resources engaged.

The resources engaged in any industry, or on the margin of entering it, are of different degrees of mobility. If we look at labor, which is the main case, we see that some workers are better informed about alternative opportunities than others, some are geographically closer to the alternatives than others, some are more adaptable by training or temperament, some are of an age or family status that makes moving easier, some are better able to finance the costs of moving, and so on. A relatively small reduction in the labor force attached to an industry will come about through the movement of the most mobile people, or simply by failure to replace people who would have moved or retired anyway. But where the reduction required is large it will depend upon the movement of fairly immobile people and is unlikely to take place rapidly enough.

Although the exodus from agriculture in the past decade or longer has been large by almost any standards (see Chart 6), it has not been large enough. Two important special factors, in addition to the large scale of the movement required, should be mentioned in explanation. First, the need for movement has been disguised by temporary upsurges of demand for agricultural products, during World War II and the Korean War, and by the price-supporting programs of the government. Second, the excessively high level of urban unemployment in the four years 1958-61 tended to keep the movement of labor out of agriculture less than it should have been.

Chart 6 inserted here

The combination of these five conditions has resulted in a persistent excess of resources, particularly labor, in agriculture over the quantities that could have earned, by sale of their product in free markets, incomes equivalent to what similar resources could have earned in other uses. This has caused, and has been revealed by, a persistent tendency for agricultural incomes to be lower than other incomes, and to decline relative to nonfarm incomes despite large public expenditures for the support of farm incomes.

IV. THE MEASURES TAKEN TO DEAL WITH THE FARM PROBLEM

have their roots in the exceptionally low demand and low income of the 1930s and in the exceptionally high demand and high income of World War II years.

The problem of agriculture we have been describing dates back at least in some degree to the 1920s. This problem became merged in the 1930s with the problem of the effect upon American agriculture of a massive world-wide depression. In the critical situation thus created, the government initiated a variety of strong measures to support agricultural prices and incomes, the most durable of which was government purchase of agricultural products at prices above the free market levels. The rationale provided for these programs was a mixture of depression circumstances and longer-run characteristics of agriculture. However, these programs could be described as depression-oriented in two senses. First, with nonfarm unemployment extremely large and pervasive, efforts to move resources out of agriculture could not have been successful. Second, there was a reasonab]e prospect that when prosperity was regained the market would yield farm prices and incomes above the support levels and agriculture would float free of the support levels.

In fact, during World War II agricultural prices did rise above the support levels. The excess stocks accumulated in government hands under the programs of the 1930s were used up. Farm incomes were at a high level.

This condition persisted for about two years after the war while European agricultural production was low and relief and reconstruction needs were high. But in 1947 the situation changed radically, as had been clearly foreseen. (*See Agriculture in an Expanding Economy. A Statement on National Policy* by the Research and Policy Committee. Committee for Economic Development, 1945.)

The agricultural resources that had met wartime demands could produce much more than could be sold at the existing prices. Farm prices and incomes began to decline in 1948.

Although this decline began from high levels it was believed that if nothing were done the decline might proceed very far. Some increase of demand could be expected as population and income increased, but this would not cut much into the excess of resources engaged, as productivity was also rising.

In these circumstances a fundamental decision was made to support prices of certain farm products — the most important being corn, wheat, rice, cotton, tobacco, peanuts and dairy products 3333— above the prices at which farm products would have sold in free markets. This was to be done by government purchase of the quantities that could not be sold in private channels at the support prices. This has been the main ingredient of farm policy in the postwar period. Under this program annual Federal expenditures for farm price and income support rose from about $1 billion in 1948 to over $5 billion in 1961. By 1961 the government had accumulated stocks of farm commodities for which it had paid $9 billion. By 1962 the costs of keeping the stocks in storage were running around $ 1 billion a year.

Chart 7 inserted here

Several changes were made in the basic program in an effort to check the rise of costs and stocks. The most important of these were:

1. Gradual reduction of price support levels.
2. Limitation of the acreage that could be planted to particular crops.
3. Withdrawal of some land from cultivation through government rental.
4. Subsidized export of some commodities, including extensive use of farm products in foreign development assistance.

None of these measures has been carried so far as to change the basic character of the program. The reduction of price support levels from 1953-54 through 1960 (see Chart 8) was so gradual it hardly narrowed the gap — except for corn and dairy products — between the support levels and the prices at which the product could be sold. Market prices were declining as productivity rose. (In 1961 support levels were raised.) Acreage removed from use in particular crops was diverted to other competitive crops. The rental of land was on too small a scale to make much difference and was carried on in a way that encouraged more intensive use of the land remaining in cultivation. The export subsidy program did help significantly to slow down the growth of stocks, but it did little to relieve the American taxpayer, especially since a large part of the exports was in effect given away.

Chart 8 inserted here

V. CONSEQUENCES OF THE POLICIES FOLLOWED SINCE 1947

are summarized briefly here.

1. Farm policy may have moderated the decline in farm incomes, per person engaged in agriculture, that would have occurred if there had been no farm program after 1947, but it

has not prevented a growing gap between farm and nonfarm earnings. In addition, it has left many farmers in a situation where withdrawal of government programs would cause a sharp drop in their incomes.

2. The program has not helped most the farmers who were most in need of help. Since the attempt to support farm income has been made by way of supporting the prices of key farm goods, farmers who market the most get the most out of the support program. Smaller farmers, who market less, do not receive large amounts from the price-income support programs.

3. The support of prices has deterred the movement of resources out of agriculture. It has given farmers erroneous expectations of the earnings their labor might yield in agriculture in the future. The high support prices, plus the technological change increasing the amount of land a farmer could efficiently work, have raised land prices and misled the farmer about the income he was actually earning. These same factors, plus the financial capacity created by the higher land values, have encouraged the investment of capital in agriculture.

4. Other aspects of farm policy have done too little to bring about the withdrawal of resources from agriculture. Little of the considerable withdrawal of resources that has occurred was the result of policy.

5. Controls have diverted some land from its most economic use to less economic uses, tending to reduce efficiency in agriculture.

6. Taxpayers have borne a heavy burden which, given the character of the Federal tax system, has impeded the growth of the economy generally. In recent years Federal outlays simply for carrying accumulations of surpluses have come to about $1 billion annually.

7. The negotiating position of the United States in bargaining for freer access for American agricultural products to European markets has been impaired by the fact that the United States was subsidizing its own exports and imposing quotas to protect high domestic prices.

8. Underdeveloped countries have received more assistance from the United States in the form of more agricultural commodities than they would otherwise have received. But without these programs, and the burdens they imposed on the American taxpayer, they might have received other assistance more valuable to them and less costly to us.

9. Some segments of agriculture have been subjected to controls on their freedom of action.

VI. THE CHOICES BEFORE US:

(a) leakproof control of farm production, or (b) a program, such as we are recommending here, to induce excess resources (people primarily) to move rapidly out of agriculture.

The preceding summary of consequences shows that the agricultural policies of the past should not be continued. Recognition of this has been growing and is now widespread. The proliferation of suggestions for new programs is evidence of this. While the suggestions are endlessly varied and complex, we believe that real alternatives to the course we have been following fall into two general categories.

ONE ALTERNATIVE is a stringent, leak-proof control of production, so that farmers will get higher prices for a smaller volume of sales. Whether this could be effective without policing measures that would be intolerable in America is uncertain. Such a program would change the form of the burden on the nonfarm community from high taxes to high prices. It would change the evidence of waste from mounting stocks of surplus products to idle land, labor and capital, withheld from farm use and not channeled to other uses. All other consequences of the program would be essentially the same as those of the past policy.

THE OTHER—adaptive—alternative is a program to permit and induce a large, rapid movement of resources, noteably labor, out of agriculture. This is the program we recommend. In our opinion, it is the only approach that offers a solution from the standpoint either of the agricultural community or of the non-agricultural community.

We describe such a program in the rest of this statement. There are however two points of great importance that should be made here.

First, if we choose the adaptive course recommended here, we must pursue it in a large scale, vigorous, thorough-going way.

Small steps will not do. We are dealing with a big and difficult problem. We are proposing an alternative to programs that now cost $6 billion a year and involve massive government interference in the free economy. The alternative we offer will cost very much less after a short period. It will change government's role from supplanting the market to improving the market. But it will not be cheap and easy; if it were, it would not be effective.

We are recommending many governmental activities here that we would usually regard as inappropriate. The circumstances, however, are unusual. Agricultural policy has brought into being a vast field of governmental activity. These activities cannot simply be dropped; it is necessary for agricultural policy to work its way out of them. The relatively few, and in part temporary, governmental activities recommended here will, we confidently believe, enable national farm policy to work its way out of a larger number of otherwise permanent governmental operations in the economy.

Second, we must be prepared to moderate the temporary but sharp decline in farmers' incomes that would otherwise occur in the shift from the protective approach to the adaptive approach.

The program we suggest contemplates that a major part of the required adjustment in agriculture would take place over a five-year period. We recommend steps to supplement, on a diminishing scale, the incomes that farmers would earn in free markets during that period. This does not mean that no further movement of people out of agriculture will be required after the five-year transition period. As long as the rise of productivity in agriculture equals or exceeds the rise in the rest of the economy, some movement from agriculture is likely to be necessary. But after the transition period, the required movement would be on a scale that would not strain normal processes of private adjustment or require special measures of assistance. There would be a continuing, gradually emerging excess of resources in agriculture, resulting from the gradual growth of productivity and population increase, but this excess would be continuously moved out of agriculture. It would not, therefore, depress farm incomes substantially below the incomes of comparable nonfarm resources.

The transition we visualize will not bring itself about in a five-year period. Action will be required to bring it about. We believe that the transition can be effected in a five-year period if the program recommended here is pursued with vigor. A relatively short transition period depends considerably upon high employment in the nonfarm economy. But we cannot be certain that our estimate is correct. Unforeseeable developments, for example, in foreign markets or in productivity, may cause difficulties. In other words, there are uncertainties in the course we recommend. The rest of the community should be prepared to share the costs of these uncertainties, and not leave them to the farmer alone. We must watch the progress of the program and be willing, if necessary, to adjust it in ways consistent with its basic philosophy. We are confident that the direction we point out is the correct one, and while there are uncertainties about rates and amounts these uncertainties are preferable to the certain wastes and frustrations of the alternatives.*****

It will be seen that we describe the agricultural problem in general and propose a general program for its solution.******

MEMORANDA OF COMMENT, RESERVATION OR DISSENT

*****BY J. CAMERON THOMSON: "I would emphasize the possibility that the program, if adopted, may not go forward in total or as to important segments according to schedule because of the complexity of the agricultural industry, its relation to other industries, the responsibility of both government and private business, and the influence of foreign government policy on our exports. Adjustments in the timing of the program will undoubtedly have to be made and, if so, we must recognize the necessity for cushioning the drastic effects of the program on the agricultural production industry. Adjustments where necessary must be consistent with the basic objectives of the program which I feel are the continued production of an adequate, but not excessive, supply of foods and fibers through reliance on an unregimented, private agricultural production industry, utilizing to the fullest practical extent scientific and technological developments and having available adequate, competitive profit incentive."

******BY FREDERICK R. KAPPEL: "This program represents a start toward solving some parts of the agricultural problem. However, it should not be looked upon as a complete solution. This Policy Statement deals primarily with the over-production problem, which involves the over-employment of labor, capital and land in farming and is closely related to high support prices. The policy proposals do not seem likely to have as much effect on the separate problem posed by the existence of many small, uneconomic farms, with low average income, producing little of the crop surplus but involving a substantial excess of farm labor with low incomes. In this connection, I note that the geographic areas marketing the largest volume of agricultural products and receiving the greatest amount of crop support payments are not necessarily the areas with the greatest numbers of farm workers and the lowest average farm incomes."

******BY J. CAMERON THOMSON: "While recognizing the soundness of an overall approach related to general principles, I believe that exceptions must be made. In my opinion, it is necessary to consider at least some specific cases, in order to avoid the danger that even a sound over-all approach may not do justice in all instances. One such case is the dairy industry. Its size and its specific problems call for particular consideration. Another instance concerns wheat. No distinctions are made here among the differing problems and situations of different types of wheat. Yet there are very great differences. We use in this country only about a third of our production of white wheat, grown mainly in the Pacific northwest, and we have exported about two thirds of it, largely as surplus food, in the past decade. In the case of hard red spring wheat, annual domestic disappearance has amounted to about 80 percent of the crop, and all or nearly all of the rest has been commercially exported and paid for in dollars. Different recommendations are needed for the two crops. North Dakota gets from wheat over 40 percent of its cash receipts from farm marketings, and three quarters of its wheat crop is hard red spring wheat. I believe that when legislation is enacted to implement broad changes in our agricultural policy that this legislation will have to recognize the special considerations relating to the production of such crops as hard red spring wheat, and the effect on the economy of trying to apply generalizations to agricultural policy in particular areas with limited economic choices."

We do not have a program for hard winter wheat and a different program for long-staple cotton. Analysis and experience show that a list of programs addressed to the specific problems of specific parts of agriculture does not solve the basic problem of agriculture. At best it redistributes the problem among the parts of agriculture. There are differences within agriculture, some of which are recognized in our program and others that would have to be considered in its application. But with respect to the basic problem, the excess of resources, agriculture is a unit. Enough of the land, labor and capital in agriculture can be shifted, and is shifted from one agricultural product to another, and the products move sufficiently between one use and another, to require this total approach. An excess of resources in one part of agriculture depresses incomes throughout agriculture and withdrawal of any excess resources will improve agricultural incomes generally.

Before presenting our program for agricultural adjustment we would like to make clear our recognition that United States agriculture has been adjusting vigorously on its own, for many years, to market pressures. Our program suggests governmental action to facilitate the adjustments the American farming industry has been making privately. One of our principal reasons for thinking such a program will succeed is the evidence that American farming has exhibited a large scale readiness to adapt to change; an adaptiveness that marks our farm industry as a vigorous participant in the free enterprise system. This evidence may be seen in Tables 1, 2, 4 and 6 in Appendix A, and in Charts 3, 4, and 6.

We have noted that agriculture's chief need is a reduction of the number of people in agriculture. Farmers have been moving out of agriculture, on a grand scale, for at least 40 years.

It is equally evident (see Chart 4) that the farmer in the United States has devoted a great part of his earnings and energies to the purchase of machinery and the use of advanced techniques, thereby (see Chart 3) contributing markedly through high farm productivity to the nation's potential overall economic efficiency. The program we are proposing is aimed at realization — for the farmer's benefit and the nation's — of the full potential of United States agricultural efficiency.*****

MEMORANDUM OF COMMENT, RESERVATION OR DISSENT

*****BY ALLAN SPROUL, in which Messrs. FRED C. FOY and THOMAS B. McCABE have asked to be associated: "I am disturbed by this tribute to American agriculture, not because I would subtract from agriculture's great accomplishments, but because the same thought is better phrased in the introduction to the Statement and because its repetition in this form at this point could suggest to those who favor present programs that we can keep on in the way we have been going and eventually work out of the mess we are in. It should at least be emphasized that the progress which has been made by agriculture in adjusting to market pressures in recent years has been made largely despite government efforts to protect it from these pressures."

THE PROGRAM IN SKELETON

We begin with:

A. Policies and Programs for Attracting Excess Resources out of Farming

Getting excess resources out of use in farming is fundamental to the solution of the farm problem, and the fundamental condition for doing this is

An Improved Labor Market

Under this subject we consider:
Education of farm youths, and
Labor mobility
- Job information
- Training in needed skills
- Defraying the costs of moving

Within a framework of general high employment
Next, the program makes recommendations for

Adjustment of Agricultural Prices

After which, we come to the second major part of the Adaptive Program for Agriculture

B. Cushioning the Process of Adjustment
by means of three transitional programs
– A Cropland Adjustment Program
– An Income Protection Program :`
– A Temporary Soil Bank

VII. A PROGRAM FOR AGRICULTURAL ADJUSTMENT

calls (a) for policies and programs
to attract excess resources
from use in farm production,
and (b) for measures to cushion
the effects of the adjustment
on property and people.

First and fundamentally, we propose a set of measures designed to bring about a condition in which:

1. A much smaller total quantity of resources will be used in agricultural production;

2. This smaller total of resources at use in farm production will be composed of a much smaller amount of labor, and, possibly, somewhat less capital;

3. Production per unit of resources used in agriculture will be higher;

4. Earnings per unit of resources used in agriculture will be higher, on the average, and these earnings will be obtained through sale of farm products without government subsidy or support.

Adjustment of farming to this condition is basic to solution of the farm problem.

Second, we propose a set of temporary, transitional measures designed to:

1. Prevent a sharp decline in farm incomes, and

2. Avoid further additions to stocks of farm goods, while the basic adjustment to the condition sketched above is being brought about.*

MEMORANDUM OF COMMENT, RESERVATION OR DISSENT

*****BY FRED C. FOY: "I congratulate the Agriculture Subcommittee on putting forward a plan for:

a. the restoration of a profitable free market in agriculture, and

b. releasing the taxpayer of a burden which has been costing him many unnecessary billions of dollars a year.

"I am disappointed, however, to find the CED again going on record in favor of a 'mixed' economy.

"I refer to such ideas as the one that it is possible for some unnamed entity to decide that some industry is 'using too many resources'; that the economy will be improved 'by government working with the free market'; that in an economy, changing in other areas than agriculture, the adaptive approach, which 'calls for action by government,' is necessary and desirable; that even though the 'Price Adjustment Program' for farm products is expected to 'make farming profitable without governmental controls and to establish free markets for farm products' over a five-year period, it is desirable for government to participate and influence direction with artificial monetary inducements in the form of a Cropland Adjustment Program and a stepped-up Soil Bank Program; that to decrease government spending in one area we must recommend new spending in others (i.e., an expansion of employment services, loans for family moving costs; loans and scholarships for farm youths, payments to farmers for switching land from crops to grassland, and the permanent establishment of a non-recourse government-operated crop loan system.)

"It seems to me the Committee proposes a workable idea in the five-year price adjustment program. Is it not reasonable to suppose that with five-years' notice capital and labor marginal to farming at normal free market price levels will make its own adjustment or withdrawal?

"Would it not be better in this paper, as in its paper on 'A New Trade Policy for the United States' for CED again to take the position that special additional governmental direction or relief might be neither necessary nor desirable beyond that already available where an industry has as much as five-years to adjust itself to reduced price levels?"

It is an essential characteristic of these transitional programs that they should cushion the adjustment, but should do so in ways that do not prevent or retard the adjustment.

A. *Attracting Excess Resources from Use in Farm Production*

This is the heart of the matter in agricultural adjustment. Excess resources in use in the production of farm goods is the farm problem. Everything else suggested here is for the purpose of facilitating the fundamental transaction — withdrawal of excess resources from agricultural production — or serves to hold things steady while the basic transition is taking place.

An Improved Labor Market

Some of the measures we are suggesting here are broader than the program traditionally associated with agricultural policy, or lie outside what has been the usual farm policy scope. The fact is that the well-being of agriculture cannot be assured by programs having to do only with the production and marketing of farm goods: healthy agriculture requires a healthy economy as a whole and healthy relations between the farm and nonfarm sectors. It is obvious, therefore, that the Department of Agriculture would not be called upon to administer all the programs suggested here, but that, regardless of the fact that they are suggested in connection with solving the farm problem, they should be administered by agencies best able to do so.

1. High Employment

The maintenance of employment opportunities in nonagricultural industry and services is an essential condition for the most satisfactory agricultural adjustment.

In our diagnosis, the problem of getting excess resources out of agriculture is a nonfarm employment problem: resources, particularly labor, are engaged in farming when they could produce more, and earn more, outside agriculture. This implies that opportunities for their employment exist or can be created outside of agriculture. (See Appendix A, Table 4). If this were not true, the problem of agriculture would be basically different.

We believe, of course, that high and growing employment can be maintained in the nonfarm economy. We have discussed the steps necessary to achieve this result in a recent statement*****

****Fiscal and Monetary Policy for High Employment*. A Statement on National Policy by the Research and Policy Committee, Committee for Economic Development, January, 1962.**

that emphasized:

a) The potential contribution of monetary and fiscal policy to a steady rate of growth in total expenditures for goods and services, and

b) Moderation of the rate of increase of wages and other labor costs, so that the rise of total expenditures is not absorbed by higher prices, but takes effect in raising production and employment.

The importance of high employment for a resolution of the farm problem must be emphasized. The movement of labor from agriculture has shown itself to be responsive to the state of the nonagricultural labor market (See Appendix A, Table 2). A sustained period of high employment would itself make a major contribution to agricultural adjustment, and would contribute to the success of any other measures that may be undertaken.

While emphasizing the importance of high employment in the non-agricultural economy for the speed with which agricultural adjustment can be effected, we do not mean to suggest that the other parts of the program recommended here must await the achievement of high employment or should be suspended in the event of future departures from high employment. There has been significant movement of people from agriculture even in recent years when unemployment was unsatisfactorily high, and even in such circumstances measures to facilitate the outmovement will have constructive results.*****

MEMORANDUM OF COMMENT, RESERVATION OR DISSENT

*****BY FREDERICK R. KAPPEL: "The problem of absorbing the increased flow of labor out of agriculture under these proposals will be formidable in view of the prospective increases in the total labor force. This adjustment may take longer than suggested in the statement unless more attention is given to increasing nonfarm job opportunities by encouraging expansion of investment and output in the private economy through tax reform and other incentives."

2. Education

Table 3 in Appendix A shows that 44 percent of farm population is presently below the age of 20.

Here, in our opinion, is a main key to agricultural adjustment: we have an opportunity to secure long-lasting relief from the overburden of people pressing upon farm income by getting a large number of people out of agriculture before they are committed to it as a career.

It is obvious that the extent to which we may be successful in using this key will depend upon the impression the farm youth gets when he looks at the nonfarm economy with an eye to uprooting himself permanently from farming. If employment prospects off the farm are high and growing, the attraction to farm youths of training for nonfarm careers will be strong; if the current prospects for employment off the farm are not attractive, young people deciding whether to commit themselves to a career on the farm or in the nonfarm economy can be expected to decide in large numbers that the long-term prospects are best in farming. This tends to perpetuate the farm problem.

Recent studies have brought out that fewer farm youths than others (a) graduate from high school, (b) enter college, and (c) graduate from college.

Attendance of boys at school falls off sharply in countryside school districts, by comparison with the nation as a whole and with urban schools, beginning with the 16-17 year old age brackets (final years of high school):

Percent of Males Enrolled in School

(Bureau of the Census, Current Population Reports [school grades supplied]).

Place of Residence

October, 1960

RURAL Usual School

Age Groups TOTAL URBAN NONFARM FARM Grade

5 years 64.1 74.1 58.0 33.7 Kindergarten

6 years 97.8 98.8 98.0 92.7 First

7 to 9 years 99.6 99.6 99.7 99.7 2-3-4

10 eO 13 years 99.4 99.5 99.5 98.6 5-6-7-8

14 & 15 years 97.9 98.0 98.3 96.3 Fr & S, H.S.

16 & 17 years 84.5 85.1 85.4 79.7 Jr & Sr, H.S.

18 & 19 years 47.8 51.4 46.8 33.5 Fr & S, Col

20& 21 years 27.1 31.1 20.8 18.8 Jr & Sr, Col.

Table 7 in Appendix A illustrates another facet of education as it relates to farming: the United States as a whole derives 4.3 percent of its personal income from farming, and no state derives more than 26.1 percent; yet the nation devotes 44.5 percent of its vocational education funds, exclusive of funds for home economics training, to training for agriculture. In the 20 states getting the highest percentage of personal income from farming (North Dakota, 26.1 percent to Texas, 6.5 percent in Table 7), all but two — Arizona and Vermont — spend over half of their vocational education funds, excepting home economics, for training in the skills of farming.

This means that in many states where farming is strongest, vocational education tends to perpetuate the farm problem of too many people in agriculture by holding out extraordinary opportunities to train for farming as a vocation.

America's Resources of Specialized Talent, ***** gave the following summary of the relationship between the father's occupation and higher education:

Father’s Percentage of High Percentage of High

Occupation School Graduates School Graduates

Entering College Graduating from College

Professional and 67% 40%

sem~profess~onal

Managerial 50 28

White collar (clerical, 48 27

sales, service)

Factory, craftsman, 26 15

unskilled, etc.

Farmer 24 11

*****Report of the Commission on Human Resources and Advanced Training (Harper & Brothers, New York), Dael Wolfle, Director.a study published in 1954,

The tendency for farm youths to have fewer years of schooling, and the emphasis on vocational education for farming, together with the above figures showing the relatively low proportion of farm youths in colleges, indicate that it is necessary to give attention to the amount and the kind of education farm youths get below the college level.

We have three recommendations on this vital aspect of the farm problem.

a) *This Committee has recommended a program for Federal aid to public education below the college level in the low income states.**

***Paying for Better Public Schools.* A Statement on National Policy by the Research and Policy Committee, Committee for Economic Development. December 1959.

If this program were put into effect, its preponderant effects in the improvement of educational attainments would be felt in lower income farm states. *We once again urge adoption of this program, and rejection of proposals for aid to all states.**

***MEMORANDUM OF COMMENT, RESERVATION OR DISSENT**

*****By WILLIAM BENTON: "I applaud the Committee's stress on education as a main key to agricultural 'adaptation'. Again, however, as I did in the CED policy statement on education, 'Paying for Better Public Schools', I must dissent from the Committee's recommendation that Federal aid to public education be confined to the low income states. Even high income states are unlikely to reform state and local tax systems to the extent required by the imperative need for larger budgets for education."

b) *Vocational education should be revamped to place its emphasis upon training in skills needed by expanding industries*. This means that vocational education in farming areas should be mainly for industrial, not agricultural, skills. There is need, as this Committee has pointed out elsewhere, for an expanded Federal effort to provide research and information to help guide state education departments and local school boards in what skills are in demand or coming into demand.*

***Distressed Areas in a Growing Economy*. A Statement on National Policy by the Research and Policy Committee, Committee for Economic Development. June 1961.

c) *Public and private policy should take dual account of the national needs (i) to reduce the number of people committed for their livelihood to farming, and (ii) to raise the national educational attainment, by measures to bring the participation of farm youths in higher education up to the national standard.* Our recommendation (a) above tends in this direction, by increasing opportunities for youths in lower-income farm states to qualify for college. There should also be a general increase in the availability on the basis of need and merit of loans and scholarship grants for college education. State and private funds for this purpose have been increasing and should continue to do so. Federal loan and scholarship funds for needy farm youths qualified for college study should be provided during the transition period in which a rapid migration from agriculture is needed. Here also, as in (a) above, major effects would be felt in lower-income farm states.

It should be recognized by all agencies, public and private, that on the average the farm youth, more often than the nonfarm youth, will have to live away from home while he is at college, and that a college education therefore tends to be more "expensive" for farm youths than for others. This should be taken into account in judging need for financial help.

3. Mobility

Early in 1962, a Federal *Manpower Development and Training Act* was enacted. The objectives of the Act are to "appraise the manpower requirements and resources of the nation, and to develop and apply the information and methods needed to deal with the problems of unemployment resulting from automation and technological changes and other types of persistent unemployment."

In farming the counterpart of unemployment resulting from automation and technological changes is underemployment, or, as we have discussed it here, excess use of resources.

We are glad to see the problem of the excess use of resources in farming, particularly excess commitment of people, integrated with the general problem of the nation's manpower requirements, and the national, general need for policies to help the nation adapt to the ever-changing skill requirements of the economy.

This coincides with our view, basic to the adaptive approach we are recommending for solution of the farm problem, that the farm problem is not unique, but is, rather, the leading case of a large class of problems where an industry is using too many resouces, and, that solution of the farm problem lies in policies tending to improve, generally and overall, the efficient use of our resources, rather than in protectionist, specialized “farm policy.”

The provisions of the new Manpower Act can be an important step in guiding and easing the movement out of farming of a large number of people in a short time, if the Act’s purposes are interpreted as applying fully and specifically to the farm problem, and if they are vigorously pursued in that light. This includes:

Job Information

The Act requires the Secretary of Labor to promote, encourage or directly engate in programs of information and communication concerning manpower requirements and improvement in the mobility of workers. We recommend additionally that:

- *The Federal-State Employment Service be expanded to rural areas*, and its coverage made national and regional, rather than local only, and that:
- *The present farm labor service should expand its responsibility to include placement in off-farm work,* instead of limiting its referrals to farm employment.

Careful attention should be given to the impact of the foreign worker program upon the wages of domestic migrant farm workers.

Retraining and Movement

The new Act establishes procedures for selecting and training workers for occupations requiring new skills. It specifies that workers in farm families with annual net income under $1,200 are eligible for retraining assistance under the Act. The Act provides allowances for training, subsistence, and transportation, and for Federal assistance for state and private occupational training schools.

The adjustments required in agriculture will call for the movement of many people who would not be eligible for retraining under the provisions of the Act. It confines retraining allowances and other assistance to workers in farm families with net annual income below $1,200. Basically our objective should be to provide assistance for retraining where the individual will not get it without assistance and where the retraining will substantially increase his ability to produce and earn income. Some arbitrary definition of eligibility may be necessary for administration of the Act, but *we believe that the present definition is too restrictive so far as agriculture is concerned.*

The retraining of farm workers leaving farming should be considered one of the principal objectives of the new Act. Those responsible for the administration of the Act should have it clearly in mind that farming is the leading case of misuse of resources in the American economy, that overcommitment of people to farming for their livelihood is the special form of the use of excess resources in agriculture, and that the Manpower and Training Act should consequently be applied with all vigor to solution of the farm problem.

The provisions in the Act limiting and qualifying direct help programs to avoid abuse should be fully and carefully observed.

We recommend that retrained farm workers leaving farming should be assisted in moving to nonfarm work sites, by a program of loans to cover the cost of moving themselves and their families. Such assistance should be given once only for the purpose of leaving farming. It should be given only for movement from areas where there is excess labor supply and only for movements in excess of, say, 50 miles.*****

***MEMORANDUM OF COMMENT, RESERVATION OR DISSENT**

*****BY FRED C. FOY: "There appear to be real dangers in this proposal. Such loans, if made at all, should be confined to those situations where the borrower already has a job in a nonfarm area. Otherwise the loan may result in additions to both the unemployment and relief rolls in some other area, even though the worker may, as the recommendation suggests, have completed a retraining program."

It should be emphasized that all such direct help programs should apply to farm tenants, hired hands and domestic migrant workers, as well as to farm proprietors and their families.

We regard direct help to farm people in finding better opportunities in the nonfarm labor force as necessary and desirable, because we believe that a small fraction of the funds now spent on agricultural subsidies would, if spent in ways that tended positively to induce the needed movement of human resources out of farming, result in higher national income and lower national outlays on subsidies.

Adjustment of Agricultural Prices

The basic adjustment required to solve the farm problem, adjustment of the resources used to produce farm goods, cannot be expected to take place unless the price system is permitted to signal to farmers how much is wanted, of what.*

*The importance of the correct price signals for farm products was highlighted by recent developments in the dairy industry. During 1960, production and consumption of dairy products were about in balance and the government had to purchase only small amounts of surpluses. Then, in late 1960 and early 1961, the support price for dairy products was increased. This higher support price, together with lower feed grain prices, induced a sharp increase in the production of dairy products at a time when the demand for dairy products was not expanding. The result has been more resources in dairying, more output, and sharply increased expenditures for acquisition of surpluses to support prices of dairy products.

Therefore, it is recommended that a Price Adjustment Program be instituted.

In order that the prices of our major farm products should give the correct signals for investment and production, the prices of cotton, wheat, rice and feed grains and related products now supported should be allowed to reflect the estimated long run "adjustment price" of these products.

The adjustment price would simultaneously satisfy two conditions. First, it is a price at which the total output of the commodity can be sold to domestic consumers or in commercial export markets without government subsidy. Second, it is a price at which resources efficiently employed in agriculture, after a period of maximum freedom to move out, could earn incomes equivalent to those earned in the nonfarm economy.*

MEMORANDUM OF COMMENT, RESERVATION OR DISSENT

*BY FRED C. FOY: "The last sentence should read, 'Second, it is a price at which resources efficiently employed in agriculture, after a period of maximum freedom to move out, could earn incomes sufficient to satisfy their owners without need for governmental or other artificial support.' The idea that all earnings on invested capital or payments to labor should be equivalent throughout all segments of the economy, is highly theoretical."

For most of these commodities the adjustment price is below the present support price and is likely to remain so even after a period of stimulated out-movement. This means that at prices below the present support prices sufficient resources would prefer to remain in agriculture, rather than move out under favorable conditions, to produce as large a volume of these commodities as would be bought by consumers, at home and abroad, at these lower prices. The willingness of labor to remain in agriculture after a period of maximum opportunity to move out, with the incomes they can earn at these lower prices, will be objective evidence that these incomes are "satisfactory." It will be possible for labor to earn satisfactory incomes at lower commodity prices because output per worker will be increased by two developments: a) the number of workers will be substantially reduced, which will increase the capital each worker has to work with, and b) restrictions on output per worker will be removed.

While the adjustment price for most of the major commodities is below the present support level, it is above the price that would result if the total output that the resources now in agriculture would produce were sold in an unsupported market. Such a purely free market price would be lower than the adjustment price we have in mind because it would result from marketing crops without previous adjustment of the resources used in their production. We propose below two measures, an expanded Soil Bank and a Cropland Adjustment Program, to keep production from exceeding demand at the adjustment prices during the transition period while the basic outmovement of resources is taking place.

The purpose of setting the adjustment price is to give farmers the best possible indication of the prices they may expect to receive during and at the end of the transition period, so that those farmers who do not think they can earn incomes they regard as satisfactory at those prices can take advantage of the transition period to move out. It is not proposed that the government should support pices at the adjustment price levels after the transition period. Neither should it be expected that market prices will remain permanently at the adjustment price levels. The long-run course of agricultural prices will depend mainly upon the rate of growth of agricultural productivity and the rate of movement of resources into and out of agriculture.

We do not favor a gradual lowering of farm prices to the adjustment level, although we took a position in our statement on farm policy in 1956 favoring gradualism. Gradual price reductions in recent years have not affected the resources used in farming fast enough and have not allowed total production to flow into use. Therefore ....

> *it is recommended that the price supports for wheat, cotton, rice, feed grains, and related crops under price supports be reduced immediately to the prices that could be expected to balance output and use, after the transition period, without new additions to government stocks.* *****

***MEMORANDUM OF COMMENT, RESERVATION OR DISSENT**

*By J. CAMERON THOMSON: "I would add to this that they should equally reflect consideration of the cost of production of supported commodities by a substantial portion of the most efficient farmers."

> The undesirable effects on farm incomes during the transition period should be handled separately and simultaneously, as suggested later.

The importance of such price adjustments should not be underestimated. The lower price levels would discourage further commitment of new productive resources to those crops unless it appeared profitable at the lower prices. Also, the lower prices would induce some increased sales of these products both at home and abroad. Some of these crops are heavily dependent upon export markets. Finally, these price adjustments would put the United States into position to begin disentangling itself from export subsidies, import quotas, and other inconsistent policies which now surround our foreign trade in these farm products.

> Specific adjustment prices to satisfy these principles will have to be estimated when the program is initiated, in terms of the facts and outlook at that time. It appears that at the present time (mid-1962) the adjustment price would be, for cotton about 22 cents a pound, for rice about $3 a hundredweight, for wheat about $1.35 a bushel, and for feed grains the equivalent of about $1 a bushel for corn.*****

***** Those price levels were estimated by specialists in the field and are based upon their judgment as well as a number of unpublished and published statistical studies regarding the levels at which the domestic and international markets for these products would clear under the assumptions of the proposed program. Among the published studies giving estimates of market prices under different conditions are: *Report from the United Stares Department of Agriculture and a Statement from the Land Grant Colleges IRMI Advisory Committee on Farm Price and Income Projections 1960-65,* or

Senate Document 77 86th Congress, Second Session, January 20, 1960*; Economic Policies for Agriculture in the 1960's*, Materials Prepared for the Joint Economic Committee, 86th Congress, 2nd Session, 1960; W. A. Cromarty*, "Free Market Price Projections Based on a Formal Econometric Model"* and Arnold Paulsen and Don Kaldor,*"Methods, Assumptions and Results of Free Market Projections for the Livestock and Feed Economy,"* both in the Journal of Farm Economics, May 1961.

These prices for wheat, rice and cotton are believed to approximate the prices at which these crops would be sold in the market without further accumulation of surpluses. The suggested price for feed grains is about the level that had been maintained for feed grains for two years prior to 1961. To keep feed grain production from outrunning usage at the suggested adjustment price, we recommend below a Temporary Soil Bank, designed to hold output of feed grains below 155 million / tons a year. Consequently, although government supports of the crops designated above would continue at the adjustment price levels during the five-year adjustment period, *it is not expected that the government would acquire surpluses except under exceptional and temporary circumstances.**

***MEMORANDUM OF COMMENT, RESERVATION OR DlSSENT**

*****By J. CAMERON THOMSON: "I would immediately eliminate price supports on feed grains because they are used almost entirely in the production oflivestock or commercial products. Over a period of time the market for feed grains, as well as the demand for such products, should follow the market for livestock or commercial products."

The effects of the adjustment prices would reach beyond our borders. The adjustment price suggested for cotton would permit our domestic cotton mills to compete on a more even basis with foreign mills, in our markets and in foreign markets. At present, foreign mills can buy United States cotton more cheaply than can our domestic cotton producers. The same would be true of our domestic flour millers and rice exporters.

An estimate of the market adjustment price for farm products will be partly a matter of judgment as long as markets are not free and earnings in farming are too low. However, this judgment must be made, and the preferable direction of error, if any, is clear in our present situation.

> For several reasons it is important that price supports be moved to levels that, if wrong, will be low rather than high.

First, price supports on the low side will test the market demand for farm products. If this demand turns out to be higher than output at the support level we can meet the needs from our huge stocks.

Second, new resources (especially people) should be discouraged from entering agriculture, at least during the adjustment period, and the rate of entry in the longer run should not be excessive. Price supports set too high will tend to continue the errors of recent years. Therefore, the costs of errors of setting supports too low initially are virtually zero as long as the income of farm people does not suffer as a result, whereas the errors of too high a level can only be corrected at considerable expense either to farmers or the public, or both.

> If it is demonstrated over a period of time that the adjustment prices originally determined are too high or too low, the adjustment price should be corrected accordingly. *Where support prices are reduced to an*

adjustment level, production restrictions should be abolished.

In explanation:

Given two cushioning programs discussed later—a Cropland Adjustment Program and a Temporary Soil Bank—the output of the products for which we are suggesting reduction of supports to an adjustment price should be approximately in balance with domestic and export use at the recommended prices. Where it is exceptionally advantageous to produce these crops, producers would find it profitable to expand output at the adjustment price. Such would be the case for cotton in California and wheat in certain areas of the Plains.

On the other hand, in other areas farmers would find alternatives more attractive than continued production of the crops for which supports had been lowered. In some cases the alternative would be nonfarm employment. In other cases, the alternative would be the production of farm goods for which demand is rising fast (meat, for instance, as contrasted with wheat).

B. Cushioning the Process of Adjusting the Resources Used in Farm Production

A Cropland Adjustment Program

What we are recommending with respect to land use is a program designed to turn land being misused in agriculture to better agricultural use. It is not a program to take land out of farming where there is no non-agricultural alternative use, since that would be wasteful. Our suggestions concern mainly the Western Plains and Mountain area. They are designed to convert land being used for the production of crops back to grassland. It is anticipated that if wheat is priced lower, farmers in this area will have better income raising livestock on this land, once it is returned to grass, than they have as arid country wheat farmers. The object of the program we are suggesting is to assist them in converting their farms from plowland to livestock grasslands.

> *It is recommended that a Cropland Adjustment Program be instituted,* to induce the reconversion of at least 20 million acres of Western Plains and Mountain Region land from crop use to grass, as rapidly as possible.

To induce a farmer to convert from wheat production to grassland, the government would:

> 1. Pay an amount equal to the expected income from producing a crop, so that these conversion payments, together with the income protection payments mentioned later, would provide, over the adjustment period, an income equivalent to what the farmer would get if he produced a crop.
>
> 2. Make available technical assistance and planning in the conversion of cropland to grass, and share the costs of conservation practices, where applicable.
>
> 3. Require agreements on the part of the owner that, once converted, the land would not be returned to the production of wheat for some specified period.

This program is an extension and enlargement of the Great Plains Conservation Program started in 1956 and continued until the present time. What is proposed is an expansion and extension of its scope to induce greater participation.

The extraordinary demands of World War II and the immediate postwar period brought favorable wheat prices. These prices induced a substantial expansion in wheat acreage in the United States, from a low of 57 million acres in the early war period to over 77 million acres in the late 1940's (Appendix A, Table 6). The increase in production was intensified by good weather. This expansion included a marked increase in the total acreage in the low rainfall areas of the Western Great Plains.

When wheat surpluses appeared, acreage allotments were inaugurated and land was forced out of wheat. However, in this western region grain sorghums have been developed that are an alternative dry country crop to wheat—as long as wheat and feed grain prices are maintained high enough to keep sorghum prices high. In the Plains and Mountain region harvested wheat acreage declined by 9 million acres from 1952-53 (the last years before allotments) to 1957-58. Feed grain acreage meanwhile increased by over 12 million acres. This additional 12 million acres in feed grains can produce just about the amount of surplus feed grain produced annually in recent years before 1961. Moreover, total wheat production in this region still substantially exceeds prewar production despite the acreage allotments.

> These basic facts point directly at what should be done:
>
> 1. Acreage converted to cropland in the dry areas must be returned to grass.
>
> 2. Wheat and feed grain prices should be allowed to tell farmers how much of each is wanted. That is, the price signals should be allowed to work.

As long as five-years may be required to return this plowed land to grass. During this period, farm operators would have to forego all or a major portion of their cash income and at the same time incur some out-of-pocket expenses. Even though the long run income prospects in the dry area would be higher from a grassland-livestock program than from wheat, if wheat were priced correctly, few farmers can afford to forego current income to make the change.

> This is why we recommend a Cropland Adjustment Program. Payments under the plan should reflect the length of time required to establish grass. This will differ in various areas. Payments should end at the end of that time.

Payments under the Cropland Adjustment Program would be on a declining schedule, to mesh with the growth of new income from different use of the land.

A Temporary Income Protection Program

If price supports for wheat, rice, and cotton were reduced immediately to the level at which adjustment of resources would begin to take place, the income of the producers of these crops would decline sharply in the absence of any compensatory public policy. While such a quick and sharp decline in income might conceivably increase the rate at which needed adjustments took place, it would exact a high cost in terms of suffering of the farm people displaced.

Therefore:

We suggest *that a Temporary Income Protection Program be inaugurated,* to prevent the major impact of the required price adjustments from bearing excessively upon the farm community.

We recommend Temporary Income Protection payments only for wheat, rice and cotton because the price drop in other crops would be much less than for these three.

The Temporary Income Protection Program would have five controlling features:

1. Payments should be made only to farmers who now have acreage allotments for wheat, rice and cotton. The adjustment payments should be based upon a quantity of the product determined by the present acreage allotment and the normal yield of the farm for the previous two years prior to the beginning of the program.*****

*****Under the present production controls, each farm producing one of these crops has an acreage allotment permitting the farm to produce so many acres of the crop, without penalty. If more than the allotted acres of the crop are planted, penalties are assessed.

2. The program would continue only five-years.

3. Payments would be a declining percentage of the excess of the 1960 support prices over the adjustment price.

4. Payments would be independent of further production of these crops.

S. Payments would decline to zero within five-years.

To illustrate the workings of the program in the case of wheat farming:

The farmer has a base period quantity of wheat, computed as above in Point 1. Let us assume that this quantity, for a particular farmer, is 1,000 bushels. The support price for wheat in 1960 was $1.78 a bushel. If the adiustment price, as described earlier, is $1.35 a bushel, this leaves a difference of 43 cents a bushel. In the first year of the program, the farmer would receive 1,000 times 43 cents, or $430. In the second year he would get 80 percent of that amount, or $344. In the third year he would get 60 percent of $430, or $258, and so on. In the sixth and succeeding years, there would be no income protection payments.

The farmer would get the income protection payments, based upon his former marketing quota, no matter how much wheat he grew, and even if he grew no wheat or grew something else.*****

*MEMORANDUM OF COMMENT, RESERVATION OR DISSENT

*****By FRED C. FOY: "Payment of public funds to anyone for something not produced is economically wrong. The idea of the recommended Temporary Income Protection Payment being independent of further production of the crops in question is a serious mistake.

"If, as the farmer looks at this program, he decides it is desirable to switch in the first, or some other early year, to some other crop, the program already has achieved its purpose. To continue to pay him income based on the crops he has abandoned is simply to give him a bonus for not producing them instead of letting the probable future normal market prices be the basis for his decision as to when and whether to shift.

"In the wheat example cited, a farmer switching the first year would collect over five-years a total of $1290. for wheat he had decided not to raise at all."

This provision is essential. The farmer should decide how much wheat to produce, if any, on the basis of what is profitable for him to do at $1.35 a bushel. It is essential that receipt of the supplemental payment should not be dependent upon the production of wheat. Otherwise the supplemental payment would simply be an additional price for wheat and an additional inducement to produce wheat, beyond what would be induced by the adjustment price.

The foregoing example has assumed that the adjustment price is constant during the five-year period, but, as noted earlier, the adjustment price might be changed if circumstances indicated that it was too high or too low.

To put the above into the form of rules for the program, the income protection payments should:

> 1. be based upon (a) the acreage allotment held by the farmer and a marketing quota, converted to an income protection base derived from it, and (b) the difference between supports in 1960, and the new adjustment price;
>
> 2. decline to zero by the end of five-years;
>
> 3. be made whether or not a crop was produced.*****

*****Plans have long been proposed for the protection of farmer incomes during a period of transition to lower farm prices. While the Committee was at work on this Statement, a plan very similar to the one suggested here was independently proposed by Hendrik S. Houthakker, Harvard University, in an article, "Toward Solution of the Farm Problem," in *Review of Economics and Statistics* (February 1961).

A Temporary Soil Bank

The third measure for cushioning adjustment should be a Temporary Soil Bank, to prevent feed grain production from exceeding demand in the next few years.*****

*** MEMORANDUM OF COMMENT, RESERVATION OR DISSENT**

*****By J. CAMERON THOMSON: "This section should have included a description of the present continuing soil bank programs, together with an estimate of the cost of the suggested soil bank program over the five-year transition period."

> *It is recommended that a Temporary Soil Bank should be established*, to last not more than five-years, and to hold feed grain output, during that time, to not over 150-155 million tons a year. The Temporary Soil Bank would extend, under conditions set forth below, the existing Soil Bank.*****

*****This is the program in effect, with various changes, since 1956 under which the government makes payments to farmers to hold cropland out of production. It is officiaily Title I of the Agricultural Act of 1956.

If feed utilization per animal continued at the rate of recent years, it appears that by 1965 the domestic demand for livestock products will require the use of about 165 million tons of feed grains annually, at about 1960-61 prices. This would mean that feed grain and livestock prices should stabilize at about 1960-61 levels without the accumulation of feed grain stocks. Until such time as this balance is achieved, a Soil Bank program should be utilized in order to prevent low livestock prices or continued accumulation of feed grains.

The Temporary Soil Bank should be on a whole farm basis.

First, the retirement of whole farms is less expensive in terms of the inducement needed to obtain the necessary land. Second, the whole farm retirement also retires both labor and capital from farming, thereby shrinking the total resource base in agriculture.

There has been much objection to the whole farm Soil Bank Program from the nonfarm people in rural communities. They have objected to the loss of sales and to the competition from farm people in the local labor market. However, the impact of the Soil Bank on adjacent communities will depend very much on the state of economic activity in the economy generally. Moreover, the program should be operated so that its impact will be minimized on individual communities or areas.*****

***MEMORANDUM OF COMMENT, RESERVATION OR DISSENT**

*****By FRED C. FOY: "I congratulate the Agriculture Subcommittee on putting forward a plan for:

a. the restoration of a profitable free market in agriculture, and

b. releasing the taxpayer of a burden which has been costing him many unnecessary billions of dollars a year.

"I am disappointed, however, to find the CED again going on record in favor of a 'mixed' economy.

"I refer to such ideas as the one that it is possible for some unnamed entity to decide that some industry is 'using too many resources'; that the economy will be improved 'by government working with the free market'; that in an economy, changing in other areas than agriculture, the adaptive approach, which 'calls for action by government,' is necessary and desirable; that even though the 'Price Adjustment Program' for farm products is expected to ’make farming profitable without governmental controls and to establish free markets for farm products' over a five-year period, it is desirable for government to participate and influence direction with artificial monetary inducements in the form of a Cropland Adjustment Program and a stepped-up Soil Bank Program; that to decrease government spending in one area we must recommend new spending in others (i.e., an expansion of employment services, loans for family moving costs; loans and scholarships for farm youths, payments to farmers for switching land from crops to grassland, and the permanent establishment of a non-recourse government-operated crop loan system.)

"It seems to me the Committee proposes a workable idea in the five-year price adjustment program. Is it not reasonable to suppose that with five-years' notice capital and labor marginal to farming at normal free market price levels will make its own adjustment or withdrawal?

"Would it not be better in this paper, as in its paper on 'A New Trade Policy for the United States' for CED again to take the position that special additional governmental direction or relief might be neither necessary nor desirable beyond that already available where an industry has as much as five-years to adjust itself to reduced price levels?"

VIII. OTHER REQUIREMENTS OF AGRICULTURAL POLICY

involve commercial markets and aid programs abroad, maintenance of the lead of the United States in agricultural efficiency, and the relationship of farm policy to the problem of distressed areas

The Export Market

The fact that the United States is a low cost producer of foods and natural fibers should give us more advantage in foreign trade than we are realizing.

In an efficient organization of the world economy, the United States would make much larger exports of farm commodities to Europe than we do. This is so even though Europe in 1960 took a third of the grains and grain preparations we exported, and in 1959 took close to a half.

Our past price-support programs have interfered with United States efforts to achieve reduction of European barriers to imports of farm products. Our sales of farm commodities in world markets below our domestic prices, and our application of import quotas to protect our domestic prices, have been used by importing countries as justification for their own restrictions on trade. In fact, the United States has been careful not to "dump" farm products on commercial markets, and we do not believe, therefore, that our domestic farm programs justify the obstacles placed in the way of our exports.Nevertheless, so long as our domestic prices are above world prices, it has been difficult to avoid the suspicion or claim of dumping. The program we recommend here would eliminate the differential between domestic and world prices. This should strengthen the effectiveness of U. S. efforts to achieve a liberalization of world agricultural trade. *****

* MEMORANDUM OF COMMENT, RESERVATION OR DISSENT

*****By J. CAMERON THOMSON: The Statement might usefully have included a discussion of our agricultural production in relation to foreign trade and the principal factors affecting such trade. The Committee discussed this aspect of the farm problem in its recent Statement, 'A New Trade Policy for the United States,' from which I now quote in the interest of completeness here: . . . the countries of the Free World cannot permanently afford the situation in which they find themselves, and which is growing worse. We cannot continue to devote to agricultural production too much labor and capital — too much of both in the wrong places — and to divert the resulting surpluses to underdeveloped countries whom we would be able to help more effectively if we used our own resources more efficiently.

"'We recognize that a country may choose to use its own resources to subsidize some sectors of its population, although we regard it as usually unwise to do so. But there is a great difference, in principle and in fact, between supporting a sector of the population, such as farmers, and supporting a particular economic activity, such as agricultural production. To support farmers involves a diversion of income from the nonagricultural population to the agricultural. But to subsidize farming, in a way that induces an uneconomically large volume of production, imposes an additional cost by reducing the total income to be divided. When the subsidy is provided by limitation of imports, part of the cost is forced back on the potential exporters. The costs of supporting German agricultural production, for example, are borne in part by German consumers, but also in part by American consumers, taxpayers, and farmers.

"'Reduction of barriers to imports of agricultural products by the advanced countries is critical for the underdeveloped countries. For example, it is essential that Latin America find markets for its production of agricultural products—not only tropical products, but also meats and grain.'"

> *Liberalization of agricultural trade, now blocked chiefly by the use of restrictive quotas in Europe, should be a cardinal point of United Stares trade policy*. There is a danger that the agriculture policy of the European Economic Community (the Common Market) will be such as to promote agricultural self-sufficiency in Europe. This would be a mistake from the point of view of the efficiency of the entire free world. Europe should accept, as a fundamental decision in the course of its current economic integration, the idea that there is an advantage to Europe in the increased use of American farm goods, and the decreased use of high cost European farm products.

Limiting Seasonal Price Swings

Under the program recommended here farm price supports would be terminated at the end of five-years and the trend of farm prices would be governed by free market forces. It would, however, be desirable to take certain limited government actions tending to moderate seasonal fluctuations of prices after the five-year transition period.

Farm products come into the market in large quantities at particular seasons, but they flow into consumption rather steadily throughout the year. Prices received by farmers are lower when the supply comes into the market than at other times of the year, because the supply is suddenly increased greatly. Unless there is an adequate supply of credit to carry the product through the year the seasonal swing of prices is very large. Farmers who must sell at the low point suffer. In some parts of the country the privately available credit supply is inadequate.

The stability of farm life and the efficiency of agriultural production would be improved if the government were prepared to moderate the effects of this problem by making non-recourse loans based on some large fraction, say 80 percent, of the expected average prices for the year.*****

*** MEMORANDUM OF COMMENT, RESERVATION OR DISSENT**

*****By ALLAN SPROUL, in which Messrs. FRED C.FOY,FREDERICK R. KAPPEL, and THOMAS B. McCABE have asked to be associated: "This recommendation might better be left to the determination of a more complete study and discussion of the credit facilities available to farmers in those parts of the country where, it is said, the privately available credit supply is inadequate for seasonal agricultural needs. Once a government agency gets into the lending business, 'non-recourse loans' tend to lose their meaning, and the intervention of the government tends to generate a need for the indefinite continuance of that intervention. If our suggested program for re-adaptation of agriculture to the forces of the marketplace is successful, private credit is likely to become available in areas where it may now be less than adequate."

Two aspects of such provision for shielding farmers from the consequences of seasonal price instability should be emphasized: (1) Loans should not be large enough to result in carryover of stocks in the hands of the government from one year to the next, and (2) farmers would be responsible for storage of crops under loan.

Agricultural Research

We have stressed that the solution of the farm problem lies in eliminating the excess resources now being applied to the production of farm goods.

We want to lay equally strong stress upon our view that while we bring agricultural supply and demand into balance by reducing the resources employed in producing farm products, *we should not slack on the search for ways to produce more farm goods with fewer resources;* that is, the drive for agricultural efficiency should not be halted or even impeded by the need to eliminate the excess resources at use in farming. On the other hand, decisions to incur the costs of research for agriculture, as for other industries, should be guided by the criterion of the relation between prospective benefits and costs.

The Use of Surpluses in Economic Development

> *We should continue to use our existing surplus stocks of farm products to assist the economic growth of underdeveloped countries, but we should not create more surpluses simply because they can be disposed of abroad.* *****

*** MEMORANDUM OF COMMENT, RESERVATION OR DISSENT**

*****By J. CAMERON THOMSON: "I believe this section should include specific recommendations for a particular program for eliminating present surpluses within the five-year transition period."

In using farm surpluses for development aid, certain conditions not met in the past should become standard.

1. Foreign sales of surplus farm products should not disguise the cost of the present farm programs and thereby encourage their continuation. The present practice is chiefly to "sell" surpluses at world market prices for inconvertible local currencies of which only a small fraction will ever be turned to U. S. use. The "proceeds" from such "sales" are then treated as a deduction from the costs of farm price support programs. This has minimized the apparent costs of the farm program and caused complacency about its continuation. Moreover, the foreign disposal of $9 billion of farm products abroad since 1954 at uncertain prices has disguised the extent of surplus production. This, again, has cushioned public reaction and encouraged continuation of a program that is bad for agriculture and bad for the national economy as a whole. The burden of supporting wasteful agricultural production limits our ability to give underdeveloped countries assistance of the kind they most need.

2. Costs should not be incurred to dispose of surpluses unless these costs yield a benefit sufficient to make them worthwhile. For example, it is sometimes proposed that surplus feed be converted into chickens, which would then be given to underdeveloped countries. The soundness of such a move depends upon whether the chickens are worth the cost to the

recipient country of converting the feed to chickens, in the sense that it would be willing to pay that cost or would prefer the chickens to the dollar amount of the cost of conversion.

3. Disposal programs should not affect the agriculture of recipient countries in a way that retards their overall development.

4. Disposal programs should not lead to the accumulation in U. S. hands of excessive amounts of foreign inconvertible currencies that conceal the facts of the transactions and cause irritation in U. S. relations with the recipient countries.

Farming and the Low Income Areas

There is a structural link between the problems of the low income area and the farm problem already noted in our recommendation on education of farm youths: low production farms predominate in the low income areas. Solution of the farm problem is part of the solution of the low income area problem, and solution of the low income area problem contributes to the solution of the farm problem. We recently issued a policy statement specifically discussing area development.*****

***** *Distressed Areas in a Growing Economy.* A Statement on National Policy by the Research and Policy Committee. Committee for Economic Development. June 1961.

The proposals we have made for improving the mobility of labor from farm to nonfarm employment would do much to relieve the excess labor problems of the low income areas, where so much of the excess labor is excess farm labor.

IX. THE PROGRAMS WE ARE SUGGESTING

for the better use of our resources in agriculture would, vigorously prosecuted, bring production and use into balance at a level of prices that would enable the people and land in farming after a reasonable period to receive higher incomes without extensive government controls or subsidy.

The programs we are suggesting would result in fewer workers in agriculture, working a smaller number of farms of greater average size and receiving substantially higher income per worker.

As to costs, in money and other terms:

1. We do not think that the effects of these recommendations on farm land values would be widespread, or large. The proposed Price Adjustment Program may create some decline in farm land values where acreage allotments have been capitalized into land values. This appears to be primarily a problem that would affect the western edge of the wheat areas. The proposed Cropland Adjustment Program and Income Protection Program would assist land owners in that area.

2. Assuming that the income protection payments for the first year were 100 percent of the difference between 1960 support price levels and the proposed price adjustment levels, and assuming a base output of 1.1 billion bushels of wheat, 14 million bales of cotton, and 50 million hundredweight of rice, the cost of the income payments for wheat would be $473 million, for cotton $324 million, and for rice $71 million. Thus, the income adjustment payments would amount to about $900 million for the first year and less in subsequent years.

3. There are two ways to reduce government agricultural outlays without great losses to farmers. One is to tighten controls of production and marketing enough to reduce farm output to the point where all output will sell at the higher prices. This will make consumers pay more for farm products, and let the government pay less.

The other way is to attract and assist enough farmers out of farming so that farm income per farmer will be sustained without rising farm prices despite a decline in government spending on agriculture.

The first method reduces government costs by shifting them to consumers, forcing some resources out of productive use in agriculture without at the same time channeling them toward better alternative use. The second method results in a true net reduction of costs to the country as a whole. Government costs go down. Farmers' per-family incomes are sustained. Many people now in farming shift to work more profitable to them and to the nation. Consumers – including farmers —are not made to pay higher food and fiber prices. It is this second method we recommend.

Our program would not result in immediate reduction of government costs. Government costs could only be immediately and substantially lowered by transferring them either to consumers or to farmers. However, the program presented here would, over a period of time, reduce government agricultural expenditures, which have been running (see Chart 1) around $6 billion a year, by roughly $3 billion a year.*****

***MEMORANDUM OF COMMENT, RESERVATION OR DISSENT**

***** By J. CAMERON THOMSON in which FREDERICK R. KAPPEL has asked to be associated: "The Statement should include a recommendation that the remaining items, to cost $3 billion a year, or perhaps as much as $1,500 per commercial farm, should be carefully scrutinized. Some items may not be necessary, or may be subject to reduction, if the program recommended here were adopted. With electricity now available to almost the entire agricultural community, the Rural Electrification Administration's program, which is reported to be extending its scope to the point where it competes with private power companies in the non-agricultural field, should be carefully reviewed. Certainly, agriculture policy should not be charged with the costs of the REA expansion into competitive private utility fields. Similarly, there should be a realistic allocation of the cost of the use of food surpluses in foreign aid between the aid and the agriculture programs."

The remaining costs (of approximately $3 billion) relate to items not dealt with in this statement, including farm housing, research, rural electrification and certain commodities, such as wool, and the cost of aid to underdeveloped countries equivalent to that now provided in the form of surplus farm goods.

4. As we emphasized in the early portions of this statement, it is the very heart of the farm problem that a massive adjustment needs to be made in the human resources now committed to agricultural production. Small adjustments in the farm labor force will not suffice.

> What we have in mind in our program is a reduction of the farm labor force on the order of one third in a period of not more than five-years.

This, we think, would be large enough and fast enough to offset the effects on farm output of new technology and investment. It would thereby contribute to the basic goal of a net reduction of the resources — human and other — now employed in farming.

This is a high, but not an impractical, goal.

If the farm labor force were to be, five-years hence, no more than two thirds as large as its present size of approximately 5.5 millions, the program would involve moving off the farm about two million of the present farm labor force, plus a number equal to a large part of the new entrants who would otherwise join the farm labor force in the five-years. The total number of workers leaving farming in the five-years would amount to 3 to 4 percent of the present nonfarm civilian labor force of some 65 millions. This would be some 400,000 to 500,000 persons a year. That is considerably less than an addition of 1 percent a year to the nonfarm labor force. However, this small percentage extra addition to the annual increase of the nonfarm labor force is a large matter when it is viewed as an addition to the number of people newly becoming nonfarm job seekers each year. Official projections indicate that the nonfarm labor force will be rising by about 1 1/4 million persons a year (including present migration from farming) over the next five-years. If something like half a million additional new entrants come from the farms, the annual increase will be about 1 3/4 million persons, or some 40 percent more than now projected.

It is obvious that, in this sense, the "price" of agricultural adjustment is the maintenance of a high rate of employment and of economic growth.

The suggestions we are making attack the farm problem at its root: the use in farm production of too many people, and possibly too much capital.

Our program is based on the conviction that it is possible to have satisfactory incomes in agriculture without extensive government controls over farm management and output, if the resources engaged in farming are reduced, and those remaining consolidated into production units of adequate size. It is our further central conviction in formulating the farm program we have put forth here that the resources employed in agricultural output can only be brought into balance with demand for farm products if farmers get the right price signals as to how much and where to invest and produce.

The program we have suggested seeks to make farming profitable without government controls, and to establish free markets for farm products.

APPENDIX A*

*****Source: *Statistical Abstract of the United States,* 1961. : Appendix A was prepared by the research staff of the Committee for Economic Development.

TABLE I: Number of Farms

A. Classified by Acreage

Insert Table 1 here:

B. Classified by Value of Sales

Insert Table B here:

Census data, not strictly comparabie with earlier vears. A change in definition of farms exciuded 33,000 units whieh could have been elassed as farms in 1954 and 1950.

TABLE 2: Net Migration From Farming

A. By Decade Averages (1920-1958)

Insert Table 2A here

B. By Years (1950-1958)

Insert Table 2B here

I Data are for periods ending in April.

2 Includes persons who have not moved, but whose residence is no longer classified as a farm.

3 Based on data in second column, and average of the April farm populations for the period.

Source: Department of Agriculture.

TABLE 3: Age Distribution of the Farm and Urban Populations,

1930' 1950' and 1960 (Percent)

Insert Table 3 here

1. Rural farm and nonfarm population Source: Bureau of the Census TABLE 4: How Farm Employment Shrank Whi.le Nonfarm Emplo~ ment Grew 61929-617 CIVILIAN EMPLOYMENT

TABLE 4: How Farm Employment Shrank

While Nonfarm Employment Grew

Insert Table 4 Here

Includes Alaska and Hawaii: labor force in 1960, 306,000 total empiovment, 289,000 agricultural employment. 27,000; nonagricultural employment, 261,000. Source: Department of Labor.

TABLE 5: Farm Price Supports

Insert Table 5 here

1. Average quality cotton.

2 Support price increased Sept. 16, 1960 from $.566 to $.596; on March 9. 1961 increased to $.644 (all in 1960 dairy products marketing year).

3 Support price increased Sept 16, 1960, from $3.06 to $3.22, on March 9, 1961 increased to $3.40 (all in 1960 dairy products marketing year)

Source: Department of Agriculture

TABLE 6: Wheat Planting and Wheat Production

A. Wheat Planting

Insert Table 6A here

B. Wheat Production

Insert Table 6B here

Note: States included in above specified regions are:

Cornbelt: 1ll., Ind., Iowa, Mich., Minn., Mo, Ohio, Wisc.

Northern Plains: Mont., Neb., N.D., S.D., Wyo.

Southern Plains: Colo.,Kan., N.M., Okla., Texas

Western: Ariz.,Calif.,Ida., Nev., Ore., Utah, Wash.

Source: Dcpartntent of Agricuiture.

TABLE 7: Vocational Education and Income Farming

Insert Table 7 here

1. Exclusive of Home Economics

Sources: Department of Commerce and a study by E.O. Heady and W G. Stucky of the Center for Agricultural and Economic Adjustment, Iowa State University

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APPENDIX B*

***** Appendix B was prepared by the research staff of the Committee for Economic Development.

FARMS, FARM POPULATION AND FARMERS

Part of the controversy over farm policy arises because the terms "farm" and "farmer" provoke different images in the minds of different people. To one person the concept of a farm may be a large well-organized production unit which produces a substantial quantity of farm products. To this person only the people living on such units really are part of the farm population, and only individuals responsible for the management and the work on such places should be counted as farmers. To another person a farm is virtually any place located in a rural area with a plot of ground attached. And farm people to him, therefore, include all those who live on such places regardless of whether or not their major occupation is that of producing food or fiber. Quite often individuals with these different images of farms and farmers look at the incomes of the people involved and reach different conclusions as to whether or not there is a farm income problem.

The statistics which are available help little, if at all, to decide which image is the relevant image. The official statistics relating to agriculture are based on a specific definition of a farm, and any place which meets this definition is so classified. In 1959 all places of ten acres or more were counted as farms if the estimated sale of farm products for the year amounted to at least $50 or if they could normally be expected to produce agricultural products to meet this requirement. Places of less than ten acres were counted as farms if the estimated sales for the year amounted to at least $250 or if they could normally be expected to produce enough agricultural products to meet this requirement.

This definition of a farm is not the same as that used previously. For instance, in the 1954 Census of Agriculture, places of three acres or more were counted as farms if the value of farm products whether for farm use or sale, exclusive of gardens, amounted to $150 or more. Places of less than three acres were counted as farms only if annual sales amounted to $150 or more. A few places were also counted as farms if they normally could have been expected to meet the minimum value or sales criteria. Thus, over time the number of farms have depended in part on the definition in use at the time the Census of Agriculture was taken as well as the number of units in existence which met the definition.

Some idea of the importance of the definition can be obtained by looking at the change in the number of farms from the 1954 to the 1959 Census of Agriculture. During that five-year period the number of places counted as farms in the United States declined by 1,079,000 from a total of 4,782,000 to a total of 3,703,000. Of the total decline in farms of slightly more than one million, some 23 percent, or 232,000, was due to the change in definition. In other words, merely changing the definition to make it slightly more restrictive regarding places whose primary purpose is the production of farm products, accounted for a very substantial decline in the number of farms over the five-year period.

Regardless of the official definition of a farm at any particular point in time, there still exists a wide diversity within the units defined as farms and this diversity makes it extremely difficult to deal with the agricultural problems in an aggregate fashion.

Some idea of the diversity within agriculture can be obtained by an examination of the distribution of farms on the basis of total sales. In 1954, farms having annual sales of farm products of $5,000 or more made up 27 percent of the total number of farms counted in that Census of Agriculture. However, these farms accounted for 79 percent of all the sales of farm products recorded in that Census. Farms having sales of $2,500 to $4,999 annually in the 1954 Census of Agriculture accounted for 17 percent of the number of farms counted in that year, but only 12 percent of the total sales of farm products. On the other hand, farms with sales less than $2,500 accounted for 50 percent of all the places counted as farms in 1954, but they only accounted for a total of 9 percent of the total sales of farm products. Data regarding the sales of farm products by class of farm are not yet available from the 1959 Census of Agriculture. However, in 1959 farms having sales of $10,000 or more accounted for 21 percent of all the farms counted —farms with sales of $5,000 to $10,000 accounted for another 18 percent of the total number of farms; while farms with $2,500 to $5,000 sales accounted for 17 percent of total. Thus, farms with sales of less than $2,500 accounted for only 44 percent of the total number of farms in 1959 as compared with more than 50 percent only five-years earlier.

One may argue that the official definition of a farm is unrealistic and that it should more nearly be defined as a place which makes some contribution to the total output of farm products. However, the statistics available are based upon the official definition of the farm; and, moreover, as we shall see, it does little to change the fact that there are a large number of people living on places currently defined as farms which have relatively little income from other sources. Therefore, whether or not their total contribution to the production of farm products is large has little to do with whether or not they are primarily engaged in the production of farm products.

The Farm Population

Historically we have assumed in the United States that people who lived in the country lived on farms and had farming as their primary occupation. Thus, our Census of Population included two residence classifications—urban and rural. However, as time passed it became increasingly clear that not all of the people who lived in the country were engaged in farming. So in the 1930 Census of Population the rural population was divided into two categories—the rural farm population and the rural nonfarm population. Since that time it has been generally assumed that the rural farm population could be identified by asking people if the place they lived on was a farm. If they answered, "Yes" they were counted in the rural farm population. However, as we have seen, there are many problems in deciding what is a farm unit. So in 1959 and 1960 the Census decided to find out what would happen if the official definition of a farm, adopted for the 1959 Census of Agriculture, were applied to the places where rural people lived in taking the sample.

The results of using an official definition to decide whether the place was a farm were highly enlightening. In April, 1960, using the official definition of a farm showed that the farm population consisted of about 15.7 million people; whereas under the procedure previously used, merely asking people whether or not they lived on a farm, the farm population consisted of 19.8 million people. Thus, merely defining a farm more precisely reduced the estimated farm population by 4.2 million people—the result of removing 5.4 million people that would have been counted previously as farm population and adding 1.2 million to the farm population that would have been missed under the previous methods.

The new method of defining the new rural farm population probably improves substantially the concept of the people engaged in agriculture. For instance, the effect of the new definition was to delete a million people, or one third of the previously reported non-agricultural workers, from the farm population. The new definition at the same time only reduced employed persons in agriculture by 120,000 or about 3 percent. Even so, in April 1960, of the 6 million employed persons in the newly defined farm population, only two-thirds were employed in agriculture.

Thus, using the Census definition of who is now in the rural farm population and the Census definition of employment, which we shall discuss in a moment, we can get some idea of the farm population and what they do. It appears that in April 1960 there were approximately 15.8 million people living on places defined as farms. About 6 million of the persons living on farms were employed, with two-thirds of these people working entirely or principally in agriculture. However, during the same month, there were an estimated 5.4 million persons who were employed and whose major employment was in agriculture. Thus, it appears that about one-third of the people who live on farms have as their major employment industries other than agriculture, and about one-fourth of the persons who have their primary employment in agriculture did not live on places officially classified as farms. Thus, it appears that we must drop our older illusions regarding the agricultural population, farms, and farmers. It is no longer true that all of the people that live in rural areas are farmers, that all of the people who live on places classified as farms are primarily dependent upon agriculture for their living, or that all of the people who are primarily dependent on agriculture for their living have their residence on places that are classified as farms.

Not only is it difficult to define a farm and the farm population, it is even, if anything, more difficult to determine who really is dependent on agriculture as a source of livelihood. The United States Department of Agriculture publishes statistics on farm employment. It includes separate estimates for family workers and hired workers. It counts all of the persons employed as farm operators if they work one hour or more in the survey week. It counts unpaid family labor if they work 15 hours or more and hired labor working one hour or more per week. The Department of Agriculture samples farms, so that it is possible for an individual to be counted as working on more than one farm. Thus, this particular series on farm employment measures all people employed in agriculture, paid or unpaid, on a part or full-time basis. A simple average of this monthly series reported 7.0 million persons in the farm labor force for 1959.

The Bureau of the Census and the United States Department of Commerce also issue employment estimates for agriculture. These employment estimates are based upon sample surveys of households and persons are classified as employed if they work for pay at all or if they work in an unpaid status for 15 hours or more. However, the Census statistics only allow for one source of employment and the industry of employment is that industry in which the individual worked the most hours, so that persons shown as working in agriculture either spent more hours there than elsewhere or had no other employment at all. Farmers working more hours in a nonfarm job than on the farm during the survey period are classified in the nonfarm industry. The Census statistics for 1959 show 5.8 million persons employed in agriculture. These 5.8 million were composed of 1.7 million wage and salary workers, 3 million self-employed workers, and 1.1 million unpaid family workers.

However, these statistics do not measure the people actually working in agriculture. A Census study of multiple job holding in December, 1959 showed that about 3 million people were estimated to be holding two or more jobs and 970,000 of them were persons with a primary or secondary job in agriculture. A December 1960 survey showed about the same results and stated: "Farmers and professional and technical workers are two job holders to a greater extent than persons employed in other occupations."

Thus neither estimate of farm employment gives an accurate measure of the actual labor input in agriculture, either in terms of man-hours or in terms of equivalent full-time employed persons. The Department of Agriculture series consistently overestimates the persons working in agriculture by counting everyone almost without regard to the contribution they make to the industry or their dependence upon it. On the other side, the Census figures underestimate agricultural employment by failing to count persons who contribute to the farm labor force even though they work more hours in another occupation. Therefore, it is very difficult to really tell to what extent people are solely dependent on agriculture and to what extent agriculture has become a part of a dual occupation.

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