

THE obsession of modern governments with the "protection" of agriculture has led to economic and political problems, international as well as national, far worse than those predicted by the almost voiceless minority who have consistently opposed it.

Governments are deeply committed; and so involved has the whole system of agricultural support grown and so entrenched the various interests that even the smallest attempt to modify policies sets up political repercussions.

Nowhere more than in the U.S.A. have the economic effects of this obsession with agriculture had such wide repercussions and agricultural support and farm surpluses reached such fantastic figures. (The cost of farm support rose from £1,000 million in 1948 to £5,000 million in 1961.)

An attempt to look afresh at the whole problem, beginning with an examination of fundamental principles, has been undertaken by the Committee for Economic Development in the U.S.A. Their Research and Policy Committee is an impressive body of fifty leading figures in the business, professional and educational fields. The purpose of the Committee is to "Initiate studies into the principles of business policy and of public policy which will foster the full contribution by industry and commerce to the attainment of high and secure standards of living for people in all walks of life through maximum employment and high productivity in the domestic economy." The bylaws emphasize that: "All research is to be thoroughly objective in character, and the approach in each instance is to be from the standpoint of the general welfare and not from that of any special political or economic group."

The Committee does not sponsor any specific legislative proposals, but "Its purpose is to urge careful consideration of the objectives set forth and of the best means of accomplishing those objectives."

The title of the publication which examines national economic agricultural policies is *An Adaptive Programme for Agriculture*, and it was published in July, 1962.

The introduction setting out the Committee's aims regards the problem of agriculture as "An example both of the cost 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.*" (Our italics).

The view of the Committee is that three general kinds of policy are possible. We give them below.

Fear and Faith

POLITICS AND ECONOMICS

By R.

The Laissez-Faire Approach

If nothing is done to prevent it, the incomes of labour 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 labour 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 labour 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 limited 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

our n Agriculture

IN AGRICULTURAL POLICIES

SMITH

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 utilises positive government action to facilitate and promote the movement of labour 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 retain workers; that is, a generally improved labour 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 programmes that promote adjustment but cushion the effects upon people and property. 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 programmes applied to particular industries can ordinarily be temporary, whereas protectionist government actions generate the need for their own indefinite continuance.

The roots of the problem, according to the Committee, are found in a combination of five conditions. These (summarised) are:—

1. Swiftly rising productivity which has led to economy in the use of the factors of production (land, labour and capital) in order to produce a given quantity of agricultural products.
2. Decline in the use of labour relative to capital.
3. The slow growth of demand for farm goods owing not only to a reluctance by Americans to increase spending on food comparably with the increase in incomes, but also to a slow rate of growth of exports

because of foreign restrictions or lack of buying power.

4. A low response of demand to price changes owing to the general inelasticity of demand for food.

5. The inadequate flow of resources, particularly labour, out of farming into other industries, largely owing to temporary increases in demand during the second world war and the Korean war, the government's price support policies and unemployment in other industries.



Between the two world wars the American government initiated measures to support agricultural prices and incomes. It was expected that these measures would cease to be necessary as the economy improved and some improvement did take place during the second world war and for a few years afterwards. In 1948, prices and incomes again began to decline and a decision was made to support the prices of corn, wheat, rice, cotton, tobacco, peanuts and dairy produce above the prices at which these products would have sold in the free market. Quantities that could not be sold at the support prices were purchased by the Government and this has been the main ingredient of farm policy in the post-war period. By 1961 the Government had accumulated stocks of farm products for which it had paid \$9 billion, and by 1962 the costs of storage were running at about \$1 million a year. Several minor changes were made in an attempt to check the rise of costs and stocks including some reduction of price support levels, limitation of acreage, withdrawal of land from cultivation through government rental, and subsidized export of some commodities. These measures have had little effect.

Various consequences have followed the Government's policies:

1. Although the decline in farm incomes has been moderated, there is still a growing gap between farm and other earnings. In addition, a sudden withdrawal of government support would cause a sharp drop in incomes.
2. The programmes benefit the large farmers although the small farmers are most in need of help.
3. Price support has deterred the movement out of agriculture as farmers have been given erroneous expectations of future income. *Land prices have been raised and the financial capacity created by higher land values has encouraged investment of capital in agriculture.*
4. Controls have diverted some land from its most economic use to less economic uses, tending to reduce efficiency.
5. Taxpayers have borne such a heavy burden that growth of the economy has been impeded.
6. Bargaining for freer access to European markets has been impaired by the subsidizing of exports and by

the imposition of quotas designed to protect high domestic prices.

7. Although underdeveloped countries have received more assistance from the United States than they might otherwise have done, without these programmes they might have received other assistance more valuable to them and less costly to the American taxpayer.

8. Some sections of agriculture have been subjected to limitations on their freedom of action.

The Committee consider that this summary of consequences leads to only two choices for the future: one would be a stringent, leakproof control of production so that farmers would receive higher prices for a smaller volume of sales, although it is doubtful whether the policing measures necessary would be tolerated in America; the other would be an adaptive programme for agriculture inducing a large, rapid movement of resources, notably labour, out of agriculture. The second course, recommended by the Committee, would have to be pursued in a large-scale, vigorous and thorough-going way, while at the same time the sharp decline in farmers' incomes would have to be moderated.

The adaptive programme outlined by the Committee for Economic Development is so involved and hedged about with qualifications that the cure could be almost as bad as the disease.

A healthy agriculture demands a healthy economy as a whole; therefore the problem of getting excess resources of labour and capital out of agriculture is seen as a problem for the general economy and, according to the Committee, a problem which would necessitate monetary and fiscal policies to bring about a general steady rate of growth in total expenditure on goods and services.

A moderation of the rate of increase of wages and other labour costs in order to raise production rather than prices is also required.

The improved labour market would allow labour from farming to be absorbed in other industries. Together with this would go more emphasis on education of farm youths, including an increase in loans and scholarship grants, and the re-training of farm workers who leave



farming. These programmes should apply both to farm labourers and proprietors.

Agricultural prices would be adjusted but in order to cushion the process of adjustment three transitional programmes would be necessary: a cropland investment programme; an income protection programme, and a temporary soil bank. (Payment for not using land).

Concerning the adjustment of agricultural prices the

Committee rather naively considers that "The basic adjustment required to solve the farm problem cannot be expected to take place unless the price system is permitted to signal to farmers how much is wanted of what. 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 non-farm economy."

Although these statements seem close to recognition of the law of supply and demand there is to be some modification for "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 unprotected market."

The adjustment price is intended to continue for a transitional period of five years, during which time it would be hoped that farmers who did not expect to earn satisfactory incomes would move out. The cropland adjustment programme would also be an interim measure to compensate farmers for changing from one kind of production to another, e.g. from wheat to livestock, and the income protection programme would prevent the major impact of price adjustments from bearing excessively upon the farm community. The temporary soil bank (extending the existing soil bank) would enable both labour and capital to be retired from farming.

Further, it is considered that the programme would eliminate the differential between domestic and world prices, and lead to a liberalisation of agricultural trade: farm surpluses used for foreign aid should not be allowed to disguise the cost of present farm programmes.

By condemning the present system of agricultural support and protection, the Committee has in effect condemned all similar government props and aids, for agricultural support has always been justified by pointing to the protection rampant in other sections of the economy.

It is true that if the whole paraphernalia of protection were withdrawn the pattern of production would reflect demand, but in the event of a further depression, short of radical reform, the government would again be forced to intervene.

For our part we prefer the *laissez-faire* approach as outlined in the statement at the beginning—the most significant part of which is contained in the following words:

It (*laissez-faire*) works best when : (1) opportunities for employing labour 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.

(Continued on inside back cover)

FEAR AND FAVOUR IN AGRICULTURE

(Continued from page 48)

"Where there is a substantial departure from these conditions it is necessary to consider other approaches."
(Our italics).

We need hardly remind readers of how "a substantial departure from these conditions" comes about and how we should *prevent* it—not adapt ourselves to it.

What the Committee overlooks is the true meaning of *laissez-faire* which must be understood to mean not only the removal of legislative restrictions to production but also that deadly restriction to production brought about by the superstitious belief that individuals and groups can own for their private enjoyment the natural resources of the country. With true *laissez-faire* there will be no need to fear any departure from the conditions outlined and thus no need for the synthetic *laissez-faire* described in the Adaptive Approach.

The best that can be said of the Adaptive Approach is that it makes a genuine attempt at a compromise. And if we could ignore the land question and the multifarious forms of legalized privileges which bedevil our economy we might agree in a mood of compromise that the Committee's approach has *something* to commend it. But there can be no compromise with justice and with the natural laws of economics.

(Note: Some members of the Research and Policy Committee submitted memoranda of comment, reservation or dissent.)

FREEDOM THE ONLY END

(Continued from page 50)

owing to the speed and noise of modern civilisation may of course be greatly helped by a psychological practitioner, but he will only be finally cured by a change in that civilisation, which, in fact, need be neither speedy nor noisy. Again, the man who enjoys the power instinct vicariously in a national dictator will be cured finally only by the removal of the background which makes despotism possible, and which is far from being a permanent background.

In conclusion, the science of psychology seems to have an immense field of operation waiting for it which it has not yet tackled and which badly needs its co-operation. This field is the field of monopoly economics in so far as the economics has succeeded in warping the natural emotions of man. It has been shown in these pages that man, as a free producer of wealth in society, should receive wages and interest in proportion to what he contributes in labour and capital as his part of the total wealth produced, and society as a whole should receive the "earnings" of land, that is, its rent. On that basis the whole psychology of property, if nature is to be followed, should be built up, and if it is not built up, human psychology may well be warped. If then, the rent of land

does not go to society but to private people; if man is robbed of his proper wages by monopoly, wrong taxation and privilege, it is likely that a deep resentment comes out in curious forms. The task of a psychologist, as a sociologist at least, should in that case be to lay bare the *depth and structure* of this resentment and link it up with other branches of knowledge. To this task I recommend the psychologist of the future.

Land Values

(From *The Estates Gazette*)

"... PURELY FOR SPECULATION PURPOSES"

(Cornwall)

Again, a very good demand, although, of course, prices realisable are entirely dependent on the location. In general we find that sites are in extremely short supply and exceptionally good prices are obtainable for good coastal sites. The average price realised for four freehold sites each of about one-third-of-an-acre, at auction in June, was £1,600. These sites were at a popular holiday resort, with sailing facilities within easy reach. . . .

A difficulty is that although the Cornwall County Council have zoned certain areas for residential development, much of the land within these areas is still unused, because the owners are wishful to retain it for "protection" purposes or in the hope that it will increase even more in value; or it is owned by builders who are building, all too slowly, purely for speculation purposes. As the Cornwall County Council will undoubtedly refuse to make other land available until the "zoned" areas have been developed the position is not an easy one.

Unless some unforeseen crisis arises we anticipate that conditions during 1963 will be much the same as in 1962. With the existing shortage of houses we see no possibility of a fall in prices. Possibly there may again be some increase.

Button, Menhenitt & Mutton, Ltd.

"INCREASING DEMAND"

(Cheltenham)

High prices are still prevailing for the limited amount of building land offered for sale in acceptable positions. There is an increasing demand from people wishing to live a little farther out, and speculative builders are now prepared to develop estates in the country districts up to seven miles or more from Cheltenham or Gloucester, whereas a few years ago they tended to restrict their activities to within a couple of miles of the centre.

Engall, Cox & Millichap,
Chas. C. Castle & Son.