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Statement of

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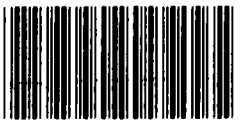
before the

Subcommittee on Forests, Family Farms and Energy

of the
ASE 00115

Committee on Agriculture

House of Representatives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on

The Structure of American Agriculture

Mr. Chairman and Members of the Subcommittee:

We are here today at the request of the Subcommittee to discuss the changing condition of American agriculture. On September 26, 1978, we issued a study entitled "Changing Character and Structure of American Agriculture: An Overview" (CED-78-178). My statement here today will summarize that study and include pertinent excerpts from our more recent study, "An Assessment of Parity as a Tool for Formulating and Evaluating Agricultural Policy" (CED-81-11), issued October 10, 1980. You suggested that it would be useful to link our two reports to the new USDA report, "A Time to Choose." While we have not had sufficient time to thoroughly study that report, I think that much of what we say here today will be in agreement with that USDA report.

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Significant changes have occurred in our Nation's farming sector during the last 3 decades. While the basic trend has been one of increasing concentration of farms as well as supporting facilities; the reciprocal has been a drastic reduction in the number of farms, people living on farms and a decline in rural vitality.

Farm numbers dropped from a high of 6.8 million in 1935 to 2.34 million reported in the 1974 Census of Agriculture. The U.S. has been losing an average of 2,000 farmers per week since the 1940s. Recent data indicates that this trend is moderating somewhat, however; and that 23,560 farmers left farming in 1980--a rate of 500 per week. In the past, most farms were owned by the families who operated them. Today, it is estimated that less than one-half of all farmland is owned by the farm operator and that 75 percent of those who own farmland are not actual farm operators.

These changes take on even greater importance when viewed in the context of agriculture's larger role in the U.S. and and world economy. Americans depend upon the American farmers' ability to produce food as well as his capacity to generate off-farm employment. One out of every five workers is employed by the agriculture-food system. It accounts for 25 percent of GNP, and it exports the produce from one out of every three harvested acres, making it a contributor to balancing our Nation's staggering trade deficit. Over $42 billion of U.S. agricultural exports were tallied in 1980 with exports projected to reach $120 billion by 1990. The significance of the food system is such

that without adequate safeguards, the U.S. economy can be significantly affected by the uncertainty of other nations' agricultural demands.

Generally, three basic pressures have contributed to the concentration and specialization in the farm sector and the growth of new farm characteristics. These are:

1. The cost-price squeeze,
2. The technology treadmill, and
3. Government programs.

Cost-price squeeze

Since World War II, general inflation and rising costs of farm inputs have continually narrowed profit margins per unit of output. To maintain income, the surviving farmer increased his farm size, altered his production/marketing practices, expanded production, and/or sought off-farm income. While the cost-price squeeze during the 1950s and 1960s removed many of those smaller volume farmers who did not expand or improve production, even the most aggressive farmers of the 1970s are feeling economic pressures. This is because productivity per acre has leveled off and thereby has limited, at least temporarily, future production increases to farm expansion. This cost-price squeeze particularly inhibits the entering farmer whose land amortization costs alone can exceed over 40 percent of his gross income in an average production year. Slight variation in yield and prices can cause extreme financial difficulties.

Technology treadmill

In an attempt to maintain income through increased production, farmers made use of technological breakthroughs. However, they found themselves requiring more equipment and then more land, and still more powerful and faster equipment to stay ahead of narrowing profit margins, inflation, and competitive pressures. The result of farm product specialization over the last 2 decades was that farm worker productivity increased nearly twice as fast as that of the industrial worker. However, to maintain this productivity, the farmer became dependent upon petroleum-based inputs of fuel, fertilizer, and pesticides as well as other agro-industrial services to operate his increasingly specialized farm. As these specialized and nonrenewable inputs become more costly, cost/price inflationary pressures on the farmer will increase.

Government programs

In retrospect, Government policies, programs, and regulations have had structural implications which have not always been evident.

Government programs have been keyed to production; therefore, the bulk of the benefits have accrued to those responsible for most of the production. This means that the small number of large farms which produce most of the commodities in this county receive the greatest proportion of Government assistance. Some Government assistance programs have also become capitalized into land values, thereby primarily benefiting larger landholders.

Similarly, Government tax policies have promoted the trend away from smaller, family-owned and -operated farms. Past Federal income tax laws provided an excellent tax shelter for outside investors. Recent estate tax laws may inhibit sale of farmland outside the owning family, with fewer avenues for new farmers to enter.

In addition, Government policies to foster foreign sales have put agriculture in a precarious position. Agriculture's new role in the economy has made the U.S. farmers vulnerable to the uncertainties of world market conditions and as a result has placed the U.S. in a position which may demand increased Governmental activity to help buffer fluctuations in supply and demand.

Should we be concerned about structural changes?

Should we be concerned about the trends outlined above? Many think not. Even though the number of farmers are declining, farm production is increasing. Agricultural exports continue to grow, and the American consumer has a bountiful supply of food available at comparatively favorable prices.

However, the 1980s could prove to be a volatile time of transition for American agriculture, resulting in alteration in both farming methods and the ownerhip and operations of the farms.

Opportunities for bringing new land into production are becoming increasingly limited and costly. This, coupled with U.S. farm land losses of nearly 3 million acres annually,

indicates that future farm output gains will need to rely increasing once again on improved productivity.

However, the constraints on achieving productivity increases are mounting rapidly.

--Technological, especially biological, breakthroughs appear limited in the short-run as inflation and budgetary cutbacks and redirection of research spending since the mid 1960s has severely constrained, if not dried up, the technological pipeline,

--Fuel supplies and availability are in question as supplies tighten and costs increase,

--Underground water supplies are being depleted and, when available, are more costly to pump,

--Regardless of farm size and organizational structure, soil erosion is increasing with as much as one-third of the U.S. cropland losing top soil at nearly twice the rate that would allow soil productivity to be maintained,

--Fertilizers and other petrochemicals which have been responsible for our tremendous growth in productivity since World War II are becoming increasingly costly, and

--Capital availability and its cost will have a dampening effect on any broad-scaled effort to achieve productivity gains.

The bottom line is that significant increase in agricultural production will be harder to come by in the 1980s.

On the demand side, however, exports of U.S. farm commodities during the next decade should continue, some projecting that it will triple by 1990, barring unseen political complications, primarily the result of population and economic growth throughout the rest of the world. However, such dependence upon foreign demand will place the American farmer in an extremely volatile situation in which he has no control over gyrations in other countries' food demands, fluctuations in our monetary policies, and political uncertainties both at home and abroad.

Where do we go from here?

Although the Nation has generally benefited from trends toward greater technological advances, declining margins, declining number of farms, and larger farms, recent studies have suggested that, if the trends continue unabated, the secondary impacts may well be a loss of farm sector resiliency, a decline in rural viability, a cutback in efforts to conserve our fertile soil, and less competition. We do not have a good tool to measure the direct nor secondary impact of structural trends.

In our assessment of parity as a tool to measure the agriculture sector's well-being, we concluded that, although parity is somewhat useful as a barometer or indicator of economic well-being, it does not adequately reflect total farm sector well-being, total personal income of farm families, or increased farm assets and equities. In addition to parity as an indicator of the farm situation, a broader framework is needed to analyze and evaluate farm policies and programs.

Sociology, physical and institutional environment, technology and national security should be considered along with economic efficiency on a more systematic and comprehensive basis in formulating and assessing policies that impact on the agricultural sector. We have developed in the table attached to my statement, a proposed framework which needs further development by USDA to flesh out the pertinent issues and subissues. The framework, however, can be a starting point for USDA and others in setting up a systematic methodology for considering the impact of various alternative policy options.

Some of these impacts are considered in setting policy today. Our proposal would assist in ensuring that all major impacts are systematically considered in formulating and evaluating agricultural policy. Our conceptual framework visualizes that economics, social soundness, environment and politics play overlapping roles in the process of determining a desired farm policy.

This concludes my statement, Mr. Chairman. I will be glad to respond to any questions.

COMPREHENSIVE AGRICULTURAL POLICY FRAMEWORK