

The Search For Parity

It is unthinkable that . . . we should accept the status of a distinctly industrial Nation . . . we should be a well-rounded Nation with a high development of both industry and agriculture, supporting one another and prospering together.—President Warren G. Harding

. . . the agriculture of the Nation is in bad shape . . . —Secretary Henry C. Wallace

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ABSTRACT—Since World War I, the planning environment of farming in the United States has changed beyond recognition, as new laws set up agencies and programs designed to improve the farmers' lot and develop a sound agricultural industry. If we are serious about improving private incentives to forestry, farm experience suggests that we should try to correct imperfections in such basic institutions as markets, ownership, credit and information.

Neither President Harding nor the elder Wallace foresaw when they opened the National Agricultural Conference in January 1922 that farmers would stay in bad shape until they were bailed out by World War II demand. In fact, the trouble started shortly after World War I, when the nations that American farmers had been feeding got organized to look after themselves more quickly than anyone expected. The sudden drop in American exports flooded our domestic markets, and the bottom fell out of farm prices. Farm-

ers' losses led them to try and catch up by planting and selling even more the next year. This, of course, produced a continuing glut and threw the market system into a vicious tailspin that for decades defied the corrective efforts of any single farmer acting on his own. Gradually it became clear that some kind of collective action was needed to modify the workings of the free market system before it destroyed so many farmers that a violent swing toward scarcity and sky-high prices would be needed to produce the food city people needed.

For the greater part of the next three decades, coping with the "farm problem" was a major preoccupation of Congress and the Administration¹. A wide and changing array of programs and incentives was created by new laws designed to ameliorate the workings of

¹Those who are interested in further reading will find the Yearbooks published by the United States Department of Agriculture a good place to start. The 1940 issue, "Farmers in a Changing World," is especially useful along with the 1962 Yearbook, "After a Hundred Years."

the private agricultural system so that farmers might be about as well off as other citizens. Very largely due to the social innovations of the depression years, we have been able to feed ourselves and a substantial part of the rest of the world since World War II. Only now do we seem to be approaching the production limits set by our resources and the peculiar blend of private and public farm incentives that has developed since the 20's.

All the while we were creating a new social environment in which farmers could prosper, foresters were struggling to upgrade the treatment of woodlands. Over the years, we have made great strides toward the positive management of most public and industrial forests. But these account for only 41 percent of our commercial forest land, the rest is in small holdings. Farmers have less than half, and people from all walks of life own the rest for a variety of reasons. All the "small owners" act just about the same now as they always have; most practice a low intensity of management, and many cut no wood at all.

Why have foresters had so little success with the majority of forest landowners while the whole character of farming has been changed for the better? This review of farm problems and the attempts to solve them is presented in the hope that we can find parallel forest problems that may yield to similar changes in the social environment of forestry.

The First Steps

The search for farm parity started in the usual way with a ritualistic appeal to rugged individualism when the President said at the National Agricultural Conference, "It cannot be too strongly urged that the farmer must be ready to help himself. This conference would do most lasting good if it would find ways to impress the great mass of farmers to avail themselves of the best methods." As usual, exhortation accomplished little, and as the farm economy slumped from bad to worse over the next seven or eight years, it was gradually recognized that no single farmer could possibly cope. Finally, the government was convinced it would have to act.

The natural desire of officials to move gradually, with a minimum of public activity and responsibility, produced an early drive to promote farmer cooperatives as a sort of do-it-yourself rescue. Co-op groups were already exempt from the anti-trust laws, but even with additional official encouragement, farmers proved to be more independent than cooperative when it came to selling their crops. Nevertheless, the 1929 Agricultural Marketing Act, which was the first significant piece of new farm legislation, created the Federal Farm Board partly to try and strengthen farmer co-ops with special loans. But most co-ops were too small or too poorly managed to gain the degree of monopoly power needed to force prices up.

Finally, the board itself, convinced that co-ops could not turn the tide alone, started to buy commodities and hold them off the market in hopes of stabilizing prices. However, without any control over farm production this purchasing program proved futile.

Although the Federal Farm Board is now generally forgotten, it did gather useful experience and prepare the way for what followed. The New Deal farm program is probably best remembered for the things it did trying to improve farm marketing, but we must not forget that important institutional changes were also made in ownership, credit, and farmer information. The best of these programs continue in one form or another today; some already cover woodland and others may be applicable to forestry.

Marketing

Traditionally, when more crops were needed, market prices rose and farmers responded by producing more. On the upswing, everything was fine; consumers got their goods and farmers got more money. The problem came when prices fell as a signal that less was needed, and farmers tried to keep up their lagging incomes by planting and selling more. This kind of logic produced cheaper food for consumers, but it also quickly turned reduced farm incomes into outright losses and eventual bankruptcy or foreclosure. Although the market system was trying to reduce surplus farm production in the long run, the first effect was to eliminate farmers rather than crops, and the human suffering this entailed became intolerable long before production dropped.

The various agricultural adjustment acts that were passed over the years all attempted to cope with this market paradox by putting a floor under farm prices. This "parity price" was set so that the things farmers sold would have a fair price relationship to the things they bought, and the government stood ready to buy farm commodities at this price. Next, in order to reduce the production that was depressing prices in the first place, it was necessary to limit the number of acres a man could plant with crops that were in surplus supply. Because production could still be raised by using more fertilizer, it was sometimes necessary to place an additional marketing quota on the amount a man could sell at the support price.

The Commodity Credit Corporation (CCC) did the federal buying and selling without overly disrupting the normal free market. A farmer could always sell wherever he could get the best price. If the private market was above parity, he sold there, if not, to the CCC. Or if he wished to gamble a bit, he could get a purchase agreement from the CCC at harvest time as an anchor to leeward, hold his crop for a while until he was convinced that prices would not go above parity, and then sell to the CCC. Alternatively, he could finance this "wait and see" strategy by getting a loan from the CCC for most of the parity value of his harvested crop. If he sold to advantage privately, then he could pay off his loan; if not, he could deliver his crop to the CCC, get the rest of its parity value, and have the loan cancelled. The CCC would in turn hold its surpluses until market demand rose enough to absorb them without depressing prices, or it might try to move them into such non-normal consumption as foreign aid, the food stamp plan, the hot lunch program, and the like.

All in all, the program had considerable built-in flex-

ibility that encouraged a farmer to seek out his best market. However, the acreage allotments that went with parity price support introduced considerable rigidity. Production restrictions were generally based on past farm records so that existing producers would not be left out in the cold. Needed acreage reductions were then parcelled out more or less proportionately to the acres planted in the past. Unfortunately, this procedure tended to freeze production into its historic mold, making it hard to promote shifts away from traditional surplus crops and toward commodities in short supply, because no farmer wanted to give up an allotment he might need later. This "dog in the manger" attitude also suppressed inter-regional competition, for instance, by keeping cotton in the Old South long after it could be grown more cheaply by low cost methods specially designed for use only in Texas or California. This rigidity became ever more crippling as the years rolled by and technology and social needs changed from their base year levels.

Another market-modifying technique was to have the Secretary of Agriculture write a "marketing order" which set the minimum price that first handlers in a given geographic area must pay farmers for their produce. This has been widely used to control the flow of fluid milk into most of our larger cities. Only recently have some farmer co-ops like Yankee Milk gotten strong enough to bargain with the dairy industry and get a higher than minimum price.

Still another technique is to allow the producers of a given area to enter into a "marketing agreement," sanctioned by the Secretary, which lets them protect the quality of their products by grading and then diverting the below grade part of the crop to non-normal channels. The Maine potato farmers, for instance, can change the size of the table crop, even after it is harvested and in storage, simply by adjusting the diameter needed to qualify a potato as "U.S. No.1," thus diverting more or less into starch, chips, powder, flakes, or fries. The fact that they can change the effective supply of table potatoes gives these farmers substantial power over market prices.

Ownership

The popular myth that farmers were independent, landowning yeomen was being challenged in 1930 by the fact that 41 percent were tenants. This growing trend seemed dangerous to many, and several efforts were made to help farmers become landowners. The Resettlement Administration made an interesting contribution by taking families off submarginal farms and putting them on better places. Often the change was to new villages specially built to promote a way of life centered on farming, home crafts, and light manufactures. Experience was quite mixed, and although the program was small, it became very controversial and newsworthy. There are probably more lessons here for those who wish to experiment with "new towns" than there are for foresters.

Another basic aid to tenants and farmers too poor to get regular credit was through "supervised credit" from what finally became the Farmers Home Administration (F.H.A.). The idea was that once on a

decent farm and with a debt tailored to farm repayment capabilities, farmers would make it on their own. Long-term mortgages were given at a favorable 3 percent rate, and security for the loan was based on a farm plan made by specialists to show how the operation should go in order to pay out. Skilled agriculturists were hired to supervise the work of such borrowers so that the farmer got better training right along with the money needed to make changes. The added effort seems justified by the large number of farmers who finished paying for their farms. In fact, once the agricultural depression was over, a good many rural banks took a leaf from the F.H.A. and hired specially trained men to handle their farm credit operations.

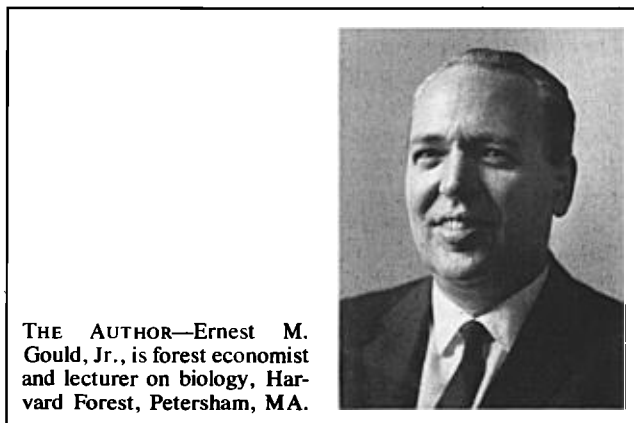
Experience was generally good with the programs that helped poor farmers buy their farms or expand them to make more profitable operating units. Loss experience with these underprivileged farmers was little different than commercial banks realized with the better credit risks that they serviced.

Credit

Tenants and submarginal farmers were not the only ones having trouble finding enough money to do business, and many normally successful farmers were being turned down by regular banks. Under the Farm Security Administration, a number of farmer-controlled, cooperative credit institutions were set up to help out.

The 12 Federal Land Banks which blanketed the country were set up in 1916 using public capital. Land Bank Associations, co-ops in which land bank borrowers had to buy shares, were an integral part of the system. The associations eventually sold enough shares to repay the federal loan and then take over the operation of the banks. This scheme became an important prototype for getting federal seed money to set up banks that would eventually be owned and operated by their users.

While the land banks specialized in long-term mortgage loans, there was a parallel development of Production Credit Associations which made needed short-term crop loans and intermediate-term loans for equipment. In addition, 12 regional Banks for Cooperatives were also set up to help finance farmer co-ops. Altogether, these new credit institutions have had excellent pay-off experience and certainly filled a



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forestry incentives

great need at the time they started. However, as with many other institutions, after years of success, some people think they have become about as conservative in their practices as ordinary banks. Be that as it may, their history shows that credit can be put to good use by seemingly high-risk people and that the availability of capital is often critical to survival in hard times.

Information

Someone has said that "Information is power," and agricultural experience seems to bear this out. The American theory that successful farmers are informed and well educated led to the establishment of the state Colleges of Agriculture and Mechanic Arts under the Morrill Act as early as 1862. Later a more effective system of information gathering and distributing was made by adding first, the Agricultural Experiment Stations to research farm problems, and then the Cooperative Extension Service to carry the newest technology directly to farmers.

Two additional information activities greatly increased the capacity of farmers to plan their work intelligently and to market their crops to advantage. The first is the Crop Reporting Service which came into being to devise and use reliable methods of estimating the size of the nation's farm crops in advance of harvest. Their intelligence operation begins with sampling farmers' planting intentions and then follows the actual progress of each crop throughout the year. Knowing what others are doing has made it much easier for farmers to shift out of commodities that promise to be in surplus and into those that may be in short supply.

The other aid is reliable daily market reports. It is now commonplace for a farmer to be able to get a sampling of the current sales of produce in his local market. He need no longer guess about prices or use out-of-date information. All in all, farmers have been helped significantly toward being more skillful sellers and producers.

Even though part of this information engine was working when the depression hit in the 1920's, it soon appeared that lack of money kept many informed farmers from trying new practices. Information by itself was not enough; farmers needed cash help to really learn by doing. Under the Agricultural Conservation Program rather large numbers of practices were devised that would in the first place preserve the productive capability of land and in the second place contribute to greater and more efficient production. Most of these involved a significant delay between the initial investment and the pay-off, so the federal government offered to share the cost if farmers would try such things as liming and fertilizing, tiling and ditching to improve drainage, contour plowing, terracing, and sod waterways to reduce erosion, and the like. In farm woodlots such things as planting, pruning, precommercial weeding and thinning were also set up for cost sharing.

All in all, the cost sharing program has established many new practices more quickly than might otherwise have happened. And in some cases, such as liming, it has so promoted use that whole new supply businesses have been set up to serve the demand. The

initial idea was that as soon as a new practice caught on, the subsidy would be withdrawn and the money used to back the next most promising innovation. In general, this has been slow to happen because subsidies tend to take on a life of their own. However, they did promote change at a time when cash was scarce.

Later after World War II, when production was again running up embarrassing surpluses, steps to promote increased efficiency seemed redundant. Several administrations tried to get rid of the cost-sharing programs, but, until recently, Congress stubbornly refused to leave them out of the budget. Ironically, the world food situation then changed so quickly that any program to promote greater production seemed a good thing, and cost sharing has a new lease on life.

The sum of these changes in the institutions of marketing, ownership, credit, and information has taken so much of the uncertainty out of farming that a new and more favorable agricultural planning climate has been created. This has been one of the main things that has helped farmers see their way clear to make the heavy investments needed to carry on the intensive kind of agriculture that is so peculiarly American. Thus social action is probably the main factor that has allowed American farmers to become the most productive in the world.

What About Forestry?

It appears to me that several serious flaws in the present forestry situation could be solved by actions like those that worked with farmers. First, and probably most serious, the market for stumps and sawlogs is so far from perfect that many of the private owners of small tracts have a hard time looking at timber as a sound financial venture. Few have any connection with forest industries, and many of these folks have great difficulty marketing their timber to any reasonable advantage because they are badly informed about what they have to sell, how much it is worth, or how to go about making a sale. The public and industrial owners of our commercial forest land are quite capable of solving their own marketing problems, but the "small private owners" need help.

Market Information.—Considering what the average "small owner" knows about the value of timber, it is a wonder any one of them seriously considers growing it for sale. It is hard for such an owner to even find a buyer, to say nothing of judging whether the buyer is reliable and his offer is fair. It would help a great deal if farm market reports could include information about the kinds of timber in demand, whether prices are up or down, and who is anxious to buy. In fact, the stumpage market is so diffuse in many parts of the country that it will be a challenge to work out what to include in a reliable market report. Any public effort like this designed to improve the stumpage and log market will probably be opposed by those who profit from fleecing innocent landowners. However, responsible industries should welcome a change if it leads more landowners to seriously consider their timber options.

Reliable market reporting will soon make it clear to

interested people that timber prices are always going up and down with the season and with the building cycle. Although pulpwood prices are relatively stable, sawtimber stumpage is, in a very real sense, largely unpredictable over any significant period of time. It is clear that owners who sell more on the upswing and little on the down make more money than those who do not play the market. In addition, selling when prices are up and holding off when they are down is exactly the socially desirable behavior the private market system is trying to induce.

In the past, varying prices have made forest marketing a game that only the well-informed could play. Public market reporting could help rescue many more private owners from being unwitting players and might entice "new owners" from the city to sell timber regularly.

Premature Selling.—Even with good information about the current state of the market, there are still many private owners who can't wait for prices to improve. Others sell their timber stands as soon as they are merchantable, often at a time when growth into new product classes is actually increasing the timber value faster than ever before. Even though many of these owners know they are selling prematurely, they can't afford the extra waiting time.

In cases like this, holding longer would not only benefit the owner with a greater return, but also the public could gain by having more of the scarce high-grade logs available. A public agency like the Commodity Credit Corporation could stand ready to buy such timber before it is forced on the market. The CCC could pay a sort of "parity price" and hold the standing timber until it is either more mature or the market improves. Alternatively, the standing timber could be collateral for a loan at a price that represents some fraction of its "normal" value. In the case of young timber, the loan or sale value might be its expected mature value, discounted for the necessary holding time.

Under such a program, outright purchase would make the public assume all the risks attendant on holding the timber, so the public should logically reap all the increase in value. On the other hand, if a loan were made for something less than the full value of the timber, the private owner and the public would be sharing the risk of loss and should share in the gains of waiting. With such a loan, however, it might be desirable to have insurance against catastrophic loss.

As an aside, I believe that too few people realize how much the outcome of a forest management decision will depend on the price actually realized at selling time. Economists have not really helped clarify the role of future price levels because they so often have used some variety of investment analysis where prices must be assumed before any answer is possible. After that, the assumption is neatly buried as a mere detail of the investment calculation. The owner is asked to choose a course of action because its rate of return is best; he is never asked to decide whether the prices needed to generate that return seem reasonable.

Emphasis might be placed where it more rightly belongs if we used a technique of accumulating costs at a

target rate of interest and then saw what kind of a timber price would be needed to pay off. This would focus the decision-maker's critical attention on the likelihood that the necessary price will actually materialize.

But whatever system of analysis is used to plan forest production, a program of public loans and purchases at appropriately discounted prices would put a floor under timber prices which might restrict market uncertainty to more manageable proportions.

Cost Sharing.—It seems likely that the regular program of sharing the cost of forest investment practices will continue. Future problems will probably center on the level of program funding and on the share the public should undertake. More thought should be given, however, to how the total private investment in publicly desirable forest management can be increased. Recognizing the kind of innovative practices likely to catch the attention of the many "new owners" who hold their land largely for non-timber benefits may be at least as important as the size of payment.

So far, except for roadside beautification, not much effort has gone toward including practices that contribute much to landscape amenity. Similarly, wildlife and watershed values have gotten little attention, yet these sorts of values are all high on the list of reasons a city-oriented owner has for buying forest land. These benefits are also widely enjoyed by the public at large. If we really wish private owners to produce more of such public, nonmarket values than they need for themselves, it seems only fair that the public should make a cost contribution. Practices aimed at these nonproduct values should figure more prominently on new cost-sharing lists.

In addition, because the public must enter on private land to enjoy some amenity and recreation values, and this may detract from the privacy value of the land and cause extra maintenance costs, it would be appropriate for the public to pay for that privilege. Cost-sharing payments could be made to owners who will refrain from posting their land, contribute rights-of-way, or take other positive action to increase the public's enjoyment of private land. Some such payment for services rendered may be the only way that much of the forest land that still exists near cities can be opened to the public. Without access to nearby land many urban folks will never get into woods of any kind.

Credit on favorable terms could obviously play a role by helping private owners round out more economic operating units and use forestry that will produce a wide variety of values. But probably enough has been said to show that forestry does suffer some of the malaise that once afflicted agriculture, and some of the remedial schemes might work again. As in farming, we should aim for that critical mass of public action needed to create a new and improved forest planning climate. Without such a change, it is likely we will continue futile exhortation and minor cost-sharing subsidies to small private owners rather than provide them with an environment that effectively leads to the practice of forestry. ■