

# SOLVING THE FARM INCOME DILEMMA: THE NEW FARM PROGRAM AND THE OUTLOOK FOR 1978

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Compared with recent years, when farm prices behaved erratically and made farm income prospects uncertain, the outlook for 1978 is reasonably clear. In short, farm prices—even after allowing for a few surprises—are not likely to show unusual strength in the year ahead because supplies of most farm commodities are ample. Thus, net farm income is likely to remain at a relatively low level in 1978.

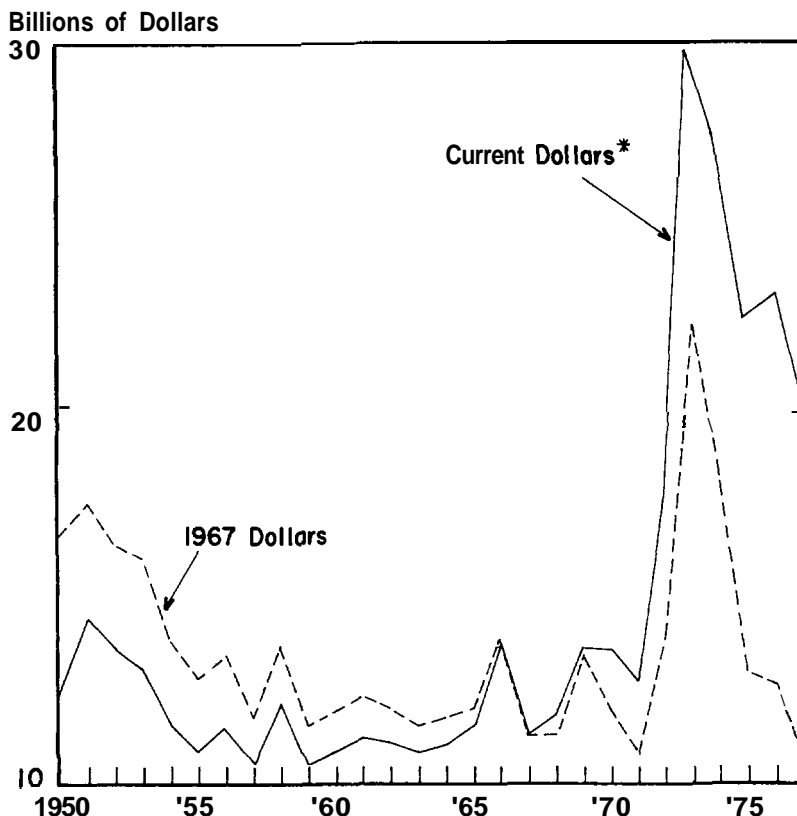
Although gross farm income normally rises each year, realized net farm income often varies widely from one year to the next. Using current dollar figures, net farm income has slipped from a high of almost \$30 billion in 1973 to approximately \$20 billion in 1977 (Chart 1). Most of this **decline** is attributable to sharply rising production costs, which underscores agriculture's vulnerability to the ravages of inflation. When these figures are adjusted for inflation and expressed in real terms, the recent results for net farm income are quite sobering. For example, the \$20 billion earned by farmers in 1977 amounts to only \$11 billion when measured in constant 1967 dollars, representing the lowest net return to agriculture since the Depression, and compares with \$22 billion in constant dollars for 1973.

Most agricultural analysts agree that the prospects for farm prices and incomes in the near future are not bright. Given the recent diminution in net farm income and the attendant problems with financial liquidity,

many farmers are increasingly looking to the U.S. Government for assistance. In large measure, the Government has responded. The Food and Agriculture Act of 1977—signed into law by President Carter in late **September**—significantly increases the level of Government aid to farmers. In fact, many of the benefits of the new program were made retroactive to cover the 1977 crop year. Thus, after a brief period of little intervention in agriculture, the U.S. Government is once again stepping in to exercise closer control over the production and marketing decisions of farmers as part of an income support program.

Although it is widely agreed that a fundamental goal of farm policy is to foster the growth and development of a prosperous and productive agriculture, differences arise as to how much direct involvement the Government should have. For example, should farmers expect to obtain their incomes solely from the marketplace, however capricious it may be, or should they expect some support from governmental assistance? Were it not for problems of excess production in agriculture, the answer to this question would be clear. Direct involvement from the Government should be minimized. But because of the enormous capacity of the American farmer to produce food, low prices frequently prevail in the marketplace, causing financial distress for many farmers **and** creating a need for outside assistance.

**Chart 1**  
**REALIZED NET FARM INCOME**



\*Current Dollars are deflated using the "items used for family living" component of the Index of Prices Paid by Farmers. Government payments are included in the data.

SOURCE: U.S. Department of Agriculture.

As farm policy has evolved over the years, several **different** philosophies and approaches have been used to develop a suitable support mechanism for **agriculture**.<sup>1</sup> The new farm program represents another refinement in this evolutionary process which may cause the Government to play a more active role in agricultural affairs for the next 4 years if farm prices remain depressed. After reviewing the

<sup>1</sup> Marvin Duncan and C. Edward Harshbarger, "Agricultural Policy: Evolution and Goals," *Monthly Review*, Federal Reserve Bank of Kansas City, November 1977.

major agricultural developments of **1977** and examining the commodity outlook for **1978**, this article discusses some of the principal features of the new law, giving special attention to the likely impact on farm prices and incomes in the year ahead.

### **1977 HIGHLIGHTS**

Although the demand for farm products has remained strong in both the foreign and domestic sectors, large increases in supplies of several major farm commodities have caused prices to tumble significantly in the past year.

Most of the price declines occurred during the second and third quarters of the year when it became apparent that the **1977** crops were going to be bountiful. During this period, soybean prices fell from nearly **\$10** per bushel to less than **\$5** per bushel, while wheat and corn prices both dropped about 50 cents per bushel. As a result of the deterioration in grain prices, coupled with the seemingly inexorable rise in production costs, the prospects for improvements in net farm income during the second half of **1977** faded considerably.

Despite some slippage in **1977** farm prices, cash receipts from farm marketings will likely match the **\$94** billion farmers received in **1976**. Returning to a traditional situation that has not existed since **1974**, livestock receipts are expected to exceed crop receipts this year, reflecting the relative strength of livestock prices. Another important change this year concerns Government payments to farmers. Although hardly new, deficiency payments are being made to wheat farmers this year because the average price for wheat during the first 5 months of the marketing year (June-October) was below the \$2.90 per bushel target price specified in the new farm legislation. These payments—amounting to about **\$1.1 billion**—are the first of this type since **1973** and have helped push total gross farm income for **1977** to an estimated **\$105** billion, or slightly above the **\$103.5** billion earned in **1976**. However, higher production costs, which have more than doubled in the last 10 years, will offset this gain, nudging net farm income somewhat below the **1976** level.

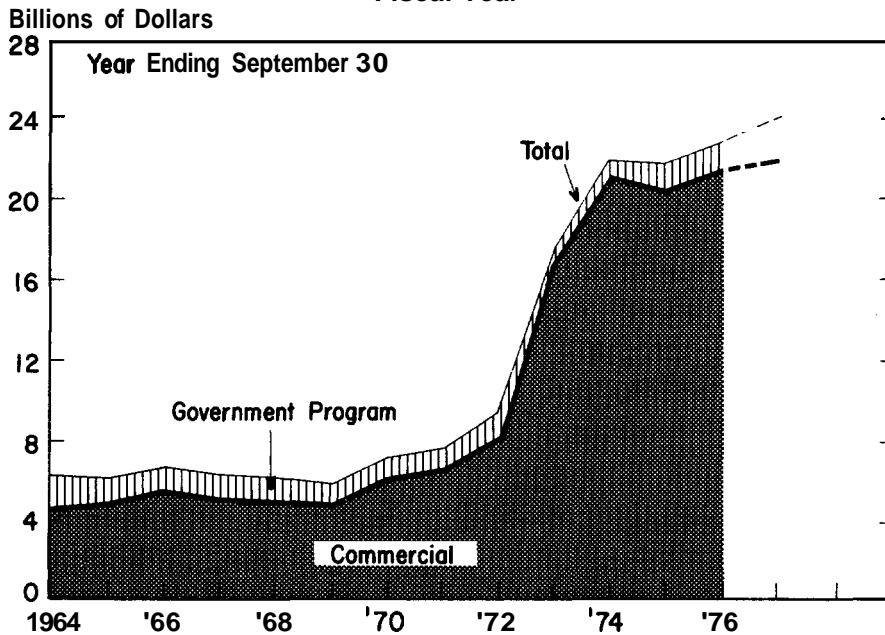
The livestock sector has provided a mixture of surprises this year. A year ago, it was expected that cattle prices would probably show significant strength in **1977** as beef supplies diminished, and that hog prices would probably decline sharply given the prospects for bulging supplies. With the benefit of hindsight, it can now be seen that the markets exhibited far more stability than was expected. After choice steer prices rose from **\$37** to about **\$42**

per hundredweight in the spring, prices fluctuated within a relatively narrow range that centered on **\$40** per hundredweight for the rest of the year. Similarly, prices for barrows and gilts tended to stay reasonably close to **\$40** per hundredweight as well. This unusual price stability stemmed largely from the manner in which producers marketed their livestock, although the strength in consumer demand for red meats also contributed to the performance of prices in **1977**.

During the first 9 months of **1977**, total red meat production was about 2 per cent more than in the comparable year-earlier period. A 2 per cent drop in beef, lamb, and mutton production was more than offset by a 12 per cent gain in pork output. Total beef slaughter included more animals from feedlots than originally anticipated as declining feed costs encouraged producers to place more cattle in feedlots in **1977**. Moreover, the slaughter of grass-fed animals was somewhat above projected levels due to poor grazing conditions in several areas. Both developments had a positive effect on beef output, which explains the sluggish behavior of cattle prices during the second half of the year. In the case of hogs, the significant gains expected in **1977** pork production never completely materialized. Producers apparently exercised some caution in their expansion plans for **1977**, though heavy death losses in the pig crop last winter also took its toll. Since pork output in the second half of **1977** is running below earlier expectations, prices have held up surprisingly well.

To summarize **1977** crop production, wheat output exceeded 2 billion bushels for the third consecutive year, despite drought problems early in the growing season. The corn and soybean harvests both established new records this year. Although corn output—at 6.3 billion bushels—was up only marginally from last year's record, soybean production jumped nearly a third over the 1.26 billion bushels produced in **1976** as both acreage and yields increased. Cotton production was also up

Chart 2  
U.S. AGRICULTURAL EXPORTS  
Fiscal Year\*



\*The fiscal year for agricultural exports was shifted from July 1-June 30 to October 1-September 30, beginning in 1975.

SOURCE: U.S. Department of Agriculture.

sharply in 1977, increasing about 25 per cent over 1976 levels.

### THE OUTLOOK FOR 1978

Since supplies of most agricultural commodities are likely to remain large in 1978, the performance of farm prices and incomes will depend largely on future growth in demand. The slowdown in the domestic economy during the second half of 1977, together with some uncertainty about the outlook for 1978, raises a few doubts about the ultimate strength of consumer demand for food. However, further real growth in GNP is expected in 1978, which suggests that the overall demand for food will rise. Moreover, a growing population and an expanded food stamp program will likely provide additional support to the demand for farm output in the coming months.

Although world grain stocks are rising, the outlook for U.S. agricultural exports remains favorable, especially if viewed from a historical perspective. While foreign shipments may decline 5 to 10 per cent in the new fiscal period (October 1-September 30), sales will still compare very favorably with the lofty levels achieved during the last 4 years (Chart 2). In the 1977 fiscal year, shipments abroad were valued at \$24 billion, 5 per cent above a year earlier. Most of this increase was attributable to larger sales of soybeans and cotton at very favorable prices. The surplus from agricultural trade, amounting to \$10 billion in fiscal 1977 and to \$12 billion in each of the three previous periods, has helped alleviate a serious international balance-of-payments problem in the United States. Unfortunately, this problem will continue to be worrisome in the period ahead even though agriculture will enjoy

**Table 1**  
**BALANCE SHEET FOR MAJOR CROPS**  
**(Millions of Bushels or Tons)**

	Corn (bu)		All Feed Grains (tons)		Soybeans (bu)		Wheat (bu)	
	Marketing Year Oct. 1 - Sept. 30		Marketing Year*		Marketing Year Sept. 1 - Aug. 31		Marketing Year June 1 - May 31	
	1976-77	1977-78†	1976-77	1977-78†	1976-77	1977-78†	1976-77	1977-78†
<b>Supply</b>								
Beginning Carryover	398	879	19.0	32.9	245	103	664	1,111
Production and Imports	6,218	6,368	212.7	222.2	1,265	1,683	2,150	2,029
Total	6,616	7,247	231.7	255.1	1,510	1,786	2,814	3,140
<b>Demand</b>								
Domestic	4,053	4,305	143.0	151.6	843	926	753	858
Exports	1,684	1,700	55.8	55.5	564	610	950	1,100
Total	5,737	6,005	198.8	207.1	1,407	1,536	1,703	1,958
Ending Carryover	879	1,242	32.9	48.0	103	250	1,111	1,182

\*Marketing year begins October 1 for corn and grain sorghum, July 1 for barley and oats.

†Preliminary USDA estimates as of November 1977.

SOURCE: U.S. Department of Agriculture.

another surplus—now estimated at \$8 billion for fiscal 1978.

The supply picture for 1978 contains a number of imponderables, but they probably will not affect the outlook for prices in any significant way. Generally, total meat supplies in 1978 are expected to be approximately equal to 1977 levels, with substantial increases in pork and poultry supplies offsetting probable declines in beef. In the crop sector, production levels will depend, as always, on the weather as well as on the acreage adjustments that farmers make in response to the new farm program. Given the new set-aside requirements for wheat producers and the relatively low level of prices, total crop output in 1978 is not likely to exceed 1977 levels unless extremely favorable weather conditions prevail.

Any discussion about supplies immediately raises a question about likely developments for food prices. The combination of stable meat supplies and declining grain production suggests that higher food prices are probably in the offing. However, most of the increase in

1978 is again likely to come from the higher costs associated with food marketing and processing activities after the commodities leave the farm. Any gains resulting directly from rising farm prices are expected to be small. In view of the prospects for inflation in the year ahead, 1978 retail food prices will probably average about 5 to 6 per cent above 1977 levels. This increase is roughly in line with the advances posted in the last 2 years, but well below the 14 per cent spurts experienced in 1973 and 1974.

### The Outlook for Crops

Due to large harvests in 1977 and bulging carryover stocks, crop supplies for the current marketing year are more abundant than they were a year ago (Table 1). Furthermore, supplies of all major crops—including feed grains, soybeans, wheat, and cotton—are expected to more than adequately meet higher demand requirements in the coming year, which means that reserves will be growing. Consequently, Government programs will have

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a significant impact on markets and producer incomes in 1978, as farmers place substantial quantities of grains and cotton under loan. These loans plus anticipated income support payments from the Government will help shore up the sagging cash flow positions of many farm operations.

In the last marketing year, farmers received prices which averaged about \$2.85, \$2.20, and \$7.00 per bushel for wheat, corn, and soybeans, respectively. Given the probable increases in grain carryovers for the coming year, some changes can be expected in average prices—mostly down. Even with an increase in total usage and a probable reduction in 1978 production, wheat supplies seem destined to remain very large for at least another year. Consequently, wheat prices are not likely to average much above the 1977 Government loan rate of \$2.25 per bushel, unless substantial quantities of wheat go under loan, exports expand, or 1978 production prospects begin to dim sharply. Although feed grain stocks are not so burdensome, supplies are still large enough to preclude sharp price rises in the year ahead. An average corn price slightly above the \$2.00 per bushel loan rate seems most likely for 1977-78. Heavy use of Government loans could alter the price outlook, as could a higher-than-expected level of exports. Soybeans are about the only commodity with a balanced supply situation. Although soybean production was up sharply in 1977, total use is expected to rise moderately, thus stemming a big buildup in reserves. Therefore, soybean prices should remain profitable, although they will not match last year's average of **\$7.00** per bushel. An average between \$5.00 and \$5.50 per bushel seems most likely for the current marketing year.

A 25 per cent gain in 1977 cotton production has boosted total supplies for the 1977-78 marketing year to 16.2 million bales, nearly 2 million bales above last year. With the sharp drop that has occurred in prices, domestic consumption is expected to show some strength

in the year ahead, but total usage, including exports, may still fall short of 1976-77 levels. Thus, a large carryover is in prospect for 1978, portending generally weak prices. Although the supply picture for fruits and vegetables is mixed for 1977-78, overall strength in consumer demand is expected to provide a modest boost to prices in the coming months.

## **The Outlook for Livestock**

Meat supplies should remain ample in 1978. Cyclical patterns in the livestock industry point to continued growth in pork and broiler supplies and to only modest reductions in beef output. Although the demand for red meat is expected to remain strong, even if economic growth slows in 1978, burgeoning pork supplies will effectively keep the lid on hog prices during the coming year. A closer examination of recent reports on hog inventories suggests that 1978 pork production will probably exceed the 1977 level by 12 to 15 per cent, marking the second year in a row for a big gain. Thus, prices during the first half of 1978 will likely run \$3 to \$5 below the \$40 per hundredweight average that producers received in the first 6 months of 1977. If producers follow through with their preliminary farrowing plans for early 1978 (about 10 per cent above year-earlier levels), pork output could rise enough later in the year to push prices below \$30 per hundredweight by yearend. Consequently, the income prospects for hog producers during the second half of the year are not particularly bright.

Compared to recent years, the outlook for cattle prices is improving because cattle inventories continue to be liquidated. However, a trend toward larger feedlot placements—reflecting lower feed costs—is expected to support fed-beef supplies at a high level in the coming months, which will effectively temper any upward price movements. As of October 1, 1977, the number of cattle on feed was 5 per cent above year-earlier levels as placements during the third quarter posted a 14 per cent gain. Consequently, slaughter of grain-finished

cattle through the first half of 1978 may rise 3 to 4 per cent over 1977. Though this increase is not expected to offset likely reductions in grass-fed slaughter, the higher proportion of fed cattle in the total slaughter mix will probably limit price gains in the fed-cattle market during the first half of 1978, and maybe in the second half as well.

The longer term outlook for cattle prices is more optimistic, however. The cattle inventory on January 1, 1978, is expected to be about 118 million head, which compares with 123 million head a year ago and a peak level of 132 million head at the beginning of 1975. Lower prices and higher feed costs have served as strong inducements to reduce herd sizes in recent years and, as a result, beef output has been very large. Since the liquidation phase of the cattle cycle may soon be drawing to a close, beef supplies are destined to start shrinking. Thus, considerable price strength in cattle prices may be in the offing over the next few years. But in 1978, prices are not likely to show unusual strength for the reasons noted earlier. Still, total beef production in the coming year is expected to drop 3 to 4 per cent below 1977 levels, and so prices on choice steers may average \$2 to \$3 per hundredweight above the \$40 estimated for 1977.

Feeder cattle prices are now well above year-ago figures. With the adjustments that have occurred in herd sizes, prices should show additional strength in 1978, especially if feed costs remain low. Lower feed costs and higher price supports have stimulated milk production in 1977. The outlook is for production to continue exceeding year-earlier levels through midyear 1978. This will probably prevent prices from rising much above support levels, which have been raised to 80 per cent of parity under the new farm program. Thus, dairy incomes will probably show moderate gains in 1978. In the poultry industry, the prospects for larger supplies in 1978 point to probable declines in prices, which will likely depress producer incomes. Similarly, the incomes of egg

producers may dwindle in the coming year if production continues to expand.

## THE NEW FARM PROGRAM

### General Features

The Food and Agriculture Act of 1977 is a comprehensive law that will provide substantial support to farm income. Although the new program possesses many of the same features as the expiring legislation, farmers will need to become reacquainted with various procedural mechanics—such as acreage set-asides—that have been largely ignored in recent years because of favorable market prices. Yet, the new law is far more diverse and complex than previous farm-support programs. Some of the policy changes include the organization of a food reserve to be primarily farmer controlled; the **elimination** of historic acreage allotments; the inclusion of certain production costs in determining target prices for wheat and feed grains; a more equitable food stamp program; and increased financial support for agricultural research and other development programs. Obviously, a program this broad—there are 18 different titles in the Act—is going to be costly. Preliminary estimates by the Government show that the annual cost for the next 4 years may run about \$11 billion, with the food stamp program receiving about one-half of the total.

The most controversial features of the new farm program involve commodity supports. In short, the measure amends existing legislation for the 1977 corn and wheat crops and extends the basic support provisions now in effect for all commodities through 1981. Moreover, it raises the ceilings on Government **payments** to individual producers. Previously, a producer was limited to **\$20,000** per year for feed grains, wheat, and cotton (rice was **\$55,000**), including disaster payments. In 1978, the ceiling is raised to **\$40,000** and then to **\$45,000** in 1979. For the final 2 years of the legislation, producers will be limited to \$50,000 in benefits. However, unlike the earlier law, disaster payments will not count

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against this maximum total. Following outlays of about \$1.5 billion in 1977, Government payments to farmers are expected to total about \$2.6 billion in 1978.

Deficiency payments from the Government arise whenever market prices fall below specified targets. Not only does the new law substantially raise the target prices for 1977 wheat and corn, bringing them up to \$2.90 and \$2.00 per bushel, respectively, but it also provides for further increases in 1978. For example, the target price for wheat will rise to \$3.05 per bushel, assuming total production does not exceed 1.8 billion bushels; if it does, the target then drops to \$3.00 per bushel. For corn, the 1978 target price will be \$2.10 per bushel. Beyond 1978, target prices will be adjusted upward annually based on changes in production costs.

Government loan rates on farm commodities were also altered under the new farm program. Whenever market prices are near or below the official loan rate, farmers frequently borrow money from the Commodity Credit Corporation—a Federal entity—and use their crops as collateral. This program allows farmers to generate cash flow in their operations without having to sell at depressed prices. Unlike earlier programs, which have permitted a wide range within which loan rates could be established by the Secretary of Agriculture, the new law virtually freezes the rates on corn and wheat for the next 4 years. Unless amended at a later date, these rates will be \$2.00 per bushel for corn and \$2.35 per bushel for **wheat**.<sup>2</sup> However, should world prices drop below these levels, the Secretary could lower the loan rates 10 per cent each year—but not below \$1.75 and \$2.00 per bushel for corn and wheat, respectively—to keep U.S. prices competitive in world markets. Once the average world price in a given year moves above the U.S. price, the

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<sup>2</sup> The loan rate for wheat in 1978 will be **\$2.35** per bushel only if the national average price for the 1977 crop exceeds the current loan rate of **\$2.25** per bushel by 5 per cent. Otherwise, the loan rate will remain at **\$2.25**.

loan rates will "snap back" to their original levels.

A major change in the new legislation concerns the elimination of historical acreage allotments on individual farms. Previously, these allotments were used to determine production levels, set-aside requirements, and Government payments. The new law has replaced these old allotments with a "normal crop acreage base," which for 1978 will be predicated on what was grown on each farm in 1977. The designated crops used to establish the new base include almost everything except hay and pasture. The new crop acreage base, in and of itself, means very little. But when the Government announces acreage set-aside requirements, or when deficiency payments are made to farmers, the size of the base becomes very important. The actions that a farmer must take and the benefits he receives are tied directly to it.

In 1978, farmers must set aside 20 per cent of their planted wheat acreage to be eligible for Government loans and deficiency **payments**.<sup>3</sup> However, a farmer is not required to reduce his total planted acreage in 1978. In fact, he may expand his wheat acreage above 1977 levels and still be eligible for partial Government benefits, as long as he idles the required amount of land from production. The ultimate constraint is that planted acreage of all designated crops plus any set-aside requirements must not exceed the farm's "normal crop acreage base," as established in 1977.

Deficiency payments for 1978 and subsequent years will be adjusted by an "allocation factor" which will range from 0.8 to 1.0 under the new act. Each year the Secretary will announce the national farm program

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<sup>3</sup> Producers of feed grains may be required to idle 10 per cent of their planted acreage in 1978 to qualify for Government benefits. However, a final decision on this matter will not be made until early in 1978. If grain reserves promise to be less burdensome than presently expected, the set-aside requirement will likely be waived.



acreage needed to meet domestic and export use and to accomplish any desired increase or decrease in carryover stock. If actual planted acreage should fall below this level, a factor of 1.0 would be assured. But under no circumstances will the level be less than 0.8. Thus, if the Secretary should decide that 58 million acres of wheat will be necessary for meeting domestic and foreign demand, but producers harvest 63 million acres, the allocation factor would be 0.92 ( $58 \div 63$ ).

In the year ahead, the Government has announced, farmers can assure themselves of an allocation factor of 1.0 (meaning that they will receive 100 per cent of any deficiency payments made) by reducing their wheat acreage 20 per cent below 1977 levels.<sup>4</sup> In addition, they must still set aside 20 per cent of whatever acreage they plant. Thus, a farmer who raised 100 acres of wheat in 1977 could plant 80 acres for the 1978 harvest, set aside 16 acres (20 per cent of 80), plant the remaining 4 acres in another crop, and still be eligible for a 100 per cent wheat deficiency payment. If he plants more than 80 acres of wheat and sets aside 20 per cent, the farmer is still eligible for payments, but at a reduced rate, depending on the allocation factor determined by the Secretary.<sup>5</sup>

The new law establishes a national grain reserve program through which 30 to 35 million tons of wheat and feed grains will be accumulated for the purpose of stabilizing markets and meeting emergencies. The reserves

will be held largely by farm producers through 3- to 5-year extended Government crop loans. Once a farmer has elected to extend or "reseed" his crop loan, he must hold it to maturity unless prices should rise to certain trigger points. For example, if the market price of corn should climb above a specified point (to be determined by the Secretary) that is between 140 and 160 per cent of the loan rate—from \$2.80 to \$3.20 per bushel—the farmer may repay the loan and sell his crop. It is his choice. However, if the price goes above 175 per cent of the loan rate (\$3.50 per bushel), the Government will call the loan. During the time that the farmer has grain stored under this program, he will receive annual storage payments from the Government amounting to 20 cents per bushel.

### Implications of the New Program

Because of the wide range of options offered to farmers, assessing the overall effect of the new program on prices and incomes is a difficult task. The target prices defined in the legislation will not provide windfall profits to farmers, nor will they **provide** producers with an escape from bad management decisions. However, these targets will offer some protection against ruinous prices when production levels are excessive. In principle, the deficiency payments mechanism has several good attributes. Market prices are allowed to seek an equilibrium level, and if those prices are too low, a transfer payment is made to farmers to supplement their incomes. And if the prices are above targets, the payments are eliminated altogether. Over the next 4 years, Government payments to farmers could swell to very high levels because of commodity surpluses and cost escalators attached to future target prices. If surpluses and large payments to farmers become intractable problems, as occasionally in the past, farm policy will inevitably shift to greater production restraints through regulation, thereby pushing the concept of market incentives into the

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<sup>4</sup> If the feed grain set-aside requirement remains in effect for 1978, corn and grain sorghum producers can assure themselves of full benefits by reducing their acreage 5 per cent below 1977 levels. The required reduction for barley producers is 20 per cent.

<sup>5</sup> The cross-compliance requirements under the new law are more stringent than in previous programs. Formerly, producers could elect to participate in one commodity program but not in the others and still be eligible for benefits. This flexibility is eliminated with the new law. A producer of both wheat and feed grains must adhere to the provisions of both programs to remain eligible for Government loans, deficiency payments, and disaster benefits.

background. In short, farmers will be depending more on Government aid and less on market returns for their incomes.

A major shortcoming of the expiring legislation was that no provisions were made by which grain reserves could be systematically accumulated to stabilize markets. This fault is corrected in the new law through the extended crop loans that will be offered to farmers whenever supplies are burdensome and prices are low. As described earlier, most of the grain reserve will be controlled by farmers who, within certain price bounds, will decide when to store and when to sell. The program is designed to absorb excess supplies when output is plentiful, thereby lending support to prices. Conversely, when output shrinks to low levels, the grain reserve can be tapped to augment supplies and ease the upward pressure on prices. Although the mechanics are sound in theory, the program implicitly assumes that both severe shortages and huge surpluses are temporary, self-correcting phenomena. In practice, however, this may not be the case. A prolonged period of unusually favorable weather could easily lead to gigantic reserves, strict production controls, and large income supports to farmers. On the other hand, adverse weather over a number of years could quickly melt away the reserves and produce skyrocketing prices. In time, either extreme would become politically unacceptable. Thus, it remains to be seen just how well the grain reserve program will work in bringing greater stability to agricultural markets.

### **CONCLUSION**

Although the outlook for most farm prices in 1978 is disappointing, total cash receipts from farm marketings should nearly match the levels of the previous 2 years because of expanded sales in the livestock sector and possibly higher prices for cattle. Most, if not all, of the increase that may occur in gross farm income in the year

ahead will be attributable to an expansion in Government payments to farmers. Nevertheless, production costs will continue rising in 1978, mostly offsetting the expected gains in gross income. Hence, barring an unexpected spurt in exports, net farm income seems destined to remain at a relatively low level in 1978—perhaps below \$20 billion. Returns of this size are not conducive to the maintenance of a strong agriculture in the long run.

Thus, the Government will have a more active role to serve, not only in 1978 but probably in future years as well, in providing farmers with some degree of economic security. Although most farm producers profess to prefer an agriculture free from Government intervention, a protracted period of depressed prices and incomes is a very unhealthy situation from the standpoint of national policy. Many criticisms can be levied against farm support programs because producers are encouraged to "farm the Government rather than their land." In the process of indulging in various forms of gamesmanship with respect to manipulating acreage set-asides and capitalizing on Government payments, producers often overlook price signals in the market and misallocate their resources in their production plans. But the free market has several shortcomings, too, including its proclivities for generating chronically low prices and incomes for lengthy periods of time. Given the public interest in maintaining adequate food stocks at reasonable prices, depressed conditions in the farm sector can not be tolerated for very long. Thus, public programs are needed to contain the excess capacity problem in agriculture and to stabilize conditions so that the industry can grow and adjust in an orderly fashion. The key is to design the programs so that they augment the market system rather than replace it. Within this context, the new farm program offers considerable promise, but a final judgment on its effectiveness rests with time.