ESO # 1354

FARM POLICY AND POLITICS IN 1987

by

Carl R. Zulauf

Assistant Professor
Department of Agricultural Economics and Rural Sociology
The Ohio State University

Presentation to "Our Changing Dairy Industry", Workshop sponsored by Ohio State University Dairy College, Ohio Cooperative Extension Service and Ohio Dairy Farmers Federation, January 5-6, 1987

The author thanks Pam Brown and Karlene Robison for their assistance.

FARM POLICY AND POLITICS IN 1987

In the post-Vietnam era, few stories have occupied the front pages of U. S. newspapers as much as farm policy. On the one hand, this attention is reassuring since it indicates that America takes the health of her family farmers seriously. On the other hand, this attention may indicate that "something is rotten in Denmark", as William Shakespeare once observed. Remember, Watergate and international terrorism were (are) two other post-Vietnam stories which had (have) long running appearances on the front pages of our nation's newspapers.

I can almost hear the murmurs - not again, another agricultural economist is going to tell us what's wrong with farm policy and that the saviour is the free market. Sorry to disappoint you, but that is not my purpose. I acknowledge that farm policy is under attack and that it will likely continue under attack. Almost nobody likes its current form. The catch is that nowhere near a majority like the alternatives either.

My purpose is both simpler and more complex. Specifically, why is farm policy being questioned and what does the form of the questions (i.e., issues) imply for farm policy. To understand the issues, it is important to review the politics of farm policy, i.e., the various actors or participants, both groups and individuals, who influence <u>the</u> policy and therefore frame <u>the</u> issues.

Who Are The Farm Policy Actors?

Our government can best be described as a representative democracy. Without belittling the democratic component, I would like to dwell on the representative aspect. Our laws and statutes are made by individuals elected to represent the interests of those who vote. Laws and statutes codify policies as to how society will treat individual members and/or subgroups of the society. Any member or subgroup of society affected by a policy may and generally will have a position on the desirability or undesirability of the given policy. Thus, in general a policy ultimately reflects the interest of those affected by the policy.

Turning specifically to farm policy, since food is a sustenance of life, every major societal subgroup will perceive a stake in farm policy because farmers produce the raw material for food. This simple observation leads to two important implications, which many farmers do not appreciate. Farm policy is not just for the benefit of farmers, it is for the benefit of society and, therefore, farm policy is not just a reflection of the wishes of farmers, but the wishes of society.

Table 1 contains a listing of what, in this speaker's opinion, are the seven most important farm policy actors. Their two most important objectives are also listed, again in this speaker's view. Rather than discuss the table in detail and bore you in the process, I would like to briefly discuss three aspects of the table.

For taxpayers, efficient public expenditures means that tax dollars should be spent on programs which yield the greatest economic benefit to taxpayers. Farm programs have traditionally been viewed as having a high economic efficiency. This is in great part due to the proportion of economic activity accounted for by farmers as either producers or as purchasers of farm production inputs.

Public goodwill includes the general collective view of society toward a subgroup of society. Does an individual in his or her role as a member of society, not as a member of a specific subgroup, believe that federal policy should be devised and that federal money should be transmitted to a subgroup? Whenever an individual and/or his or her subgroup is ambivalent toward a policy, his or her goodwill will determine the individual's view of that policy. An individual's goodwill usually depends on whether the individual believes the policy results in greater societal equity and whether the beneficiaries of the policy behave in an ethical manner. Farmers have always enjoyed high public goodwill because they are viewed as honest, hardworking, and to be in need of public assistance to help compensate for the rigors of the job and the fates of nature.

Lastly, note that low food prices are not listed as an objective of consumers. Consumers are much more concerned about the quality of food and stability in prices; more specifically, rising food prices which cut into their discretionary expenditures. It is often said by farmers that the U.S. has a cheap food policy. One may argue whether current farm policy is the "right" policy, but it is difficult to argue that spending $20-$30 billion a year on farmers is a cheap food policy.

Reviewing the list of actors and their objectives suggests that, even if all crop farmers and all livestock farmers could agree on farm policy, farm policy would still not reflect simply what farmers wanted. Of course, the different actors have different relative influence over farm policy, and it is true that farmers have the single greatest influence.

But, farmers are not the only actors and the relative influence (and possibly needs) of the actors is in a state of constant flux. Out of this flux grows issues. Four current fluxes are now examined. The first three concern general farm policy, and the last one concerns dairy policy specifically.

The Changing Influence of Actors in Farm Policy

From a policy perspective a farmer is no longer just a farmer

The demise of the vertically integrated crop-livestock general farm and its replacement by more specialized crop and livestock farms has definite policy consequences. Crop and livestock producers do not have the same objective when it comes to crop price supports. In this respect, the Food Security Act of 1985 was a victory for livestock producers. But, remember, low crop prices eventually mean low livestock prices, and more importantly low returns for at least a period of time. What will happen when livestock prices drop? Will beef, pork, and chicken producers demand federal subsidies? Is it feasible, both politically and economically to support only crop and not meat producer income? If it is, who gets the money and how much of it?

The Rising Importance of Public Goodwill. The second most important factor determining farm policy is public goodwill. This used to be referred to as the second and third generation phenomenon, i.e., urban immigrants from rural areas with a good feeling toward and memories of farmers. Can or will this same bond exist when many young adults and children, i.e., existing and potential voters, do not understand the difference between corn and wheat and that milk does not come from a carton?

Public goodwill is also being undermined by an ever-growing number of negative reports on farming practices and on farmers "farming the farm programs": tractorcades on the Capitol mall, sulfide residue abuse, pesticide and fertilizer contamination of water, huge payments to individual farmers under the 1983 crop payment-in-kind program, 1984 dairy diversion program, 1986 rice and cotton programs, and 1986 whole herd dairy buyout, and most recently the generic certificate substitution swaps. Taken individually, these events may not amount to much, but the cumulative effect is probably getting noticeable and negative. What happens if the general public decides that farmers are simply "feeding at the public trough?"

Taxpayers and Farm Program Expenditures. While farm program expenditures sharply exceed those of the mid-1970s to early 1980s, they represent about the same proportion of the federal budget as during the early to mid-1950s and early 1960s (2-3%). During both periods, changes in farm policy were implemented to reduce costs (in general, price supports were lowered).

This historical observation is made even more urgent by a further observation that, unlike the 1950s and early 1960s, the economic importance of farming is substantially smaller. For the U.S., farm cash receipts as a proportion of personal income (one crude measure of economic importance) declined from 8.1 to 4.7 percent between 1955 and 1984. These figures compare with 13.1 percent in 1929, or just before farm programs were first enacted (1933). This decline is even more striking when put on a state-by-state basis. In 1929, 36 states had a ratio of farm cash receipts to personal income that exceeded ten percent, a figure which probably indicates farming is a substantial contributor to the economic well-being of the state. By 1955, the count was 31, a drop of only 5. But, by 1984 the count was 9, a drop of 22.

With this massive drop in economic importance during the last 20 years, can farming continue to claim expenditures approaching three percent of the federal budget in peak expenditure years? What will happen when the economy moves into a recession, as it will eventually do? Will other subgroups' demands for federal assistance, let alone the need to balance the budget, lead to a substantial reduction in farm subsidies? In short, has the efficiency of tax expenditures on the farm economy declined enough relative to the efficiency of tax expenditures on other sectors to command a reduction in farm subsidies?

Dairy Farmers and the Specialized Farmer. Dairy producers have long been admired and cursed for their perceived ability to influence federal policy. Much of this ability has been traced to political contributions through political action committees (PAC'S), and most of the complaints have been aired by consumer oriented groups. But in recent years, dairy programs have angered red meat producers, particularly cattle producers. In response, beef producer PAC'S have been formed.

Should this threat be taken seriously? Table 3 strongly suggests Yes. In 1929, dairy was the leading source of farm receipts in fourteen states. This compares to five states for cattle and calves. In contrast, in 1984 the numbers were eight states for dairy and seventeen for cattle and calves.

Shifts in economic importance are not the only consideration. Congress is becoming serious about curbing the PACs. In October of 1986, the Senate Republican leadership sidetracked an amendment that limited the amount of PAC money Congressional candidates could accept ($100,000 for House candidates and $175,000 - $750,000 for Senate candidates, depending on the population of their states). What will happen with the Democrats in control of the Senate?

Are you prepared to work with meat producers? Are you prepared to share your subsidies with beef producers? Are you prepared to face the loss of at least part of your PACs?

Conclusions and Implications

Farm policy has been a feature of U.S. agriculture for over 50 years. It has evolved as the goals, aspirations, and, particularly, the relative importance of the various actors changed. It is easy to overstate the changes in farming. In fact, there have probably been only three changes of significant economic importance - the rise of soybeans, beef, and poultry as major farm enterprises (it was the rise of soybeans which allowed specialization to occur by creating a second or third cash crop.) The other economic changes have basically mirrored changes in the broader economy - for example, larger size and the two wage-earner family. This lack of change, in conjunction with the perception of the importance of farming to the national economy, probably explains in great part why farm policy is, in terms of basic concepts, the same today as it was 50 years ago.

But, perception will eventually catch up with the fact that the economic importance of farming is not what it used to be. Other actors are becoming more important players. Budgetary costs and the role of the taxpayer receive a lot of attention. Clearly, costs will be reduced; even the 1985 Farm Bill begins to reduce costs. For example, in 1987 dairy price supports are cut and; more significantly, in 1988 crop target prices begin to decline.

However, the real and new challenge to farm policy will come not from the budget (i.e., taxpayers), although it may be the catalyst, but from the growing importance of public goodwill and the specialized meat producer. Unless the trend is reversed, the increasing negative public goodwill will likely mean stricter rules and regulations. Limits on farm program payments may be tightened, perhaps adding nonrecourse loans to the limits. But, it is the specialization of farming that is the greatest challenge. Will meat producers finally exert their muscle? If they do, at the least it means less support for crop and dairy farmers, either because the programs are made more responsive to meat producers and hence more market oriented, or because meat producers will demand a share of the farm income support pie.

The question of when changes are likely to occur is always difficult to address because the specific answer usually depends on some unseen, random event. But, changes do not appear likely in the next year or two. A recession isn't forcing taxpayer objectives to the front, meat producers' incomes are not hurting, and, although tarnished, farmers still possess high public goodwill. But, by the time the 1985 Farm Bill has to be reauthorized in 1990, the income of meat producers will be under stress, public goodwill will likely be further eroded, and a recession will have occurred or be occurring. In short, major changes are highly likely in the 1990 Farm Bill.

EPILOGUE

The time to begin thinking is NOW! Are farmers willing to accept the increasing importance of other policy actors and their own divergent objectives? Are they willing to create a national forum for farm policy, whether it formally meets as a commission or not? More broadly stated, are they willing to work for a unified policy with agribusiness operators, consumers and taxpayers whether the resulting policy is necessarily the best for their specific interest? As important, are farmers willing to earn, keep, and enhance public goodwill? Should dairy producers and others spend part, maybe a substantial part, of their marketing checkoffs on advertising the strengths (and weaknesses) of dairy farming or farming in general? Should national farm organizations more adequately back programs to bring farming to the classroom or to sponsor one-day to one-week visits to a working farm? It might even be asked if the latter shouldn't be targeted to children of community leaders - we all know the power of children with adults?

The call for change is being sounded. It is not yet breaking the eardrums, but it is growing louder. If farmers do not respond in a constructive manner, farm programs are likely to be cut dramatically as opposed to reformulated into more efficient and effective programs. **The answer lies partly (mostly) with you!**

References

1. Cochrane, Willard W. The City Man's Guide to the Farm Problem. Minneapolis: University of Minnesota Press. 1965.

2. Lucier, Gary; Chesley, Agnes; and Ahearn, Mary. Farm Income Data: A Historical Perspective. United States Department of Agriculture, Economic Research Service. Statistical Bulletin No. 740. Washington, D.C.: U.S. Government Printing Office. May, 1986.

3. Schwartz, Charles F. and Graham, Robert E. Personal Income by States Since 1929: A Supplement to the Survey of Current Business. U.S. Department of Commerce, Office of Business Economics. Washington, D.C.: U.S. Government Printing Office. 1956.

4. U.S. Department of Agriculture, Agricultural Marketing Service. Cash Receipts from Major Farm Commodities by States as Percentage of Staste Totals, 1924-55. Statistical Bulletin No. 186. Washington, D.C.: U.S. Government Printing Office. May, 1956.

5. U.S. Department of Agriculture, Economic Research Service. Economic Indicators of the Farm Sector: State Financial Summary, 1984. ECIFS 4-5. Washington, D.C.: U.S. Government Printing Office. March, 1986.

6. U.S. Department of Commerce, Bureau of the Census. Statistical Abstract of the United States 1986. 106th Edition. Washington, D.C.: U.S. Government Printing Office. December, 1985.

7. U.S. Department of Commerce, Bureau of Economic Analysis. Survey of Current Business. Vol. 66, No. 4. Washington, D.C.: U.S. Government Printing Office. April, 1986.

Table 1. MAJOR FARM POLICY ACTORS AND THEIR FARM POLICY OBJECTIVES, UNITED STATES, 1986

Policy Actor	Objective 1	Objective 2
Farmers		
Crop Producers	Hi Crop Prices	Hi Production
Livestock Producers	Hi Livestock Prices	Lo Crop Prices
Agribusiness Operators		
Non-Farm Input Producers	Hi Farm Production	Hi Farm Prices
Output Processors	Hi Farm Production	Lo Farm Prices
Non-Agriculturalist		
Consumers	Safe, Abundant Food	Stable Food Prices
Taxpayers	Lo Government Costs	Efficient Public Expenditures
General Public		
Public Goodwill	Equity	Ethical Behavior

Source: Personal Observations.
Cochrane.

Table 2. STATES FOR WHICH FARM CASH RECEIPTS EXCEEDED TEN PERCENT OF THE STATE'S PERSONAL INCOME, 1929, 1955, AND 1984.

YEAR		
1929 [a]	1955 [a]	1984
Alabama	Alabama	Arkansas
Arizona	Arizona	Idaho
Arkansas	Arkansas	Iowa
California	Colorado	Kansas
Colorado	Delaware	Minnesota
Delaware	Florida	Montana
Florida	Georgia	Nebraska
Georgia	Idaho	North Dakota
Idaho	Indiana	South Dakota
Indiana	Iowa	
Iowa	Kansas	
Kansas	Kentucky	
Kentucky	Maine	
Louisiana	Minnesota	
Maine	Mississippi	
Minnesota	Missouri	
Mississippi	Montana	
Missouri	Nebraska	
Montana	New Mexico	
Nebraska	North Carolina	
Nevada	North Dakota	
New Mexico	Oklahoma	
North Carolina	Oregon	
North Dakota	South Carolina	
Oklahoma	South Dakota	
Oregon	Tennessee	
South Carolina	Texas	
South Dakota	Utah	
Tennessee	Vermont	
Texas	Wisconsin	
Utah	Wyoming	
Vermont		
Virginia		
Washington		
Wisconsin		
Wyoming		

[a] Cash farm receipts are not available for Alaska and Hawaii.

SOURCES: Lucier, Chesley, and Ahern.
Schwartz and Graham.
U.S. Department of Agriculture, Agricultural Marketing Service.
U.S. Department of Agriculture, Economic Research Service.
U.S. Department of Commerce, Bureau of Economic Analysis.
U.S. Department of Commerce, Bureau of the Census.

Table 3. STATES IN WHICH DAIRY AND CATTLE/CALVES ARE LARGEST CONTRIBUTOR TO FARM CASH RECEIPTS, 1929 AND 1984.

1929		1984	
Dairy	Cattle/Calves	Dairy	Cattle/Calves
Connecticut	Colorado	California	Arizona
Maryland	Nebraska	Michigan	Colorado
Massachusetts	Nevada	Minnesota	Idaho
Michigan	New Mexico	New Hampshire	Kansas
Minnesota	Wyoming	New York	Missouri
New Hampshire		Pennsylvania	Montana
New Jersey		Vermont	Nebraska
New York		Wisconsin	Nevada
Pennsylvania			New Mexico
Rhode Island			Oklahoma
Vermont			Oregon
Washington			South Dakota
West Virginia			Tennessee
Wisconsin			Texas
			Utah
			Virginia
			Wyoming

Sources: U.S. Department of Agriculture, Agricultural Marketing Service.
U.S. Department of Agriculture, Economic Research Service.