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PRODUCTION CONTROLS

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Production control involves government restrictions on the quantity of agricultural production. This may be accomplished by either controlling the quantity of inputs used in producing food and fiber or by restricting the quantity that can be marketed. Input control is generally accomplished by limiting the amount of land.

WHAT IS THE ISSUE?

Three major production control issues exist: (1) Should government control the quantity of food and fiber that is produced? (2) If a decision is made to control production, should it be done on an individual commodity basis or cover all commodities? (3) Should control be mandatory or voluntary for all producers?

WHY IS IT AN ISSUE?

U.S. agriculture has chronically been faced with problems of excess capacity, price fluctuation and low returns. Many industries have been able to deal with these problems by some form of voluntary production control. Because of the large number of farmers, voluntary cutbacks in production occur only after great economic hardship to farmers.

Government efforts to support prices have encouraged production, reduced demand and are costly. The result in the 1950's and 60's was extensive governmental production control programs. Up to 60 million acres of land was retired from production in some years. In addition, mandatory control programs existed on a number of commodities. Much debate surrounded the merits of these programs.

Opponents argued that they increased production costs, resulted in resource misallocations, were ineffective and denied farmer freedom to produce. Proponents saw production controls as the only feasible means of tailoring production to market needs, eliminating excess capacity, keeping farm program costs in a reasonable range and raising farm income.

Rapidly expanding demand in the 1970's resulted in ending of government land retirement programs. Remaining production control programs such as for rice and peanuts were strongly criticized as being contrary to the public interest in expanding production to fill both domestic and foreign food and fiber needs at reasonable prices. Production controls were discontinued on rice.

Some suggest that the problem of overcapacity is past. Yet large surpluses of rice exist. Wheat prices have fallen below full costs of production. Another year of high wheat production could result in record stocks, extremely depressed prices, or unacceptably high program costs. Pressures therefore, exist for production control in the U.S. while total world stocks of grain are relatively low and problems of malnutrition exist.

CURRENT SITUATION – THE 1973 ACT

Some of the control provisions of the Agriculture Act of 1970 and earlier legislation were continued in the Agricultural and Consumer Protection Act of 1973. The 1973 Act provides authority for the Secretary of Agriculture to establish cropland set-aside and additional diverted acres and use acreage allotments if he determines that these actions are necessary for wheat, feed grain, or upland cotton. Wheat and cotton marketing quotas were suspended through 1977.

Cropland Set-asides. The Agriculture and Consumer Protection Act of 1973 authorizes the use of cropland set-asides for upland cotton, wheat, and feed grains (corn, grain sorghum, and barley). The Rice Production Act of 1975 authorizes set-asides for rice.

If the Secretary of Agriculture finds that greater restrictions are necessary, he can ask for diversions beyond the set-aside requirement. Farmers who make these additional adjustments are entitled to compensation. There has been no set-aside of cropland under the Act of 1973. Set-asides were not used because supplies were not excessive and the department wanted to encourage production.

Marketing quotas are currently in effect for extra-long staple (ELS) cotton, peanuts, and most kinds of tobacco. Quotas had also been used for wheat and up-

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land cotton, but these were suspended by legislation in the 1960's and later by the 1973 Act for 1974-77.

After proclamation, quotas go into effect only if approved by two-thirds of the producers voting in a national referendum. If ratified, all producers who are not granted exemptions are penalized for any production from acreage in excess of that assigned under their allotment. The crop grown on the farm allotment acreage may be considered as the farm quota.

ALTERNATIVES

Alternatives exist with respect to whether production control programs are to be used, whether they are to be applied on a commodity or general basis, and whether they are to be voluntary or mandatory.

Control or No Controls

The Secretary of Agriculture has the authority under the 1973 Act to establish a set-aside. This authority could be extended in the new farm legislation, modified or removed. Modification would likely reduce the discretion of the Secretary in applying controls and increase provisions for mandatory controls.

General or Commodity Controls

Surplus conditions currently exist only in rice and wheat. Incentives will exist to address these problems on a commodity basis and thus impose production controls only on rice and wheat. Commodity controls have been tried before. The effect has been to cut back on the production of the controlled commodity but use acreage to expand production of other commodities. Thus the surplus problem tends to be transferred from controlled product to those not controlled. Controls gradually spread across agriculture. General set-asides which apply to all commodities are more effective in dealing with a general problem of excess capacity in agriculture and allow greater producer freedom and flexibility in adjusting production patterns.

Voluntary or Mandatory Controls

If controls are to be established on either a commodity or general basis they can be either voluntary or mandatory. Voluntary controls exist when the producer has a choice of whether or not he participates in the program. Under voluntary controls the government pays so much per acre to the producer for placing his land in the set-aside program. Payments must be high enough to induce the farmer to put the land in the program. Additional incentives are frequently provided by making eligibility for price support or deficiency payments contingent on set-aside.

Mandatory controls are normally imposed only if two-thirds of the producers vote for them. They may be combined with marketing quotas to make the production control program more effective. Producer compensation for mandatory controls is usually limited to higher product prices and resulting appreciation in land or allotment values.

CONSEQUENCES

Producers benefit from production control programs in the form of higher prices, less price variability and appreciation in land or allotment values. The more effective the program is in controlling production, the greater the benefits to existing producers. So mandatory programs are more effective in raising prices than voluntary commodity programs. If programs are on only a few commodities, those producers' benefits may be at the expense of producers of commodities for which production is not controlled. In addition for any production control program, present producers benefit at the expense of future producers. Future producers must pay the cost resulting from higher land or allotment values.

Agribusiness generally opposes production control programs because they reduce volume of products produced. However, producers may compensate for reduced acreage by applying more inputs such as fertilizer to the remaining land. Thus reduction in inputs and production is frequently less than might be anticipated unless acreage controls are combined with strict quotas.

Foreign consumers experience less supplies available at higher prices. If there is a crop failure on reduced acreage the effect for foreign consumers might be disastrous because the United States is an important source of supply and is likely to take care of domestic needs first, even if it means imposing export controls.

U.S. consumers also experience higher prices. These higher prices result because supply is restricted and cost of production is increased.

Government involvement is greatly increased by production control programs. On the other hand, government costs can actually be reduced. For example, the tobacco production control program is a low cost program. On the other hand, the peanut production control program has a high cost because of high price supports in addition to acreage restriction.

One danger in imposing production controls in the current situation is that if a crop failure should occur it could result in a public rebellion against all farm programs or result in substantially greater government regulation of agriculture. On the other hand, if production is not controlled and support prices are raised substantially, government costs could become so high that all farm programs would be abandoned. Thus a real dilemma currently exists over the production control issue.

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