

DOMESTIC FOOD AND FARM POLICY ISSUES AND ALTERNATIVES

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In the continuing drama of "Who Will Control Agriculture," consumers or their self-appointed spokesmen such as George Meany, Ralph Nader, Paul Ehrlich, Barry Commoner, Henry Kissinger, Jim Hightower, or a TV documentary have won several skirmishes, if not the war. That this group so completely alien to farmers' thinking and tradition would determine farm policy is a turn of events unthinkable a few years ago. The agricultural establishment has temporarily lost more than control of its policy agenda; it has lost control of farm policy itself.

CONSUMERS IN A NATIONAL FOOD POLICY

The terms, "national food policy" or "food and farm policy," are now widely used as euphemisms for farm policy tilted toward consumers' interests. In the not too distant past, consumers' principal concerns were product safety and nutrition along with adequate supplies of food in general and for low-income persons in particular. Consumer interests have found expression in laws requiring fortification of food nutrients, labeling of nutrient content and volume, sanitary inspection, unadulterated foods, and food stamps for the poor. In general, these laws were in the interests of farmers as well as consumers.

What sets recent events apart from previous activity is unilateral consumer action which is neither in the interest of farmers nor in the long-term interest of consumers. Actions include price ceilings on farm commodities, export controls, and rejection of even minimally adequate price supports for farm commodities.

Many diverse "consumer" advocates from George Meany to Jim Hightower engage in all manner of hyperbole and emotional appeals to base instincts, much to the consternation of more sober analysts. While some consumer interests voice reasoned and entirely justifiable concerns worthy of immediate alleviation by public policy or other means, other "consumer" advocates seem woefully uninformed. Consumers justifiably want an ample quantity of high quality food at low and stable prices, but unscrupulous promoters give the impression that this food should be organically

grown solely by small farmers without use of petroleum, fertilizers, or pesticides.

Labor Unions

Labor unions have been the most articulate spokesmen for consumer causes in recent months. For wage workers, organized labor steadfastly has pursued earnings stability, including cost-of-living wage escalators, to maintain purchasing power during inflationary periods. Unemployment is aggravated by wage rates notoriously inflexible downward, in part because of institutional rigidities created to avoid just such an adjustment. Farm income remains the only major "labor" return fluctuating widely from year to year.

The unkindest cut of all was refusal of the International Longshoremen's Association to load wheat for the Soviet Union on the pretext that it was inflationary. The longshoremen asked to be shown that the grain sales would not raise living costs before they would go back to work. Although the real reason for the strike appeared to be failure to haul enough of the wheat in American ships, the lesson for farm interests is that the union saw fit to appeal to consumers as allies through the food price issue. Organized labor, torn between their philosophical identification with efforts to stabilize farm earnings and their own self interests of holding down food prices, opted for the latter in the crunch.

Again the issue of uninformed consumer advocates emerges. Free trade lowers the real cost of living and raises real income. Wage gains in the marketing sector will add at least 3 percent to food costs in 1975—more than double the 1.3 percent increase in consumers' food costs resulting from the sale of 10 million tons of grains to the Soviet Union.

Food Policy by the Uninformed

An outgrowth of the philosophy that "agriculture is too important to be left to agriculturalists" is the emergence of a new set of gloomy agricultural "experts." Paul Ehrlich asserts, "The battle to feed all of humanity is over. In the 1970's the world will undergo famines—hundreds of millions of people are going to starve to death in spite of any crash programs embarked upon now. At this late date nothing can prevent a substantial increase in the world death rate." Carl Schramm of the Johns Hopkins School of Hygiene and Public Health contends that the weather cycle will drastically lower U.S. harvests through the remainder of the 1970's, that a grain shortage will be with us for the foreseeable future, and to increase grain output "the federal government might

take steps to encourage growing of certain crops closest to appropriate shipping centers. For example, Oklahoma and Texas might be devoted entirely to wheat production.” He curiously goes on to conclude that “a strategy of lower world food prices is necessary both to help food importers satisfy their demands and to prompt other exporting nations to produce more grain more efficiently.”

In 1972, huge pressures to eliminate commodity surpluses were placed on agricultural officials by Nixon’s top advisors, who had no background in agriculture. The result was a seriously mismanaged sale, excessive acreage diversion in 1972 and 1973, and virtual elimination of commodity stocks. The consumer thus far has been the principal victim of the price instability associated with inadequate stocks.

Food Policy by Veto

Consumers’ influence was not apparent in March 1975, when Congress passed emergency farm legislation to raise substantially the loan and “established” or “target” prices for traditionally supported farm commodities. Neither was the consumers’ interest necessarily evident when President Ford, upon the advice of Secretary Butz, vetoed the legislation because it was viewed by many as potentially too expensive to taxpayers and too encouraging of overproduction. But consumer influence was evident when President Ford rejected an increase in commodity loan rates to more modest levels than favored by Congress, despite alleged encouragement by Secretary Butz to raise loan rates.

Consumers’ interests were decisive in the postponement of further grain sales to the Soviet Union. After failure of the Ford Administration to raise loan rates and after Secretary Butz’s earlier commitment to “make every effort” to avoid export restrictions, it seemed incongruent to farmers that they be denied access to higher prices after being denied protection against low prices for their products. If the Administration was to leave low prices open ended, it seemed only fair to also leave high prices open ended.

Despite these many evidences of consumer influence in farm policy, it is ironic that consumer interests have not really participated in the farm policy dialogue nor decision process—their influence has been largely through the “veto.” Evidence for the veto theory is apparent: Since Secretary Butz was known to have favored both an increase in the loan rate and the strong statement asserting there would be no export restraints, the assumption is that the USDA has been overruled on both points.

Consumer veto power undoubtedly creates anxious moments for a Secretary of Agriculture who has been an effective and presumably sincere spokesman for farm interests. Because of political pressures, the Secretary of Agriculture goes along with consumer policies with which he disagrees. The result is an image in the minds of many farmers of a USDA bent on a "cheap food" policy, serving consumers' interests at farmers' expense.

DEVISING A NATIONAL FOOD AND FARM POLICY

Agricultural policies will be quite different if the future supply-demand balance is characterized by chronic excess demand or by chronic excess supply.

Long-Term Supply-Demand Balance

There is now strong evidence that demand will increase at a more rapid rate than supply of farm food and fiber in the next decade or longer. Productivity gains have slowed substantially since the 1950's, and the ratio of farm output to production inputs is expected to increase little faster than 1 percent per year on the average to 1985. If inflation in prices paid by farmers averages only 6 percent annually (compared to 16 percent in 1973 and again in 1974), and if the supply elasticity is 0.2, then the supply curve will shift backward by $6(0.2) = 1.2$ percent annually, completely offsetting the forward shift from productivity gains.

Expected rates of gain in demand have been studied at length. For the next decade, realistic estimates place domestic population growth at 0.7 percent annually, growth in per capita personal disposable income at 2.5 percent, growth in exports at 4 percent, income elasticity at 0.1, and exports at 18 percent of output, for a total annual increase in demand of $0.82 [0.7 + 0.1(2.5)] + 0.18 [4] = 1.5$ percent.

With the supply curve nearly stationary and the demand curve increasing 1.5 percent per year, farmers would appear to be in for good times and consumers for hard times. This is not so. Simulation models of the farming industry show that inflation in prices paid by farmers is neither fully nor immediately passed to processors or consumers. Hence, rising prices received by farmers are offset by rising prices paid associated with general inflation in the economy. Thus, the ratio of prices received to prices paid by farmers shows no strong trend on the average to 1985.

Simulation analysis indicates that with 4 percent or less inflation in prices paid, farmers can maintain net farm income at reasonable levels (approximately the 1974 nominal level) without

government price or income supports. With 6 percent inflation, government programs of magnitudes similar to those operating from 1960 to 1972 will be required to avoid very low farm income. With 8 percent or greater inflation, massive intervention in farm markets appears necessary to avoid a farm financial debacle in the next decade. Under any of the above conditions, consumers will spend a declining share of incomes for farm food ingredients if real per capita incomes are rising.

Within expected ranges of demand and supply, farmers are likely to experience intermittent periods of excess supply and low income as well as excess demand and high income. A policy "for all seasons" is required to cope with unpredictable emerging conditions. Central to that policy is commodity stock reserves.

Economic Instability and Commodity Reserves

Economic instability and measures to deal with it currently comprise the most pressing policy issues. Several means are available to reduce instability, including export and import controls, commodity stock manipulation, and price or income supports.

EXPORT CONTROLS. Demands for export controls to serve U.S. consumer interests have been deterred by threats by importers of American farm products to go elsewhere for supplies, the importance of maintaining access to world markets to earn reserves to purchase petroleum and other products, fear of reciprocal trade barriers, and other reasons. However, the Soviet Union has been in large part responsible for variation in U.S. exports, and we feel much less obligated to assure supplies to them than to regular customers in Japan and Western Europe.

But are export controls on the Soviets effective? As long as alternative sources of supply exist, the Soviet Union can purchase grains in Western Europe, Canada, Australia, Argentina, and elsewhere. Customers which would have purchased from these countries but which do not face U.S. embargoes can switch purchases to us. Export controls not only may not be effective but are highly unpalatable to farmers. Export controls cannot be viewed as a permanent instrument to stabilize markets by a nation committed to open trade channels and dependent on access to world markets.

PRICE SUPPORTS. In July 1975, target prices were 45 percent of parity for wheat and corn, while loan rates were 30 percent of parity for wheat and 36 percent of parity for corn. A considerable amount of production is not covered by target prices. Farm income would be cut in half compared to 1973 if prices should fall to loan

levels and would be inadequate to avoid a major financial disaster—eliminating many young, efficient farmers who have much to contribute. Reasonable men view supports at 100 percent of 1910–14 parity as unrealistic because of increased productivity; reasonable men also view as unrealistic loan rates of less than 30 percent of parity. Projections indicate that continuation of the current commodity program to the late 1970's would result in a net income of \$17 billion, approximately half the 1973 level and much less than half in buying power. Supports are so low that deficiency payments are likely to be nominal to 1980.

Many feel that loan and target prices should be raised, but some proposals entail very large deficiency payments. Loan and target prices established by House Bill H.R. 4296, the conference version finally passed by the Ninety-fourth Congress but vetoed by President Ford, would require deficiency payments of \$7 billion by 1977 with no escalator for higher prices paid and of \$11 billion by 1979 with an escalator based on prices paid by farmers.

Adjusting support prices according to past yields is an inadequate procedure because yields overestimate productivity gains, thereby overdeflating supports, and are inappropriately sensitive to weather. Despite continued inflation in prices paid, target prices are projected to fall in the late 1970's because of sharp recovery of yields after unfavorable weather in the mid-1970's.

For some time, proposals have been made to support prices at "world levels," defined as a moving average of past market prices. Cost-of-production support prices are now receiving greater attention. Recently proposed legislation would support prices at 80 percent of the cost of production, including a land charge calculated from crop-share rent. A more attractive approach to avoid validating escalating land prices caused by speculation is to support prices on the basis of nonland operating costs of production, with appropriate adjustment for spatial demands so that production would not move out of areas with a comparative advantage to high-cost areas.

Recent policy proposals call for an end to direct payments inherent in target or established prices. Reasons to eliminate direct payments include the tendency for them to provide overly generous transfers to large farms, failure to hold reserve capacity useful to stabilize farm commodity and food prices, and opposition by taxpayers to high outlays for compensatory payments. Furthermore, direct payments are tied to past allotments, which now are an obsolete and inequitable allocative basis.

But arguments can also be made in favor of direct payments.

Government programs can be viewed as an insurance program designed to compensate farmers for risks incurred in providing an adequate food supply. Farmers can receive the "insurance premiums" while consumers receive low-cost food in periods of excess supply. Milton Ericksen and Daryll Ray state that "land withdrawal may not be an acceptable remedy [for low farm income] since other parts of the world may still face shortages. The U.S. could face strong adverse world opinion if production were curtailed to support prices and farm income." Furthermore, production controls on land are increasingly ineffective and result in high food costs when they are effective. In a consumer dominated policy, production controls are unlikely to be acceptable unless they can be shown to be an essential part of a program to stabilize food prices.

COMMODITY STOCKS. Research suggests that carryovers of 600 million bushels of wheat, 45 million tons of feed grains, and 150 million bushels of soybeans are optimal on the average. Stocks much below these levels result in considerable price instability. Analysis shows that the suggested optimal carryover stock levels are associated with commodity prices much below current levels—with prices unpalatable to farmers. The private trade will not hold optimal stocks because investors can be suddenly wiped out by capricious government policies intended to protect consumers or other groups. Because of inability to obtain capital and high personal discount rates in the private trade, external public action is necessary to assume risks and hold adequate stocks.

Farmers are opposed to government holding of commodity reserves because they justifiably associate government stocks with low farm prices. Senator Henry Bellmon is preparing legislation to overcome the dilemma by providing government inducements for farmers to store commodities. While the government can use subsidies to induce farmers to time the selling of commodities in line with the public interest, it is not entirely clear that price variability would be reduced appreciably over that of the free market under programs now being considered.

Our research indicates that guidelines such as acquisition and release of stocks when prices reach respective low and high thresholds generate social benefits from price stabilization that are nearly as favorable as an optimal rule devised by a mathematical formula. Thus, a fairly operational rule is for the government to purchase stocks when prices fall 25 percent below equilibrium and sell stocks when prices rise 50 percent above equilibrium.

The socially optimal average carryover for the United States (nearly 60 million tons of all grains) appears not only to be consistent with the U.S. market but also with world contingency reserve needs. Rather than have a special grain reserve (the frequently suggested level is 12 million tons, but more recent pronouncements go up to 60 million tons) solely for world emergency needs, it would appear much less expensive to allow countries with acute food shortages to receive development dollar credits for use in purchasing food wherever available at least cost. Commodity stocks are most efficiently stored in countries where they are produced rather than in potential food-shortage areas, but this idea is difficult to "sell" to potential food-shortage countries. I am pessimistic about the ability of nations to agree on a sensible world food reserve policy and feel that humanitarian concerns require the United States to establish on its own a reserve policy capable of responding to emergency world food needs.

SUMMARY AND CONCLUSIONS

Consumers' influence in farm policy is accelerating, and in the past few months has been conspicuous in export controls, failure to raise loan rates, and refusal by a labor union to load wheat for shipment to the Soviet Union. In previous decades, farmers often cooperated with consumers in passing legislation to insure better quality food as well as to assure supplies. Increasingly, however, nonfarm interests are unilaterally influencing farm policy in ways that farmers consider a threat.

I envisage two scenarios for future food and farm policy formulation. One is confrontation and conflict, the other is cooperation and conciliation. The latter, in contrast to past policy formulation, would integrate consumers and other nonfarm groups into the policy-making process, including assembling and analyzing information, debate, and voting on the alternatives. With consumers' programs representing three-fourths of the U.S. Department of Agriculture budget, consumers may be given some additional representation in the agency. State agricultural experiment station and extension advisory committees may also include more persons with consumers' viewpoints. Representatives of consumer groups might be encouraged to meet and interact with farm groups in public policy education programs. Similarly, representatives of farmers' interests might meet and interact with consumer, labor, environmental, and other groups to air positions of agreement and disagreement.

The second scenario, confrontation and conflict, promises con-

tinued adversary posturing by farm and consumer groups. The scenario is characterized by hyperbole, boycotts, strikes, and other capricious action by groups not communicating with each other. Farmers, long acquiescent in the face of what they consider to be unwarranted infringement into their legitimate decision processes, would strive mightily and, at length, successfully to countervail nonfarm interference with collective bargaining. Such confrontation can bring huge social costs and unrest in society.

The mechanics of controls seem less an issue now than what is the appropriate policy to obtain price and supply stability.

Several improvements can be made in farm legislation consistent with the public interest:

1. Raise loan rates to cover nonland operating costs of production.
2. Establish a sound commodity reserve policy. Failure to do so sets the stage for future export and price controls, food price gyrations at home, famine abroad, and, in general, outcomes that cause confrontations between interests of farmers and consumers.
3. Reduce import and export controls that inhibit movement of farm commodities in international markets.
4. Carefully review existing and proposed occupational safety and environmental protection programs, eliminating or revising programs for which costs exceed benefits.