COMMENTS ON EMERGING AGRICULTURAL POLICIES OF THE CARTER ADMINISTRATION

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Policy in the form of the Food and Agriculture Act of 1977 "emerged" as from behind a tree and was greeted by a hail of sticks, stones, and arrows from the farm strikers. It is appropriate to begin with a note of sympathy for the Department of Agriculture, particularly the Secretary who has so often in early 1978 borne the brunt of farmer dissatisfaction. In certain ancient societies it is said to have been traditional to respond to crisis by sacrificing the life of the king to appease the gods. As you know, in our country the chief executive has delegated this responsibility to the Secretary of Agriculture.

In addition to the domestic price and income areas that are the traditional center of attention, I want to discuss emerging policy on international agricultural trade, and the regulation of agricultural production and the food marketing industry. Though the Department of Agriculture is sometimes not the lead agency in these matters, it should nonetheless be considered in discussion of the agricultural policies of the Carter Administration.

PRICE AND INCOME POLICY

The big item in price and income policy is the Food and Agriculture Act of 1977. In considering it as part of the emerging policy stance of the Carter Administration, an initial problem is how much to attribute to the Administration and how much to Congress. Because the President embraced the farm bill warmly when he signed it, it is tempting to call it essentially the Administration's preferred policy. But this would not be quite accurate. Some of the provisions which in my opinion are most unwise from the point of view of the nation's general interest were the work of Congress and apparently were opposed by the Administration.

The Administration tried hard to have three general policy approaches embodied in the 1977 Act: (1) producer price protection based on a cost of production concept, (2) market orientation, especially by keeping loan rates relatively low, consistent across crops, and flexible downward, and (3) price stabilization by means of farmer-held but federally controlled grain stocks. These objectives were largely accomplished.

As the 1977 Act finally turned out, however, I would describe it as "market orientation foredoomed." The high target prices in relation to the most likely market prices for some products will tend to push budget costs to unattractive heights. The result will be increased pressure to engage in the two traditional unpalatable aspects of commodity programs: production controls and an unseemly pushing of exports on the world market — if not by direct subsidy, at least by P.L. 480, CCC export credit, and sales promotions.[1] Indeed, the target price system itself can be a *de facto* export subsidy scheme. Why? Compare the European Economic Community. They hold the market price of grains for producers above the world market price by means of their variable tariff. Then they provide an export subsidy to sell commodities at the offshore price. European consumers and taxpayers pay the difference. In the U.S., we do not hold up the market price, but pay deficiency payments to put producers in roughly the same position as if we did. In both the European Community and the United States, producers are paid above world prices for products exported at world prices.

This effect was minimized under the 1973 Act because of the limitation of payments to historical allotment acreage. One could argue that a 1973 type of program would not artificially induce production to be put on the world

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[1]A continuing incongruity under both the Ford and Carter Administrations is the simultaneous claim that the world is crucially dependent on the U.S. farmer for obtaining increased food supplies, while at the same time it is said to be necessary to spend increasing amounts of taxpayers' money to induce foreign buyers to purchase U.S. farm products.

market and depress other exporters' returns. The 1977 Act, however, moves to a current acreage base for payments, and thus this argument no longer works so well.

It may be argued that supply response to the 1977 Act's target prices will be negligible because the target prices are not a real incentive to produce when set near U.S. average cost of production. Even in the unlikely event that the 1977 Act's target prices have captured the appropriate costs of production, this argument will not hold up. In a world of stochastic weather and demand, even if the mean price in the absence of the program were known with certainty, setting a guaranteed price at the level would increase expected price, truncating the prices-received distribution which would otherwise exist. Eliminating the lowest price outcomes necessarily increases mean price.

A related element of the 1977 Act, which is interesting in bringing out an apparent change in the Carter Administration's outlook during the six months after the President's signing of the Act on September 29, 1977, is the budget cost of deficiency payments. In the summer of 1977 the idea was prevalent that the President would veto any farm bill that cost more than $2 billion annually. In early 1978 Secretary Bergland has been claiming with enthusiasm that the 1977 Act will result in benefits of several billions. The intervening event in the change of attitude about the payments is of course the American Agriculture Movement.

The important analytical point about the billions in payments is this: when you take a sector of agriculture that under normal trend-value circumstances would produce less than $10 billion in net income,[2] and you talk about a prospective subsidy of several billion dollars to commodity producers in the sector, there is just no way to avoid influencing the economic activity in that sector. This is an instance of the policy maxim, *every silver lining has a cloud.*

I have been discussing why I believe that market orientation will be very difficult for the Carter Administration to maintain. In one area the Administration does not desire market prices to rule, following objective 3 above; the Administration does not believe in the utility of price extremes, and has consistently called for "getting the boom and bust out" of prices. This worthy but elusive goal is to be achieved by the collection of "reserve" programs. The Ford Administration probably would not have objected to the goal, but probably would not have pushed it so hard. The question is whether the Carter programs will actually promote stability. It is too soon to tell. I see in the grain reserve programs one promising idea, one dubious idea, and one problematic situation. The good idea is the subsidy to farm storage, both in storage facility loans and storage payments under the extended loan resale program (ELRP). Stabilization requires basically stockpiling; how better to encourage stockpiling than to pay people to do it? The dubious idea is the release triggers at 140, 160, and 175 percent of the loan rate, designed to force farmers to hold stored again until price reaches the 140 percent trigger, and then to see it. The basis for these triggers is extremely flimsy, as illustrated by the case of rice, where we are already at the 175 percent "extreme shortage" trigger point. It would be better *never* to withdraw the subsidy; the problem in rising markets has never been to get grain out of storage but to keep it from being put on the market too soon (as seen in retrospect).

The problematic situation involves the potential effects of the reserve programs in boosting current spot prices. The difficulty is that the maximum extended loan reserves plus CCC stocks envisaged is 35 million metric tons of feed grains and wheat. Yet U.S. ending stocks for the last crop year were already 60 million tons, and projections for this year's ending stocks are in the 70 million ton range. In this context it would seem likely that the bulk of ELRP and CCC grain will not be net additional storage but will be intramarginal storage; we will pay for storing grain that would have been stored anyway. The question, to which I do not know the answer, is by how much will the reserve programs induce additional total storage at the margin?

An alternative way to fix our ideas on this topic is the following: the only way to get cash prices up is to get additional supplies withheld from current consumption. If we think 70 million tons of grain will be held back from consumption in the 1977/78 crop year *with* the reserve programs, how much less would be carried out *without* them, *ceteris paribus*? However much this is, the difference would be added to 1977/78 disappearance if the ELRP did not exist. But this would require lower prices. We could get lower prices only if prices began *above* the market support levels; otherwise an end to the ELRP would only switch stocks from private hands to the CCC. In terms of magnitude, if the reserves take a net of, say, 5 million tons off the market, and the price flexibility coefficient for all grains is -

[2]1976 *gross* sales of wheat, corn, cotton, barley, sorghum and rice were $22 billion, roughly a fifth of gross farm sales of all products. If "normal" net farm income were $25 billion, one fifth of this amount would be $5 billion. Deficiency payments of even $1 billion are thus substantial in relation to net income from production of the crops covered.

−2, and expected supply is in the neighborhood of 330 million tons, then price would be increased about $-2(-5/330) = 3$ percent (or roughly 7¢/bu. for wheat).[3]

INTERNATIONAL ECONOMIC POLICY

In the area of international economic policy, the Department of Agriculture appears to be taking its traditional line; we want unhindered exports of our farm products but protection for our farmers against agricultural imports. And other parts of the Executive branch continue to support a more general liberal trade orientation, with about the same intensity under the Nixon/Ford and Carter Administrations.

The main difference is in the international commodity agreements, where the rhetoric, at least, is more convincingly interventionist in the Carter than in the Ford Administration. I believe, however, that there is not much difference in substance, and that the differences in rhetoric reflect mainly the fact that in 1973-75 we were talking about stabilizing prices down in shortage situations and now we are talking about stabilizing prices up in surplus situations. In the discussions aimed at establishing an internationally coordinated system of national grain reserves, the position of the United States in relation to the European Community seems to be about the same in both Administrations. The EC wants rigidly fixed price corridors whereas the United States wants more flexibility. Similarly, the position of the United States in the ongoing multilateral trade negotations seems basically unchanged by the change from Republicans to Democrats in power.

Where international agreements have been reached, in coffee under Ford and sugar under Carter, U.S. interests have been served about equally poorly. In both of these cases the United States' preferred position, I believe, was to obtain a purely stabilizing agreement — one which would rely primarily if not solely on buffer stocks to be acquired to support prices in low-price periods and released to hold down prices in high-price periods. However, in both cases the final agreements reached relied on export controls to support floor prices. Exporting countries agreed to hold the commodity off the world market. This approach has less promise than a buffer stock for preventing sharp price rises in years of shortage. Consequently, the agreements should tend, if they are effective at all, to increase mean price. The agreements are basically set up to benefit exporting nations, and probably will make importing nations, like the United States, worse off. The sugar case differs from coffee in that we have domestic producers of the commodity, and thus U.S. interests are more difficult to specify in the case of sugar. Even for sugar, however, a 1-cent increase in mean price will cost U.S. consumers about twice as much as U.S. producers will gain.

In the international area in general, the picture emerging in the Carter agricultural policies looks more and more like that of Ford. (Even in procedural matters the parallels are strong: where the Ford Administration had difficulties with the administration of the 1977 preelection sugar tariff increase, the Carter Administration had trouble administering the sugar tariff increase to attain the 13.5-cent price mandated in the 1977 farm bill.)

REGULATION OF AGRICULTURE AND FOODS

The regulatory policy agenda continues to cause real problems under the Carter as under the Ford Administration, both of which tried to put the brakes on regulatory excess and at the same time brought new areas under the extremely visible hand of federal regulators. The EPA, OSHA, and FTC areas seem to be continuing as before, but there is a new regulatory push in Interior with the land and irrigation issues and in HEW on food and health.

The Carter Administration's general economists seem to favor "regulatory reform" and to mean pretty much the same thing by the term as the Nixon/Ford economists did. And the traditional regulatory agencies in the Departments of Transportation, Labor, HEW, and elsewhere continue their opposition to any move toward a rudderless state of market chaos. There seem to be some differences in the regulatory agencies, however. The apparent change is great in Agriculture where we now have a consumer advocate as Assistant Secretary for USDA's food regulatory functions. As a practical matter, however, the types, frequency, and severity of the regulations one sees in the *Federal Register,* and the nature of regulatory proposals made in Congress or endorsed in speeches, do not seem notably different in the past year.

The response of the Administration to recent farmer unrest does bring out a noteworthy difference between farm commodity policy and regulatory policy, namely, the much better factual and analytical base we have for com-

[3]And of course, assuming marketing margins remain constant, every dollar paid to farmers through higher market prices is an additional dollar paid for food by consumers. I mention this obvious fact only because the Department of Agriculture appears sometimes to deny it, or fuzz it up.

modity policy than for the regulatory area. For example, the response to the grain inspection scandals in 1975-76 was legislation passed by Congress and supported by the Ford Administration which seems to be poorly thought out and potentially wasteful.[4] In an other instance, the never-ending propensity to smite the middleman led both Congress and the Ford Administration to support what in my opinion is a useless bill to subsidize the marketing of food in places other than grocery stores. The Carter Administration is supporting an almost equally useless but more costly "consumer cooperative bank" plan. Similarly, there is a tendency for both environmental and health/safety legislation to jump off the deep end. In contrast, in farm commodity policy the Carter Administration has been able so far to keep a fairly stiff spine and even to keep Congress from straying too far off the tracks in the face of a truly impressive effort by farmers to get the Administration to "do something." A comparable lobbying effort in a regulatory area would have surely resulted in massive action or programs, most likely of the most unwise kind. Why the difference? Because, I believe, the Administration's agricultural economists know, or have at least a good idea, of the benefits and costs of various policy steps that might be undertaken in the commodity price area. This relatively secure knowledge base makes a reasoned discussion fairly easy, even in the midst of an emotional storm that would otherwise so easily carry Congress to new heights of legislation. We may hope some day to be able to do as well in the regulatory areas.

Consider finally the larger purpose of policy. What is it that the Administration wants to attain in farm and food programs? For both Ford and Carter, I believe that there is no well-defined goal, no *ideal* that policy is striving toward. Of course, both want what we all want, which roughly speaking is more of everything for everybody at less cost. But neither administration has had a considered large-scale view of what improvements policy should seek to make in U.S. agriculture, or what steps should be taken in seeking these changes. There is a lack, to bring in the phrase that Carter supporters have used against Ford, of a National Food Policy. For both Ford and Carter, the revealed preference is an "ideal" somewhere in the vicinity of what we actually have, and maybe the only overriding strategic aim is to fulfill political demands while doing the minimum economic mischief. It is possible that a more ambitious approach could do better, but one could imagine much worse.

REFERENCE

[1] Gardner, Bruce L. "Economic Consequences of the 1977 Farm Bill," DIR 71-1, Texas A&M University, March 1978.

[4]One piece of evidence on this point is that the Food and Agriculture Act of 1977 contains seven pages of technical amendments to the Grain Inspection Act of 1976. For further discussion, see [1, pp. 19-20].