THE FUTURE OF COMMODITY PROGRAMS: SOME COMMENTS

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Three excellent papers addressing the future of commodity programs were presented at the SAEA Annual Meeting in February 1980. Each has some very important strengths. "Commodity Policy Issues for the 1980s" by Erickson and Johnson is almost encyclopedic in its coverage, while at the same time being issue-oriented and presenting some very pertinent data. Pasour's "A Critique of Federal Agricultural Programs" is an effective assessment of commodity programs as they existed in the past. Goodwin and his colleagues do yeoman's work in attempting to defend current programs in "The Future of Federal Programs for Southern Commodities." I assume the contrast between that paper and Pasour's was intentional. Certainly the two of them together help to focus the issues.

As a "reactor," I faced something of a dilemma. In all, the three papers comprise some 76 pages of material — material which is very meaty and which represents very different perspectives. In my initial attempt to critique each of the papers, I found that any one of them could have taken up all of my alloted time. That says something about the quality of the papers, for each of them is indeed provocative.

I soon abandoned the approach of doing individual critiques, however, and instead tried to consider the papers as a group. I came to the following conclusions.

1. First, none of the papers reflects the broadened perspectives that I believe we now need in evaluating agricultural and/or commodity programs.[1] Agriculture is involved in a much broader range of political and economic issues today than in the past, as well as in a broader range of economic policies. Because of the importance of trade to agriculture, it is no longer appropriate to evaluate policies through the prism of a closed-economy model. The shift to a flexible exchange rate regime changes significantly the relationship of agriculture to the rest of the economy. And the stage of development itself requires that our perspectives be different. None of the papers really takes into account this broader perspective, including the general equilibrium implications it suggests, although Erickson and Johnson sin a little less in this respect than do the other authors.

2. Second, despite the titles of the papers, none of them is really forward looking. With their documentation of changes that have been taking place and their tentative extrapolation to the future, Erickson and Johnson again probably come off best. But even they do not really look to the future and speculate about what it might be like, or about what institutions might prevail in the decade ahead.

3. Third, none of the authors really proposes new institutional arrangements to address problems as they might be expected to emerge in the future. In my view, more changes have occurred in policies as a result of the 1973 and 1977 legislation than most people seem to assume. The shifts to a system of price corridors and to a farmer-owned reserve, among other things, were significant departures from the past, not just minor changes in and extensions of old programs. As we look to the future, it seems useful to inquire whether conditions will be so changed as we move well into the coming decade that policies and programs will undergo still further significant changes. In the spirit of being provocative, let me suggest that they will, and then speculate about what some of the changes might be.

Although I too will not be definitive in terms of new institutional arrangements that might serve us in the future, let me at least attempt to indicate where some of our challenges lie and what form some of the program might take.

First, let us consider some of the *international issues* before us. The first and most important point is simply the significance of trade to U.S. agriculture. Clearly most of our domestic commodity programs are now predicated on a strong export performance, without which these programs would be very different.

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[1]For the dimensions to this broader perspective, see Farrell, Schuh (1976), and Warley.

It is also important to note that the changes in these programs in recent years have been induced largely by changes in trade conditions. The shifts to price corridors, the farmer-owned reserves, and the use of deficiency payments have all come into play for commodities that have strong trade potential and are some of the reasons we now realize that potential. Goodwin and his colleagues note that conditions in international markets induced important changes in the cotton program over the years. The changes in the peanut program were also designed to help make that product more competitive in international markets. The fact that it has been successful in that regard is one of the reasons the program costs have declined.

Almost none of these programs can be understood on the basis of domestic considerations alone. Moreover — and this is probably a more important point — none of them can really be managed effectively without a substantial knowledge of the agriculture and the agricultural policies in the rest of the world.

A second point under international issues is the significance of the shift to floating exchange rates. The combination of flexible exchange rates and a well-integrated international capital market causes monetary and fiscal policy to affect agriculture in a very different way than it did with fixed exchange rates and atrophied capital markets.[2] Under the old regime, agriculture was virtually isolated from the vagaries of monetary and fiscal policy. Because of built-in stabilizers, the demand for agricultural output was relatively stable. Trade was not very important. Monetary and fiscal policy affected agriculture only through the labor market.

Under the new regime, shifts in monetary policy are reflected in shifts in exchange rates, and these in turn are reflected in shifts in foreign demand. As long as monetary policy remains in the stop-and-go mode of recent years, we can expect agriculture and other trade sectors to be subject to a great deal of instability — as they have been since we shifted to flexible exchange rates. Even more important, monetary and fiscal policies in other countries will have major effects on U.S. agriculture. The point, of course, is that international capital markets are a key link among the economies of the world. Moreover, the capital markets link macroeconomic policies and commodity markets in such a way that one cannot understand one without understanding the other.

Perhaps we will learn how to manage our monetary and fiscal policy somewhat better in the future than we have in the past. Certainly, it would be difficult to do worse than we have in recent years. But our need for new institutions may be as great here as anyplace in the economy.

The third point under international issues is that the bulk of whatever growth in trade we have in the future is likely to be with the LDCs, not the centrally planned economies or the developed economies. In fact, the greatest growth we have had in the past decade has been with those countries, not the centrally planned economies that have received so much attention.

This development has two implications. First, agriculture is likely to be caught up in the struggles of the Third World to a greater extent than in the past. The demands for a New International Economic Order will have real importance to U.S. agriculture, and the welfare of our farmers and rural people may well be connected to how well the LDCs do economically. In addition, we will not be able to export to those countries unless we are willing to accept some of their labor-intensive manufactured products. (The same applies to China, of course.) The implication is that agriculture and people associated with agriculture need to be lobbying for a freer trade stance on the part of this nation so that we can accept the exports of the LDCs. Certainly we have not had such a stance up to now.

Finally, economic warfare is an emerging problem. On two occasions in recent months the U.S. has conducted economic warfare against other countries. This action represents a dramatic change from our past policy. If the U.S. has stood for anything in the international forums that discuss international economic relations, it has been to depoliticize those relations. That is why we have been reluctant to enter international commodity agreements, and why we have avoided long-term trade agreements. We wanted to depend instead on markets as the basis of economic exchange, and thus to depoliticize economic intercourse.

In the short period of a few months we have turned full circle on that posture. What does that change imply for the future? Will our economic relations become increasingly politicized? If so, what is the implication for future trade? The international specialization that gives rise to trade depends on confidence and on stability. Are we likely to see a reversal of the long period of trade expansion? Can we devise new institutional arrangements that will reduce the incentive for such warfare?

The questions here are almost unlimited, but surely these are some of the major issues we will be facing in the next decade — assuming,

[2] For details, see Schuh (1979).

of course, that we are not plunged into a major conflagration.

Next let us turn to some *domestic issues.* One is instability, and the problem of risk and uncertainty. Each of the authors recognizes in one way or another that past commodity programs have been an institutional means of transferring the risk and uncertainty inherent in agriculture to other sectors of the economy. We have also heard much about the deficiencies of those programs, and the changed conditions they now face.

The question I would pose is whether we are now ready to make a significant break from the past in how we address this problem. Several factors seem to be pushing us in that direction. First is the growing disillusionment with the disaster programs, which Secretary Bergland has described as a disaster. Second is the concern over the equity of our present programs, and over whether they really benefit the groups they are intended to benefit. Finally, there are problems of production costs and the capitalization of program benefits into land values.

The present Administration has proposed new crop insurance legislation as a means of getting away from the problems of the disaster programs. So far this proposed legislation has had rather tough going in Congress. One reason for that difficulty is that the program is in many respects a half-measure. Designed to be actuarially sound, but with a subsidy on the premiums, this program purports to provide income protection against natural disaster kinds of income losses. An important aspect is that the program would permit producers to choose the amount of income loss they would protect.

It would be just an extension of this concept to go to full income insurance, with protection provided against both market- and weather-induced instability. If such a program were kept on an actuarially sound basis it would not induce production in areas that are not efficient producing areas in the longer term, as present programs do. It would also permit individual producers to choose the level of risk they are willing to take. It would enable us to sidestep the messy problem of cost of production as a basis for policy, and it would avoid the problem of the free rider, which the liberalization of the 1977 legislation now brings to the fore.

If we continue with a system of flexible exchange rates, the problem of instability in commodity markets is likely to be as important in the 1980s as it has been in the 1970s. Changing concepts of equity and the growth in part-time farming make the programs of the past less effective. Some combination of market stabilization by means of price corridors and well-managed reserves on the one hand and income insurance on the other may well constitute the commodity programs of the future.

While we are considering commodity markets, a few comments on our dairy programs are warranted. It seems clear that technological developments and changing economic conditions are going to induce major changes in our dairy programs in the decade ahead. More specifically, high-temperature sterilization and reconstituted milk, together with higher transportation costs, will erode our present institutional arrangements. Reconstituted milk in particular eliminates the need to haul all that water.

These technological imperatives can be expected to work themselves out despite the resistance of the dairy industry. They will lead to major shifts in the location of the dairy industry, and rather sizable adjustment problems. The question is whether we as a profession are going to lead on these issues, or whether we will continue to look over our shoulders to the past.

Another important issue we face on the domestic scene is related to our research and development policies. Significant changes have already taken place in these policies as we have shifted to competitive grants, to a stronger role for politics in setting the research agenda, and to the growing use of the checkoff system to produce funds for research.

The political process seems to recognize that with the growing importance of trade the consumer no longer reaps the benefits of technical innovation, at least in a direct way. Rather, the producer reaps these benefits, and they in turn are capitalized into the value of land.

The checkoff system is one way of having the producer pay a larger share of the R and D budget. Whether it is the best way to do so, however, is not clear. To cite only one example, the social sciences are coming off quite short in their access to these funds. As agricultural economists we, above all, should be interested in devising new institutional arrangements for our R and D efforts. But more than our professional self-interest is at issue, important as that may be.

A final issue on the domestic scene pertains to tenure and capital market relationships for production agriculture. The discussion by Erickson and Johnson is quite telling on this issue. They note the dramatic increase in control of land by part-owners, and the fact that in 1974 farms operated by tenants were nearly double the acreage operated by full owners.

We can expect those trends to continue, with the emergence of new capital market instruments that will permit the pooling of larger amounts of equity. Pressing against this trend,

however, will be a growing concern for conservation. The growing separation of farm management from the ownership of land will probably exacerbate the conservation issue. The challenge will be to devise institutional arrangements which sustain the incentives for rational conservatism even with this separation of ownership and management. If we can do so, we will be able to realize whatever economies of size or scale our new equipment brings us. If we cannot, we may see increasing government interventions to restrict the access to land and to agriculture, and an increasing loss in resource efficiency as a consequence of these interventions.

A few comments on energy are in order. Most discussions of this subject put all the emphasis on the expected effects on costs of production. Important as these effects may be, I believe other dimensions are equally, if not more, important. One is the effect of higher energy costs on the location of production. The transportation of agricultural products and inputs is probably more energy-intensive than is the production of agricultural output. I suspect that major shifts in the location of agricultural production will occur in the decade ahead, both within the U.S. and worldwide. These shifts will have important trade implications.

Similarly, the energy crisis is causing serious balance of payments problems in many less-developed countries. We can expect these countries to stop discriminating so severely against their agriculture by means of trade and exchange rate policy, and to turn instead to drives for self-sufficiency. Again, the trade implications are great.

Finally, countries that are potentially strong competitors of ours, such as Brazil, are turning to major biomass programs for gasohol. To the extent they stay with those programs, they become less of a competitive threat to us, and may even become an expanding export market.

SOME CONCLUDING COMMENTS

The world we live in is substantially different from that of a decade ago. U.S. agriculture has become more open to trade at the very time when the conventions from the Bretton Woods Conference of 1944 have been breaking down. Our international institutions are now sorely deficient, and we lack the spurt of creativity that created the Bretton Woods Conventions. As long as we continue an ad hoc approach on the international scene, we will have to take an ad hoc approach on the domestic scene.

Our challenge is to devise a set of institutional arrangements that will enable international commodity markets to work more efficiently, that will enable us to manage our monetary and fiscal policies more effectively, and that will enable us to work more effectively with the countries of the Third World. If we can do all that, the management of our domestic commodity programs will be much easier. If we cannot, agriculture will continue to be subject to political and economic instability, and we will continue to muddle from one crisis to another.

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