

DISCUSSION: ECONOMIC AND POLITICAL FACTORS INFLUENCING THE OUTCOME OF THE 1981 FARM BILL

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The papers by Boehm and Spitze provide contrasts in approach, content, and conclusions. The Spitze paper reflects the issues as seen through the eyes of an observant professor located in a major Corn Belt university. Its ideas reflect sensitivity to articulation of policy problems confronting producers in the region. Boehm's paper is particularly strong in that it reflects the day-to-day sensitivity to the contemporary economic and political forces that currently affect the policy process. Both papers lack a clear sensitivity to the policy position and problems of southern agriculture.

This discussion is divided into two parts, major points of needed refinement, and a perspective on the issues as they relate to southern agriculture.

POINTS OF REFINEMENT

Four major points of refinement exist with respect to the two papers.

Uncertainty

Both papers contain considerable discussion of the impact that increased uncertainty has had upon agriculture. The major policy tool for reducing price and supply uncertainty is the farmer-held reserve program.

Boehm spends considerable time discussing the virtues of this program. While the usefulness of the reserve as a policy tool has been amply demonstrated, some problems are apparent.

Substantial conflicts exist between the three major reserve objectives of price stability, supply availability, and price support. Although producers have been attracted into the reserve by the combination of relatively low market prices, interest and storage subsidies, they are becoming increasingly disenchanted with the price ceilings set by the reserve release and call prices—the reserve could be “sold out,” thus jeopardizing both its price stability and supply assurance objectives. This is particularly true of the feedgrain reserves for which the release price is 125 percent of the loan rate, and the call price is 140 percent of the loan rate.

While raising the release and call prices would

not only provide increased supply assurance, but also raise the price ceilings, the latitude for price instability would also increase. In addition, research suggests that within the current relationship of support, release, and call prices, market prices tend to center on or be attracted toward the loan rate, the release price, or the call price, depending on the grain supply-demand balance (Gardner and Just). That is, with large stocks in the reserve, the market price rests near the loan rate. As stocks decrease, at some point the market price is attracted off the loan and moves rapidly to near the release level. With a sufficient drawdown of stocks, price moves off the release to near the call level.

If the differential between the loan rate and the release price were widened, one could anticipate that a large quantity of grain in the reserve would result in market prices that would approximate the loan level. That is, the wider the difference between the loan rate and the release price, the more resistance one would expect to the market price moving off the loan level. There has not yet been enough experience with the farmer-held reserve to demonstrate the validity of this hypothesis.

Despite extensive discussion of the uncertainty issue, neither paper recognizes the role of government in contributing to uncertainty (Schultz). Government decisions to impose embargoes and price controls have had a major destabilizing effect upon agricultural prices. Many other program detail decisions, such as not releasing grain from the reserve when required by published rules or reversing a marketing order policy, have substantial destabilizing effects.

Spitze suggests that one alternative to such actions might be to place limits in the 1981 farm bill on embargoes and the size of the grain reserve. Reality suggests that, regardless of the limits placed on policy-makers, decisions to change the manner in which policy is implemented are frequently dictated either by domestic or international political conditions. Laws never appear to be sufficiently tight to prevent government from taking action under such conditions. For example, strong incentives exist to accumulate reserves when surpluses exist. If surpluses are sufficiently great, political forces would likely suggest raising any reserve limit. Likewise, laws that

prohibit embargoes except where "national security" considerations are involved can be interpreted sufficiently broadly to fit almost any situation (certainly the 1980 Russian embargo would have been interpreted to involve a national security issue because expansion of Russia's sphere of influence in the world was involved).

Over time, I am increasingly coming to subscribe to a theory picked up from Don Paarlberg. It suggests that if a policy tool is available for government to use, the clear incentive is for it to be used whether needed or not. To illustrate, the Packers and Stockyards Administration continued to regulate rates for stockyard services far beyond the date required by changing competitive conditions. Set-asides were used in the 1970s without clear justification, and certainly without effectiveness in controlling production and raising prices.

An extension of this theory of government involvement might suggest that as agriculture moves into a new era of both a tighter food and fiber supply-demand balance and a shifting of the balance of political power away from farmers, policies and programs enacted to protect farmers might be used against them. For example, in the early 1970s, Secretary Butz restricted the rice allotment in a manner that eventually resulted in rice producers being forced to give up the program. A similar strategy is currently being employed with respect to the peanut program. Both the federal milk order and milk price support programs have the potential for being used against dairy farmers in the 1980s.

New Leadership

The change in leadership within USDA and in the Congress has significant implications for both the 1981 farm bill and related policy decisions.

It should not necessarily be assumed that the new Republican policy team signals a complete return to a Butz-era farm policy philosophy. Both Boehm and Spitze correctly sense the difficulty of predicting the future of Reagan-Block farm policy initiatives. Secretary Butz, like OMB Director Stockman, was driven by the ideological philosophy of allowing domestic and international market forces to operate. His implicit, if not explicit, goal of dismantling ASCS reflects this philosophy. It contrasts with Secretary Block's defense of the tobacco, peanut, and price support program. Block has expressed philosophical opposition to target prices. This opposition appears to stem primarily from the dislike of the welfare image associated with deficiency payments held by many farmers.

Target prices were supported by Butz with the political realization that without target prices; pressure would exist to raise support prices to a level where our competitive position in the export market would be jeopardized. Interestingly,

Senator Dole has indicated that Block might find some support to do away with target prices, depending on what he does with loan rates.

On the Hill, increased influence of Senators Helms and Dole can be expected to complement Block's more producer-oriented philosophy. This alignment, when combined with leadership changes in the House, could shift the balance of influence in food and agricultural policy formulation to the Senate.

It would be dangerous to take the producer-oriented philosophy espoused by Secretary Block too seriously in a policy decision context. During the past decade, several of the significant agricultural policy decisions have not been made by the secretary of agriculture. Examples include the signing of the long-term trade agreement with the Soviet Union, the imposition of export embargos, and the decision to freeze food prices. Many less significant agriculture secretary recommendations have been reversed upon reaching the executive office of the president for approval. At the same time, the secretary has on occasions in the past decade had a major impact on policy direction. Effective implementation of a trade-oriented philosophy by Secretary Butz and the establishment of the farmer-held grain reserve by the Bergland-Hjort team are examples.

The point is that the effectiveness of the secretary of agriculture in implementing programs that farmers view as being in their interest is to a large extent determined by power relationships within the cabinet and the executive office of the president. Secretary Block set the stage for the lifting of the grain embargo as being an early test of this power relationship.

Crisis Theory

Boehm's crisis theory is not only interesting, but also useful to keep in mind for policy researchers and educators. However, question may be raised about whether there really is a long-term trend toward crisis policies in agriculture.

There have been periods in which economic conditions in agriculture have been sufficiently unstable that farm policy was continuously on the agenda of the Congress. Such periods might include the settlement and technology decade of the 1860s, the depression decade of the 1930s, and the post-war attempts to get control of farm prices and overproduction (Benedict).

An interesting related point is Boehm's conclusion that despite the legislative turmoil that has existed in the late 1970s, farmers as a whole were really not that bad off. This could reflect the increased structural segmentation that exists within agriculture (USDA). Macroagricultural income levels and averages are increasingly less useful in evaluating the degree of unrest within agriculture. Such numbers are heavily influenced

by the relative overall prosperity both of the large farms and the part-time farms.

A special interest group of unrest is developing within agriculture. This interest group could be characterized as the middle-size younger farmer who rents most of his land and has a severe cash flow problem competing at current prices. These farmers find themselves in competition with large owner-operators, who have lower nominal costs, as well as with part-time operators, who have less concern for relative costs because they are not primarily dependent on their farm operation for their income.

Research and Education

Spitze rightfully raises the research and education organization and funding issue to a level of visibility. Agricultural economists have been guilty of not recognizing earlier the significance of Title XIV of the Food and Agricultural Act of 1977. This act set up an ill-conceived and poorly implemented system of federal planning for agricultural research, teaching, and extension, now known as the Joint Council (Castle).

The ability of this legislation to get through the Congress virtually without notice vividly illustrates (1) The lack of political organization, muscle, and awareness of the food and agricultural research system. (2) The willingness of the system to horse trade the potential for more federal support dollars for a system of federal planning. (3) The lack of willingness and/or ability to mobilize the agricultural establishment and challenge Washington power brokers who do not understand or appreciate the virtues of the decentralized food and agricultural research system of which we are a part (Knutson, Paarlberg, and McCalla).

Without a politically potent organization, USDA research and extension functions run a great risk of taking a disproportionate share of any budget-cutting effort. This is likely when there is a lack of land-grant-oriented individuals at top levels within USDA.

IMPLICATIONS FOR SOUTHERN AGRICULTURE

Southern agriculture has many of the same problems as northern agriculture: both are confronted by problems of price and income instability, unprecedented inflation, and a disadvantaged producer market position.

The differences between southern and northern agriculture have both an economic and a philosophical-sociological-political basis (Knutson). The importance of these differences in interpreting policy implications cannot be overlooked: that is, what counts is not just the crops or livestock that are grown. The economic, so-

cial, and political organization of southern agriculture must be considered also.

Economic Differences

Over time, northern and southern agriculture have become increasingly interdependent. This has occurred as the production of corn, sorghum, soybeans, wheat, and milk has increased in the South. Thus, while significant southern policy issues relating to tobacco, peanuts, sugar, rice, and cotton still exist, southern farmers have become increasingly interested in policy decisions relating to feedgrains, soybeans, wheat, and milk.

While Midwest farmers traditionally have been skeptical of southern control of the agriculture committees, southern farmers have become increasingly concerned that feedgrain, wheat, soybean, and dairy policy has a "Corn Belt bias." Such a bias exists not only because the bulk of these products has traditionally been produced in the North, but also because agriculture secretaries, and the top USDA appointees typically have come from the North. In other words, the South has had, and continues to have, an agricultural policy influence and leadership problem primarily with respect to northern crops. This conflict can be expected to continue.

Southern agriculture is also characterized by significant structural differences. Production in the South tends to be more highly concentrated. Land holdings, cattle feeding, and dairy enterprises tend to have a larger proportion of the production concentrated on the largest farms. At the same time, a greater dichotomy of size exists in southern agriculture between the large and the small farm. That is, while a larger proportion of the production is concentrated on very large southern farms, there is also a larger number of small farms (USDA, p. 75).

The result of this dichotomy is a greater concentration of farm program benefits in the hands of the largest farmers in the South (USDA, p. 103). Policies to effectively allocate a larger proportion of farm program benefits to smaller producers would have greater impact upon the South.

Resource problems are of greater importance in the South. Weather extremes in terms of rainfall/and heat are greater during the growing season. Continuation of the disaster program is of greater interest to the South than it is to the North.

The availability of water for irrigation has become a major issue in several areas of the South. Serious question exists with regard to the public willingness to invest money in irrigation projects designed to sustain agricultural production in several areas of the South and West. A Reagan administration should be more sensitive to this need than the Carter administration.

While substantial southern land areas still are being developed for agricultural production, the migration of people to the Sun Belt is creating increased competition for both water and land resources. Substantial competition will continue to develop between use of southern lands for agricultural and forestry purposes.

It is obvious that resource policy is more important to the South than it is to the North.

Philosophical-Sociological and Political Differences

Political power is more highly concentrated in the South than in the North. Large-scale southern farmers traditionally have been in a position of power both within their farm organizations and political parties. The traditional power broker role of these producers, combined with the higher risk of southern agriculture, have given southern crop-producing leadership a more liberal outlook on the role of government in agriculture. However, this liberalism does not extend to support for the food-stamp-related income redistribution programs.

Nevertheless, a clear distinction must be made between the crop producer and the livestock producer. Southern cattlemen are notoriously anti-government—except when it comes to issues such as beef imports. Yet southern political leaders of both crop and livestock producers enjoy a substantial following of their producers.

Stated more crudely, the political bosses are stronger in southern agriculture.

With this background, I am not as pessimistic about the future of the southern commodity programs in the 1981 farm bill as Boehm. The South is in control of both agriculture committees. Secretary Block is already in a position of defending these programs—at least partially to gain support of the committee leadership. In the end, political pragmatism could even concede and recommend that the president sign a farm bill that retains peanut allotments, the tobacco program, and 75 percent of parity dairy price supports.

Yet I agree that these programs will need to adjust as economic forces affecting agriculture adjust. For example, I have argued that peanut producers might be better off striking a deal in the 1981 farm bill for a relatively high target price and pursue development of the export market as rice farmers have done. Unfortunately, there may not be a target price program to compromise over. Likewise, as Spitze implies, the sugarcane producers have to recognize that competition from corn sweeteners substantially changes the economics of import controls as a means of raising their returns while retaining their market.

Such changes are in and of themselves bitter pills for the southern crop farmer to swallow. The reality that he is increasingly unable to control his economic destiny through political means is becoming apparent in a larger number of situations. Some day even the tobacco farmer may be forced to recognize this reality.

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