Current Challenges for Agricultural Policy

G. Edward Schuh

It is a special privilege for me to be here with you today. One of the first professional papers I ever gave was at these meetings (Schuh, 1963). Much has changed since the occasion of that earlier paper. The U.S. economy has gone through a period of unprecedented sustained economic growth, only to tumble into the worst economic recession of the post-World War II period. Our agricultural sector has undergone a major transformation at home, while finding itself increasingly integrated into a world economy abroad.[1] And, after a period of virtual abandonment by agricultural and general economists alike, policy issues have now returned to a high position on our research and teaching agenda.

That agenda is rich with opportunities, for we have many challenges before us. In the time allotted here today we can do little more than scratch the surface of some of the major challenges. I make no pretense at being comprehensive or exhaustive. Rather, I will attempt to play to whatever comparative strength I might have. That means I will neglect a great deal, and much of what I neglect may be judged by others to be more important than the issues I have chosen to consider.

As the title suggests, my focus is on policy challenges. Under that rubric, I will consider commodity policy, income policy, trade and exchange rate policy, and a rhetorical question dealing with whether we can in fact have a food and agricultural policy. In addressing these issues, I will attempt to view agriculture in the context of the larger economy, and in the context of an economy that is substantially more open to international economic forces than it has been in the past.

Commodity Policy

In some respects, U.S. commodity programs have shown a surprising degree of consistency over the years. Implicit in them have been two important goals: (1) an attempt to obtain more stability in farm prices than unfettered free markets would provide; and (2) a desire to provide income transfers to farmers through what is perceived by them as the market place, rather than to provide such transfers in more direct form.

Despite this consistency, there has been considerable evolution in some commodity programs. For one thing, we have turned away from an almost complete dependence on the concept of parity prices as a guide to price policy and shifted to a greater dependence on cost of production as a guide. Although obviously not an unmitigated blessing, I believe most economists would agree that this was at least a marginal improvement, the political pressures associated with this concept notwithstanding.

Second, some of the programs have been modified so as to provide a greater range in which market forces can work. Rather than having a relatively fixed, single-valued price support level, some of our programs now have differentiated loan levels and target prices, with the target price serving as the basis for deficiency payments and the loan level in effect providing a price floor. This approach provides a partial disconnection of income policy from price policy. It enables consumers to realize some of the benefits when supply outruns demand. It also reduces the chance that we will price ourselves out of

G. Edward Schuh is Deputy Assistant Assistant Secretary of Agriculture, International Affairs and Commodity Programs, on leave from Purdue University.

Keynote Address, Annual Meetings of the Western Agricultural Bozeman, Montana, July 23-26, 1978. I have benefitted from helpful comments on earlier version by James Bonnen, Kenneth Farrell, Sam Garst, Dale Hathaway, John Lee, Leo Mayer, and Larry Witt.

[1]For more detail on the changes experienced by U.S. agriculture, see Schuh (1976).

international markets, as we did on occasion in the past. In fact, it is notable that with the exception of tobacco, the price corridor concept is now used on precisely those commodities for which international markets are important.

Related to the use of price bands or price corridors, we also now have a more explicit reserve policy. In the past, we accumulated rather large reserve stocks in government hands almost entirely as a by-product of our price policies. There was little intent to have an explicit reserve policy, or to manage stocks in a buffer-stock fashion. Now there is an explicit reserve target for wheat and feed grains, and at least the intent to manage them in true buffer-stock fashion. In fact, there are explicit trigger levels at which the stocks will be released to the market.

Farmers also now have the flexibility in the programs to shift among crops in response to changing market conditions. This is in marked contrast to the past, when use of rigid acreage allotments and marketing quotas kept them locked into a given production pattern. This added flexibility which the set-aside program provides should permit a more-efficient use of resources.

Another evolution in policy is the decision to participate in international commodity agreements. This is not new, of course, since we have participated in commodity agreements in the past. However, we had turned our backs on them for some time, and for the most part took a negative view of what they could offer.

This Administration has already initialed an International Sugar Agreement. Its ratification has been held up until agreement is reached on domestic policy. The Administration has also been involved in protracted negotiations on an International Wheat Agreement. Our objectives in such an agreement are to obtain a greater sharing of adjustment costs among countries, and to obtain greater stability in the international market for wheat, the latter to be obtained through the joint management of nationally held reserve stocks.

The final evolution of our policy is the imposition of limits on the size of direct payments that individual farmers receive from the government. Although these limitations have probably had only a minimal impact on the distribution of income and payment benefits, most observers would agree, I believe, that this development has improved the overall equity of the programs, when equity is evaluated in terms of both the farm producer and the taxpayer.

To summarize, both the 1973 and 1977 legislation have given us important steps toward evolving more rational commodity programs. However, we still have a number of important policy challenges before us. Let me address at least four of them.

1. *Can we obtain more consistency in our commodity programs?* Put somewhat more amply, can we obtain a more general disconnection of income policy from price policy? Just enumerating the commodities for which changes would be required provides a good indication of the magnitude of the challenge. To obtain consistency would require changes in the sugar program, the dairy program, the tobacco program, and the peanut program.

The current Administration has made an attempt to obtain changes in the sugar policy, and now finds itself in an impasse with Congress. The Administration's goal has been to introduce the concept of deficiency payments into sugar policy so as to provide income support to producers while at the same time enabling consumers to benefit from the lower prices in international markets. But a combination of factors weigh against such a policy. The cost of production is high in two politically important states — Louisiana for cane and Idaho for beets. In addition, there is concern on the part of producers that explicit deficiency payments will lead to payment limitations. And finally, the producers of corn-sweeteners now side with cane and beet producers, and argue for a general sweetener policy that includes them, rather than a sugar policy alone.

It now appears likely that we will take a step backward from the more liberal sugar

policies of the recent past. The danger is that we will go all the way back to the old quota policies, with all their implications. Moreover, there is also danger that we could eventually substitute most of our foreign supplies with domestic production, with a market share arrangement worked out among the various groups of domestic producers. Avoiding such import substitution is a major challenge if we are to make efficient use of our resources.

In the case of dairy, we join many other countries in having a serious adjustment problem. Stocks of dairy products in government hands are rather large. The optimistic outlook for beef prices may help bring this sector into balance. But it is still useful to ask whether a more appropriate policy for the dairy sector might be devised.[2] Would the use of target prices and deficiency payments bring about a more rapid adjustment to changing economic conditions, thereby protecting producers while at the same time permitting consumers to benefit from lower prices? Does the present combination of price supports and marketing orders give us the most effective means of providing income support to dairy farmers? Those are the kinds of questions we must answer to be sure that present policies are on the right track. Similar questions apply to the other commodities mentioned above.

2. *Can we do better than cost of production as a guide to price policy?* We have already seen that cost of production has many of the same difficulties associated with the concept of parity prices. There are measurement problems, difficulties in agreeing on the appropriate concept of cost, and a continuing political vulnerability.[3] The challenge here, of course, is to disconnect completely the commodity price policies from income policies, since to defend cost of production is implicitly to provide income support through the product market. Such disconnection would provide both a more efficient use of our resources, and possibly permit a more effective means of dealing with the income problem. But as this audience is well aware, most groups in society would rather receive their transfer payments in implicit form through the product market rather than in the form of direct payments from the government.

Our objective in price policy should be to assure that the markets operate to allocate resources efficiently, without creating serious adjustment problems. Obviously, some of the large price swings of recent years provided price "noise" rather than allocative signals and led to distortions in resource use. An optimal price policy would leave prices free to operate within that range consistent with orderly adjustments as seen from a long-run perspective. The questions then become: How do we identify the proper floors and ceilings, and what are the institutional alternatives for implementing them?

3. *Can we manage the reserve stocks in a fashion consistent with a true buffer-stock policy?* The principle of buffer-stocks is clear. Production is removed from the market when prices are low, and released back into the market when prices exceed a certain level. The dampened price fluctuations which result are expected to lead to more efficient resource use, and if managed in an international context, can be expected to promote trade since they reduce the incentive for other countries to become self-sufficient.

The difference between principle and reality is great, however. First, there is the challenge of understanding enough about international agriculture and international commodity markets to know how to manage the reserves in a rational fashion, even if there were no political difficulties. In the absence of proper management, reserves can in fact be destabilizing. Equally as important is the question of whether the political process will permit the reserves to be released when prices reach the trigger levels. The fact that most stocks are held in producer hands will

[2]For recent policy studies of the dairy sector, see Babb, Fallert and Buxton, Hallberg and Fallert, Manchester, and Novakovic and Thompson.

[3]For a discussion of these problems, see Schuh (1976a).

attenuate this problem somewhat since, individually, the producers will be able to make their own decisions. But the test of our new reserve policy is still before us.

4. *Will we in fact be willing to participate in international commodity agreements?* Participation in international agreements is one means of obtaining more rational international economic policy and of obtaining freer international markets. The challenge in negotiating such agreements is to keep the goals rather modest, and at the same time to obtain equitable sharing arrangements. In fact, the justification for participating in such agreements is to attain these goals. We may have to give up some discretion over our own policies to obtain these benefits. Consequently, the benefits must outweigh the costs. The challenge will be to devise such policies so that the benefits to participating countries provide the incentive for them to follow the rules of the game.

Income Policy

In the past, commodity programs were the primary means of dealing with the income problem in agriculture. Interestingly enough, they also provided the means whereby we started to deal with the income problem in the nonfarm sector in a rather unique and important way. Surplus commodities that accumulated in the hands of the government were disposed of in part through the food stamp program. And the food stamp program eventually became an important component of our welfare program.

The policy instruments for dealing with the income problem both in agriculture and in society at large are experiencing almost as much evolutionary change as are our commodity programs. Moreover, most economists would judge these changes to be in the right direction.

The rationalization of these two sets of policies is not completely independent, of course. A gradual shift is occurring away from dealing with perceived income problems through interventions in the product markets, and a growing emphasis is being placed on dealing with them in a more appropriate way either by policies directed at the factor markets or by direct income transfers.

Fortunately, the United States so far has avoided the explicit use of product price policy as the primary means to keep the price of food low for domestic consumers, a policy approach that is common in advanced countries such as Great Britain and Norway, as well as in many low-income countries. It is true that the over-valued dollar of the 1950's and 1960's kept the domestic price of agricultural products lower than its international opportunity cost [Schuh, 1974]. But the over-valued dollar did not reflect an explicit desire to channel agricultural output to the domestic economy, as has been the case in countries such as Brazil [Bergsman, 1970]. Moreover, a sustained public commitment to agricultural research, extension, and education assured a continued flow of new production and marketing innovations which provided sources of income streams to producers. These new income streams offset, at least in part, the income lost through low market prices. The price support programs of this period also acted to counter-balance the deleterious effects of the exchange rate policy.

Over the last 15 years, of course, the food stamp program has evolved as the primary means of assuring an adequate supply of food to low-income groups.[4] Originally devised as a means of disposing of surplus production, this program has now reached the point where it has many of the characteristics of a negative income tax. An important strength of this program, of course, is that it reduces the tendency to lower agricultural product prices as a means of dealing with the income problems of consumers, and thereby provides more opportunity for prices to fulfill their allocatory function. This is an important gain.

We have not been so wise or fortuitous on the side of dealing with producer income

[4]Other feeding programs include the school lunch programs and the programs for lactating and pregnant women.

problems, however. But as noted above, policy has evolved in a rational direction here as well. The introduction of deficiency payments with the 1973 farm legislation, and their ratification and extension with the 1977 omnibus bill, has enabled us to take some strides in disconnecting price policy from income maintenance programs. The severance is far from complete, however, and events of this past year suggest that such disconnection as we do have is at best tenuous.

The gradual extension of manpower and social welfare programs to agriculture and the rural sector in the late 1960's and early 1970's provided the opportunity to move away from product price policy as the primary means of dealing with the income problems of agriculture. The programs evolving from the 1977 legislation, with the price bands circumscribed by loan rates and reserve release rates, combined with a subsidized system of grain reserves, holds promise of providing income stability to commercial agriculture. However, we still have a long way to go in dealing with the *secular* income problem of agriculture, or with income problems reflected in resources that have become marginal to agriculture. The major challenges we face in the decade ahead still lie in these areas.

Explicit recognition that the income problem of commercial agriculture is different than the proverty problem of rural America is an important step in devising a more rational policy. We have made considerable progress in this direction, although it is disappointing to see the extent to which we discuss the income problem without recognizing that well over 50 percent of the income of farm people comes from non-farm sources. Clearly, this is a case where our sectoral perspective creates problems.[5]

In turning to the secular income problem of agriculture, it seems fair to say that the development process as experienced in the United States has been quite wasteful of both human resources and physical capital. We have probably depended excessively on regional migration to bring about equilibrium in the labor market, not recognizing that the externalities associated with this process cause it to be largely self-defeating.[6] The selective nature of the migration process causes the labor exporting region to lose its human capital, its young, its vital and entrepreneurial, and with them whatever mobile capital they have. What is left behind are the aged, those who cannot compete in the non-farm sector, and fixed capital whose productivity inevitably declines with the outmigration of labor. It is little wonder that it took roughly 100 years for the South to reach something approaching an equilibrium, or that other pockets of poverty have stayed with us for such a long time.

A more rational policy would reduce the burden that labor has to bear in adjusting to changing economic conditions, and make greater use of capital flows as a means of reaching equilibrium. A greater emphasis would be placed on taking new industry to areas of excess labor, and greater attention would be given to devising an explicit locational policy.

The goal of such a policy would not be to reduce sectoral mobility. To the contrary, it might well increase sectoral mobility since it would reduce the need for geographic dislocation to obtain alternative employment. This would reduce both the pecuniary and psychic costs of changing jobs. Similarly, it would not lead to a geographically less efficient allocation of resources. Rather, it would provide for a more efficient use of resources in the aggregate, by reducing the negative externalities that our past policies have imposed on both supplying and receiving regions.

[5]Discussions of the 1977 legislation were almost devoid of any recognition of the importance of nonfarm sources of income, or of the simple proposition that it is family income from all sources that is important in understanding the equity question, not the income from agricultural sources above.

[6]For a more ample discussion of this problem, see Schuh (forthcoming).

New policies of this kind are still desirable even though the sectoral transfer of labor resources out of agriculture is nearing an end. Economic conditions will continue to change, and with these changes there will be continuing need for resource adjustment. The challenge is to advise spatial-locational policies that will facilitate those adjustments, and that provide a means of internalizing the negative externalities.[7]

Finally, a more general negative income tax would appear to offer considerable promise for dealing with the chronic income problem of agriculture. Data collected from the rural income maintenance experiments indicate the extent to which rural poor are illiterate, undereducated, and unskilled [Palmer and Peckman]. The experiments also provide some evidence that income maintenance programs encourage the accumulation of human capital by the disadvantaged families in forms ranging from improved nutrition, to additional schooling, and to improved means for job search and labor market mobility [Schuh, 1978]. This accumulation of human capital ultimately provides the means of dealing with the poverty problem.

Trade and Exchange Rate Policy

The role and importance of exchange rate policy are being increasingly recognized. Eight of the nine member countries of the European Economic Community have adopted "green" currencies — an explicit multiple exchange rate system — as the means of opting out of the proposed common price policy of the Common Agricultural Policy (CAP). The Japanese recognize that the rising value of the yen is shifting the comparative advantage of their productive sectors relative to ours. And, the President of the German Central Bank has recognized the competitive threat posed by less-developed countries that keep their currency tied to the U.S. dollar.

Yet many of the implications of a flexible exchange rate system are not yet fully understood and thereby continue to pose important challenges to U.S. agricultural policy. For example, there has been little recognition to date that over-and under-valued currencies constitute implicit subsidies and taxes to imports and exports. The multilateral trade negotiations, for example, have given little attention to exchange rate policy. Yet an under-valued currency, like Japan's has been, is as surely a tariff on imports and a subsidy on exports as are the more explicit varieties of tariffs and subsidies. What does it avail us to negotiate acceptable policies on explicit tariffs and subsidies, if we ignore the implicit forms?

A system of flexible exchange rates has important implications for both U.S. agricultural policy and macroeconomic policy. With such a regime of exchange rates the response to monetary policy resides primarily in the trade sectors: import competing and exports (for details, see Schuh, 1977). Therefore, to the extent that domestic stabilization policies are implemented by monetary means — and that is the primary means we are now using — agriculture as an export sector will bear a disproportionate share of the adjustment burden to changing monetary policy. Such adjustments are brought about by changes in the exchange rate induced by capital flows. The capital flows occur in response to changing conditions in the domestic money markets.

For agriculture this means more instability, caused by shifts in foreign demand. Given the well-recognized long lags in response to monetary policy, on the one hand, and the similar lags in response to changes in the exchange rate on the other hand, the difficulties of dealing with the instability in agriculture will indeed be severe. Perhaps more importantly, attempts to alleviate the implied price instability in agriculture by such means as buffer stocks will neutralize the intended effects of monetary policy.

Finally, exogenous shifts in the exchange rate can impose severe adjustment problems

[7]The spatial-location dimensions to the problem of rural poverty was recognized by Schultz some 25 years ago. His seminal ideas have given rise to a rather large body of empirical research both on U.S. agriculture and on the agriculture of other countries.

on agriculture. Perhaps the best way to appreciate this is to recognize that agriculture has been a beneficiary of the OPEC-induced increase in petroleum prices. The huge increase in our import bill has caused the dollar to decline in foreign exchange markets. This has strengthened the competitive advantage of our agricultural products abroad, and contributed to the high levels at which our agricultural exports have remained despite bumper world crops in recent years.

If the petroleum cartel should break up, the dollar would undoubtedly rise as our oil-import bill declined. The competitive potential of our agricultural exports would then decline, and unless there were offsetting developments our agricultural sector would face another severe adjustment problem. Such a development would pose a serious challenge to agricultural policy.

Our challenges in trade policy are equally numerous and complex. Agriculture has benefited from the substantial liberalization in trade policy that has taken place in the post-World War II period. But the potential for further liberalization is quite great. The levels of agricultural protection are much higher than are the levels of industrial protection. Yet the world tends to deplore industrial protectionism while regarding agricultural protectionism as perfectly normal.

Protection of domestic agriculture in most countries causes agricultural output to be produced in the wrong places, thereby raising its cost and sacrificing output potential [Johnson, 1974]. Such protection prevents market adjustments from taking place, with the result that relatively small shifts in demand or supply in international markets lead to rather large price fluctuations [Johnson, 1975]. Given the relative openness of our own agricultural sector, that sector as well as its consumers have to bear an important share of the adjustment burden from changing conditions in international markets.

The immediate challenge is to encourage liberalization in agricultural trade policy in the current round of multilateral trade negotiations. The lack of success to date does not bode well. But try we must.

Three factors complicate any attempts to obtain trade liberalization for agricultural products. The first is the growing wave of protectionism both here and abroad. This drive for protectionism is due in part to sluggish growth rates among the industrialized countries. But the rapid shifts in comparative advantage due to exchange rate realignments and the emergence of some middle range economic powers such as South Korea, Taiwan, and Brazil have also played an important role.

A second factor that retards agricultural trade liberalization is the growing tendency to self-sufficiency in agriculture among many countries. The instability of international commodity markets has encouraged this tendency. But the perceived potential for dealing with regional or sector adjustment problems by means of import substitution policies also plays an important role.

Unfortunately, the ill-advised rhetoric of U.S. policy-makers and intellectuals also has to accept its proper share of the blame. Concern with the world food problem has caused us all too often to promote self-sufficiency in food production as a desirable policy goal. But self-sufficiency should not be confused with the quite appropriate goal of strengthening and developing the agricultural sector. In fact, modernization and development of agriculture can, and often times should, lead to an increased dependence on trade.

A final factor that retards a liberalization in agricultural trade is the failure to devise and implement positive adjustment policies. Expanded trade almost inevitably imposes rather severe adjustment problems on particular groups in society. The difficulty of dealing with these adjustment problems eventually leads to protectionism. Our own track record on this issue is not very good, as witnessed by our dairy policies. Ironically we have seldom used the considerable trade adjustment policy instruments provided in the 1974 Trade Adjustment Act.

The high protective tariffs the European Community maintains for its agricultural sector are a reflection of its unwillingness to deal

with adjustment problems. Unfortunately, the Community has taken a step back from the common prices it had established by 1968. That set of common prices would have encouraged some necessary adjustments. The use of green currencies has destroyed that important element of the CAP, and at the same time reduced the pressure for adjustment.

A means of dealing more directly with the adjustment problem is needed. Here the challenge to our capability for institutional innovation is great. For example, it might be useful to have an International Adjustment Fund that would help to finance projects designed to facilitate the adjustment process. The rationale for such a Fund is that the world at large benefits from freer world trade. Yet an individual country finds it difficult to internalize the political trade-off since the economic exchange is seldom perceived as between domestic producers and domestic consumers, but rather as a loss by domestic producers to the benefit of foreign producers.

An international institution would perhaps have a better chance of bringing about positive adjustment policies than would domestic institutions. It would be perceived as bringing in resources from outside to deal with what is commonly viewed as a problem whose source is external. The capital for such a Fund could be provided from a small levy based on the GNP of individual countries — perhaps the closest measure of consumer benefits one could find.

The details of such a proposal would take us rather far afield for now. However, the concept is nothing more than an application of the well-known compensation principle of welfare economics fame, with the objective being to provide actual compensation. Agriculture would be a likely beneficiary of such a proposal for it, more than perhaps any other industry, has highly specialized resources and thus provides the economic basis for profitable trade.[8]

Foreign assistance is an important aspect of our trade policy. The challenges for this policy are also numerous. Despite the substantial involvement of the United States in the world economy, we remain surprisingly parochial in our policies toward that economy. We fret over foreign investments in our economy, when we ourselves are a major investor abroad. We complain about competitive threats from abroad, when we ourselves are a major exporter, and must continue to export if we are to import essential raw materials. We pride ourselves on our benevolence with foreign aid. However, if our contribution is measured as a share of our GNP, we rank 12th among the 14 industrialized countries, and have ranked that low for a long period of time.

I would like to single out two of our challenges with foreign assistance for attention today. The first is the problem of raising our commitment to foreign aid. Unfortunately, we tend to view foreign assistance as benevolence, when in fact it should more properly be viewed as an investment. Viewed very pragmatically, markets for our products will grow only as per capita incomes in other countries grow. The greatest potential for such growth, of course, is among those countries with the lowest per capita income. Somewhat less pragmatically, but no less important, development efforts abroad lead to resource development, expanded supplies of raw material and production technology, and synergistic creativity. We ignore these potentials at our own risk.

The second challenge has to do with the form and policy emphasis that our foreign assistance takes. In the process of reforming our foreign assistance programs we may have gone overboard in our emphasis on "basic needs." This is not to quarrel with the desire to help the poorest of the poor. It *is* to question whether we are treating symptoms rather than dealing with more basic causal factors. Agriculture now tends to be viewed as an employer of last resort, when both theory and empirical evidence suggest that

[8]The high specificity of agricultural resources is due not so much to the specificity of labor and entrepreneurial skills, as to the complex of factors associated with land, including temperature, rainfall, and daylight.

agriculture will be a declining share of a growing economy [Johnston, 1970]. We propose to deal with the equity problem by land reform, while ignoring the well-tested tenets of human capital theory, with its precept that the distribution of human capital is more important than the distribution of physical capital. Moreover, we channel our limited resources to large numbers of localized development projects, while failing to recognize the importance of economic policies, and that such policies in most low income countries discriminate severely against rural people.

Finally, we ascribe too easily to the false dichotomy between equity and efficiency. Our proper concern with the equity problem causes us to take an almost perverse pride in ignoring efficiency considerations. At times it appears that we would deliberately turn away from a project if it were found to rank high on efficiency grounds.

Perhaps the best example of such policy making is when we withdraw our assistance from countries like Brazil at the very time that our past investments have the potential for a high pay-off. Such failure to capitalize on our past investments seems quite short sighted. Moreover, it amounts to viewing an economy in the narrow perspective of its own limits, and failing to see how it fits into the larger world economy. In light of the scarcity of resources available for international development, it would seem proper to apply the efficiency criterion to our developmental investments in order to consider the marginal rate of return, despite our ultimate interest in equity.

A Food and Agriculture Policy?

Much has been written and said about the need for a food and agriculture policy; something that goes beyond a narrow focus on the production sector alone. The case for such an approach is clear, despite the stresses and strains which it causes. There *are* problems, however, both in articulating what a food and agriculture policy involves, and in managing the political and policy-making challenges which it presents. Let me make a few comments on each problem.

The distinguishing characteristic of a food and agriculture policy is that it covers the full range of activities from the consumption of food, through processing and distribution activities, production, and the supply of inputs to all sectors considered. Viewed domestically, a food and agriculture policy would cover what is often referred to as the food chain. But to be complete it should include the trade sector as well, since even a major agricultural exporter such as the United States imports an important share of its food consumption.

Clearly the articulation of such a policy is more difficult than a narrow focus on agriculture alone. In the first instance it means that consumer interests become an important policy issue. The regulatory aspect of consumer policies has, of course, been an important source of controversy in recent years, as has been the difficult challenge of attempting to account for nutritional considerations.

But a properly defined food and agriculture policy involves more than just adding consumer interests to producer considerations. It involves a consideration of the product marketing chain, with all the recent issues that have been raised about concentration ratios and possible anti-trust actions. It involves the ever-more important supply industries. And it involves consideration of trade.

Agricultural economists have long recognized the importance of taking this broad perspective, even though often the case is made more from the standpoint of developing their own employment opportunities than from any notion that it would lead to sounder policy. But a food and agriculture perspective has now become a political imperative. Both the 1973 and 1977 legislations were titled the Food and Agriculture Act, with all its implications. Moreover, that legislation was passed in each case as a result of a political coalition of consumer, labor, and agricultural interests. Even if policy makers were inclined to resume a narrower producer perspective, it would not be possible.

But the political reality of the coalition that produced the current legislation is a very different matter from the reality of bureaucratic politics, which has a major impact on the day to day making and implementation of policy.[9] The challenge here, and it is a severe challenge, is to keep the attempt to serve such a broad range of interest groups from paralyzing the decision-making process.

There are no easy answers to this problem. But the issue is important, especially in light of current efforts to reorganize the Washington bureaucracy. At one level the question concerns whether a Secretary of Agriculture can provide the political trade-off between consumer, producer, and other interests. Would each set of interests be better served if they had an individual spokesman, with the President alone making the difficult political trade-offs? Our neighbor to the north, Canada, has something like such an arrangement, with consumer interests in particular having their own Cabinet member. But then Canada also has about 32 members in its Cabinet.

Interesting enough, the broad perspective that the U.S. Department of Agriculture now takes in its policy responsibilities is unique in our present governmental structure. Our policy interests include consumer affairs, rural development, resources and environment, research, teaching, and extension, the commodity programs, and various aspects of international policy. However, the Department does not have responsibility for some aspects of land and water policy, which come under the purview of the Department of the Interior.

The broad responsibility for rural America that has emerged in the Department of Agriculture, and its current coverage of the entire food chain, is unique in the Federal government. No other Department attempts to integrate such a broad range of policy interests. Ironically, some of the current proposals for reorganization would do away with this rather unique integrated approach both to the rural sector and to food and agriculture.

An important challenge of the agricultural establishment in the decade ahead will be to maintain that broad perspective on the agricultural sector, and to capitalize on the potential it offers for developing a cohesive, mutually reinforcing policy towards rural America. Our legacy of the past is an inherent producer bias in the career service of the Department. An important challenge of the future is to broaden that perspective to a degree consistent with our organizational and Congressionally mandated interests, and to develop the leadership than can sustain that perspective, politically and economically.

A Concluding Comment

In conclusion I would like to make one final point. Economists have for too long neglected the G in our macroeconomic models. We fail to understand why policy is what it is, and we leave the study of the policy-making process to the students of political science.

Implicit in my discussion of policy challenges is a search for a better understanding of the bases of economic policy. To neglect why policy takes its particular form is to fail to understand an important part of the economic world in which we live. Similarly, to neglect the policy process per se is to abdicate our responsibilities in obtaining more rational policy. Our tasks as economists will not be finished until we close these two important gaps in our knowledge.

References

Babb, Emerson, and James E. Pratt. *Projections of Milk Marketing Order Performance Under Alternative Pricing and Policy Provisions,* Station Bulletin 171, Indiana Experiment Station, October 1977.

Bergsman, Joel. *Brazil-Industrialization and Trade Policies* (London: Oxford University Press, 1970).

Fallert, Richard F., and Boyd M. Buxton. *Alternative Pricing Policies for Class I Milk Under Federal Marketing Orders - Their Economic Impact,* Agricultural Economic Report No. 401, ESCS-USDA, Washington, D.C., 1978.

[9]For a fascinating account of such politics, see Heclo.

Hallberg, M. C., and R. F. Fallert. *Policy Simulation Model for the United States Dairy Industry,* Bull. 805, University Park, Pa., The Penn. State University, January 1976.

Heclo, Hugh. *A Government of Strangers: Executive Politics in Washington* (Washington, D.C.: The Brookings Institution, 1977).

Johnson, D. Gale. *World Agriculture in Disarray* (London: Fontana Press, 1974).

Johnson, D. Gale. "World Agriculture, Commodity Policy and Price Variability," *American Journal of Agricultural Economics* 57 (1975): 823-32.

Johnston, Bruce F. "Agriculture and Structural Transformation in Developing Countries: A Survey of Research," *Journal of Economic Literature* 8(1970): 369-405.

Manchester, Alden C. *Dairy Price Policy: Setting, Problems, Alternatives,* Agricultural Economics Report No. 402, April 1978, pp 65.

Novakovic, Andrew M., and Robert S. Thompson. "The Impact of Imports of Manufactured Dairy Products on the U.S. Dairy Industry," *American Journal of Agricultural Economics* 59 (1977): 507-519.

Palmer, John F., and Joseph A. Peckman (eds.). *Welfare in Rural Areas, The North Carolina-Iowa Income Maintenance Experiment* Washington, D.C.: The Brookings Institution, 1978.

Schuh, G. Edward. "The Agricultural Input Markets — A Neglected Area of Agricultural Policy and Economic Research," *Proceedings, Annual Meetings of Western Farm Economics Association,* 1963.

Schuh, G. Edward. "The Exchange Rate and U.S. Agriculture," *American Journal of Agricultural Economics* 56 (1974): 1-13.

Schuh, G. Edward. "Theoretical Considerations for Cost of Production Studies," *Proceedings, International Seminar on the Cost of Production,* Institute of Agricultural Economics, State Secretariat of Agriculture, Sao Paulo, Brazil, 1976a.

Schuh, G. Edward. "The New Macroeconomics of Agriculture," *American Journal of Agricultural Economics* 58 (1976b): 802-811.

Schuh, G. Edward. "Income and Stability Implications of Monetary, Trade and Economic Central Policies," in *Farm and Food Policy Symposium,* edited by J. S. Plaxico, Great Plains Agricultural Council Publication No. 84, September 1977, pp 69-96.

Schuh, G. Edward. "Policy and Research Implications" in Palmer, John F., and Joseph A. Peckman (eds.), *Welfare in Rural Areas, The North Carolina Iowa Income Maintenance Experiment* Washington, D.C.: The Brookings Institution, 1978.

Schuh, G. Edward. "Out-Migration, Rural Productivity, and the Distribution of Income," in *Essays on Migration and the Labor Market* Washington, D.C.: The World Bank, forthcoming.

Schultz, T. W. *The Economic Organization of Agriculture* McGraw-Hill, New York, 1951.