

EVALUATION OF AGRICULTURAL PROGRAMS IN TERMS OF ECONOMIC GROWTH, FOREIGN TRADE, AND POLITICAL FEASIBILITY

A General Appraisal

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Evaluation of agricultural programs in terms of economic criteria is a complex and difficult problem. Such an evaluation can be based on intuition, theory, formal economic models, or experience. My evaluation will be based largely on the experience of the last decade buttressed with some results of formal models developed by others.

For evaluation of political feasibility, it seems to me that we are forced to rely on either intuition or experience. I have little faith in the reliability of my intuition regarding the politics of agriculture, and even less faith in the apparent intuition of some of our most prominent political leaders. Therefore, I will rely heavily upon history as a guide in judging political feasibility, but I will weight that history with an evaluation of the changing facts of political life.

The criteria of political feasibility for farm programs are increasingly dependent upon the program's ability to pass successfully the tests of several other criteria—two of which are its effects upon economic growth and its effects upon foreign trade. Also, some other important criteria must be considered.

I believe it is fitting to focus our attention upon the two issues of growth and trade because these two criteria are, in my opinion, becoming increasingly important. Farm programs have long been subject to scrutiny on the basis of their contribution to farm income, equal opportunity for farm people, general economic stability, and freedom of farm operators. You will notice that these particular values largely are those of prime importance to farm people.

Economic growth has been an implicit goal underlying United States economic policy for many decades, but its relative importance was submerged by problems of income level, income stability, and income distribution during the 1930's. It was again submerged by the problems of war and postwar adjustments. Since about 1950, however, increased emphasis has been given to economic growth. Moreover, the distribution of the benefits and burdens of growth has been of increasing concern, especially in agricultural policy.

Foreign trade appears to me to fall in a somewhat different category since it is regarded as desirable because it will achieve other values we believe to be good; it is not generally regarded as an end in itself. Foreign trade is regarded as desirable because it: (1) increases the efficiency of international resource use, (2) improves international relations and thereby international political stability, (3) brings higher income to U. S. producers, and (4) contributes to economic growth.

ANALYTICAL FRAMEWORK

In examining the basic interrelations that I believe useful to consider, we must recognize three factors:

First, in general, we in our society hold certain values, or conditions or qualities we think are desirable. Economic growth is one such value and it has increased in relative importance in recent decades, perhaps because other values (such as economic stability) are more nearly satisfied.

Second, economic policies are designed to bring the real world closer to our aspirations. A policy which promises to achieve many aspirations will receive more support than a policy which promises to achieve only one. Freer international trade is one such policy which appears capable of achieving several aspirations.

Third, political feasibility depends upon whether the relevant power groups in the political process are convinced that a particular program will achieve the values that they consider desirable. Political feasibility may change if the underlying values in society change, or if people's opinions regarding the ability of a program to "deliver the goods" change, or if the political power structure changes. My thesis is that the last two items have changed significantly over the past few years, narrowing the limits of farm policy.

With this analytical framework in mind let us examine some of the broad policies in agriculture, largely leaving the commodity details to the speakers who follow.

RECENT EXPERIENCE

Domestic Programs

The postwar experience in farm programs has been that of learning new facts—the hard way. One by one some of the beliefs underpinning our farm programs have been changed by the results of experience and analysis. Consequently, the limits of United States farm policy have been narrowed, and they are likely to be narrowed even further.

The events of the past decade disproved the belief that commercial agriculture can prosper in a market completely free of government intervention in the immediate future. Sliding farm incomes combined with economic analysis removed this belief from all but a few of the most nostalgic minds. Even the much castigated CED report on agriculture recommended major governmental programs to forestall the economic consequences of a return to free markets, and the outcry over the report was largely because it suggested the ending of government intervention in commodity prices at some future time.

Unfortunately for the policy makers, at the same time it became obvious that merely abandoning government price programs would not solve farm income problems, it also was becoming obvious that other programs were not solving them, or if they would, only at the expense of other important values in our economy.

By the beginning of the 1960's, it had become increasingly clear that the public expenditures to produce and store farm products of little or no economic value at home or abroad might represent a reduction in potential economic growth in the economy. The burgeoning budget costs of farm programs represented the cost of producing and storing excess farm products of relatively low value when the resources could be used instead to produce other goods more preferred by consumers. Using tax money to pay for farm products to add to an already excessive stock of farm products makes little sense to most people. Most economists would argue that government expenditures for a number of other purposes have a higher potential for expanding the growth of the economy. Since the total size of the federal budget at any one time has practical political limits, costly farm programs in essence mean less government expenditures on something else which could contribute to greater economic growth.

The second widely held belief about farm programs that has come under fire in recent years is the belief that a moderate-level price-support program for major commodities could be operated without major output control and without large budget costs and surplus accumulation. This belief was shattered as the mounting stocks and mounting budget costs followed in successive waves year after year.

Then came a series of soil-bank programs, which were merely devices to reward some resources more for remaining idle than they could earn in use. Paying for resources to remain idle is hardly consistent with maximum growth in any economy, although it may be preferable to the income problem that would have followed

drastically lower supports or the stocks problem that would have followed higher supports and no effective controls.

The present administration, when it took office in 1961, shared none of these earlier beliefs—perhaps in part because some of its members had been instrumental in changing them. They recognized clearly that chronic surpluses and huge budget expenditures for farm programs were not consistent with maximum growth and, moreover, that free prices would be inconsistent with the values relating to income in agriculture. Given this insight, which their predecessors had lacked, they promptly embarked upon a program of higher domestic prices—to be achieved by effective quantity controls on production—and large-scale surplus disposal programs abroad. The administration judged, and correctly, I believe, that the day was approaching when the previous type programs, with their chronic stock accumulation and rising budget costs would no longer be politically feasible in view of an increasingly urban Congress and other high priority claims upon limited government resources.

While the administration's judgment regarding congressional political feasibility undoubtedly was correct and remains so, it was badly in error regarding the political feasibility of their program among farmers. One of the unique features of farm programs has been the right of farmers to vote directly on the control aspects of the programs in addition to their right to react through the usual political channels of voluntary farm organizations.

The administration's program of higher supports and effective controls did not even make it through Congress in 1961, and the administration was forced to settle for temporary programs similar to those used by their predecessors. In 1962 only a wheat program was salvaged from the original package, and this was soundly voted down by wheat producers in May 1963—proving that political feasibility in farm policy is a major problem.

Foreign Trade

Meanwhile the passing of time has once again brought us experience that changes our beliefs about the outcomes of certain actions in the area of foreign trade.

Price-support programs were born in the 1930's when foreign trade in all products was at a low ebb. During the war and postwar period the relative importance of foreign markets for our products diminished. Moreover, it looked as if foreign countries never would really be able to produce many goods U. S. consumers would want to buy. Indeed, during the early postwar period as much time was spent in monetary policy seminars analyzing the reasons underlying

the chronic dollar shortages of the rest of the world as is now spent discussing the chronic dollar surpluses and the resulting U. S. balance-of-payments problem. This early postwar climate contributed to the development of agricultural programs with little or no regard for their foreign trade implications.

Suddenly in the mid-1950's the impact of our domestic programs upon foreign trade in farm products came home to roost with a vengeance. Exports of farm products fell precipitously, aggravating the domestic stocks problem and threatening us with a permanent loss of foreign markets as foreign supplies expanded to fill the gap. Farm policy makers suddenly found that foreign trade in farm products was important to farm income and that to fill the gap in farm income if foreign markets were lost would require massive budget expenditures. Thus, we embarked upon a patchwork policy of multiple price plans, export subsidies, etc., none of which were consistent with the ideals of free foreign trade, but which did in fact expand foreign sales.

About this time, however, external events began to work in ways which increasingly limit the alternatives available to U. S. farm policy makers. First, the U. S. suddenly found itself with a chronic balance-of-payments problem, a problem so serious that corrective action was necessary. Part of this corrective action has undoubtedly operated as a brake on domestic employment and growth rates. Also, farm products were belatedly recognized as one of our largest export items that might help improve our payments position. In order to sell farm products abroad for dollars, our domestic agricultural policies must be consistent with and conducive to trade with foreign countries. Moreover, in this game of selling more U. S. products abroad—especially farm products—we now find ourselves facing a group of bargainers who are completely aware of our weaknesses and are quite willing to exploit them. Above all, they are demanding increasingly that our policies be subject to the same rules as everyone else's, and this puts a new dimension on political feasibility.

Some of the rules that foreign countries want to apply in foreign trade include: (1) no export subsidies or export dumping, (2) no tariffs or quotas on imports of competing products, and (3) no subsidization of production in order to maintain artificially low domestic prices. These were the agricultural policy issues that were instrumental in barring British entry to the Common Market, and they are the issues that most certainly will make our negotiations in agriculture difficult.

NEW DIMENSIONS OF POLITICAL FEASIBILITY

It thus appears that we may draw some general conclusions regarding the limits on farm policy. First, unlimited price supports at high levels have about reached the end of their political and economic feasibility. The budget costs are too high, the impacts on trade are adverse, and as a result commodity programs of this type are almost universally in difficulty.

Second, with few exceptions the possibility of obtaining farmer agreement for effective nonvoluntary output control programs (required to maintain high domestic price supports without large budget expenditures) appears to be very low. Even if farmer agreement were forthcoming, the problems might be great inasmuch as the high domestic price levels would get us into trade difficulties both on the import and export side.

Third, budget costs and the reactions of rural farm-associated businesses will probably put rather definite limits on the size and effectiveness of a program of output control through land retirement. The slippage in such a program is very great if the price level is relatively high. Thus, price goals will have to be relatively modest if this approach is to be used.

Despite the rather strong political reaction among many farm groups, the movement is toward the use of some kind of limited payments program which will maintain farm income without the adverse effects previously mentioned. The trend is already clear for several commodities and others may follow. This approach is appealing because it will improve our international trade position and because the budget costs can be limited in a variety of ways. Even the two-price plan for wheat that was voted down was in this direction, and many of the substitutes being offered are even more so.

Thus, the limits of acceptability of farm programs appear to be narrowing as time passes. Complete abandonment of government intervention in agriculture would be unacceptable to a majority of farmers. Neither would most nonfarm groups view this as the desirable way to remove the frustrations resulting from the present programs. If, however, powerful groups in agriculture fail to recognize the new dimensions of farm policy and effectively block new approaches, this may be the alternative that prevails by default.

The political feasibility of farm programs now depends upon three levels of acceptance. The first level is the farmer-producers themselves. This has always been true, and farmers' ideas of what is acceptable do not appear to have changed drastically from the past. The second is nonfarm politicians, who clearly are in the

majority in both houses of Congress and in the executive branch of government. The third is foreign governments, which are in turn representing the interests of their producers and consumers.

Historically, farm policy has been formulated almost entirely with regard to political feasibility among U. S. farm producers—with an occasional bow to the U. S. nonfarm public. Increasingly, however, the political feasibility of a program in terms of the second and third groups is being considered. In fact, no farm program can now be approved in the United States without at least the tacit approval of nonfarm political forces. Given the present and probable future international position of the United States, the importance of a program's political feasibility in terms of the third group—foreign governments—is bound to increase. This means that farmers may well find themselves forced to choose from a series of unpleasant policy alternatives—a situation which loomed large in the wheat referendum. Even so, farm leaders must recognize the new dimensions of political feasibility which they will have to accept as the U. S. and the world economies and political power change.