COST OF GOVERNMENT PROGRAMS IN AGRICULTURE

Earl L. Butz, Dean of Agriculture
Purdue University

The cost of the federal farm program is always a good subject for argument. No one agrees on the component items that go into the cost, much less on its magnitude. Estimates of the aggregate cost, both direct and indirect, range all the way from astronomical sums well in excess of the total agricultural appropriation down to practically nothing.

The high estimators assess a lot of indirect costs against the program, some of which are often difficult to justify.

The low estimators treat various aspects of the program as an investment in prosperity, in good foreign relations, in better nutrition, or in anything else they can use as an excuse to shift cost items away from agriculture to other federal programs.

The whole program is so obviously tied up with political and emotional considerations that it is difficult to formulate any kind of rational cost analysis that commands widespread support. However, any analysis of costs must include such questions as related benefits, direct and indirect costs and benefits, current and delayed costs and benefits, and what federal programs to include in the cost analysis.

WHAT SHOULD BE INCLUDED?

Will costs be confined to such items as price supports on commodities and the related Soil Bank, particularly the acreage reserve feature of it? Or will we also include such things as agricultural conservation payments, Section 32 expenditures for removal of surplus perishable commodities, and Section 32 expenditures for export subsidy?

Will we go further and include the cost of sales of surplus commodities for foreign currency under Public Law 480, realizing that those commodities were already paid for once when they were first acquired by the Commodity Credit Corporation? Will we include such things as expenditures for Soil Conservation Service, for Farmers Home Administration, and related activities?

Will we include the cost of research and extension, and the regulatory programs in agriculture?

And finally, to cite an item which has been very important in recent years, how will we handle the cost of food and fiber used in our vast

foreign and military aid programs abroad? Will they be charged against agriculture or against our foreign relations?

FIVE TYPES OF COSTS CONSIDERED HERE

Our purpose here will not be to make a definite analysis of dollar costs. Rather we shall consider the question of costs or effects of the program from five different points of view:

1. Cash outlay by the federal government for various categories of farm programs.
2. Effect of price stabilization and related programs on production efficiency.
3. Effect of price stabilization and related programs on markets for farm products, both domestic and foreign.
4. Effect of CCC operations on domestic marketing institutions.
5. Impact of these programs on our foreign relations.

Of course, other approaches can logically be made to this question. However, any realistic appraisal of cost must take into consideration the areas listed above.

DOLLAR EXPENDITURES FOR THE PROGRAM

The federal budget initially submitted to the Congress for the 1958 fiscal year carried a total item for agriculture slightly in excess of 5 billion dollars. This was a record high figure. Its magnitude shocked many people, both in and out of Washington.

A 5 billion dollar appropriation for agriculture averages something in excess of $1,000 per farm unit in the United States. It is equivalent to better than 40 percent of total realized net farm income of all our farmers last year.

Of course, not all of this represents subsidy in the usual sense. It includes such things as loans by the Farmers Home Administration and the Rural Electrification Administration, most of which will be repaid. It includes 100 million dollars for the national school lunch program. It includes the continuing cost of research and extension, and the regulatory activities of the Department. It includes the Soil Conservation Service, the Forest Service, and other old-line agencies in the Department.

But even after deducting about everything of that character from the 5 billion dollar budget, we still have upwards of 3 billion dollars left for price stabilization and related activities. It is rather difficult

to "explain away" figures of that magnitude to an increasingly tax-conscious public.

Indeed, from one point of view, it is not always too logical to distinguish between the costs of price and income subsidy items and those of old-line activities of the Department. The plain truth is that both add up to the total cost of the agricultural programs, from a dollar point of view. And it simply is not too easy to justify federal expenditures for agriculture that exceed $1,000 per farm unit or 40 percent of agriculture's realized net income.

In recent years the USDA has compiled estimates of the realized cost of agricultural and related programs, by function or purpose, for fiscal years. For the 25-year period from 1932 through fiscal 1956, the total estimated cost of programs primarily for stabilization of farm prices and income was 11.8 billion dollars.

The cost of these programs ran along usually under half a billion dollars per year, and never exceeded 1 billion dollars per year until the years 1955 and 1956. It reached a high of 1.9 billion dollars in 1956.

The figures for 1957 are not yet available, but when compiled will probably exceed 2.5 billion dollars. In any event, 1957 will be the high year. And 1958 will probably exceed 1957.

These estimates include such things as CCC nonrecourse loans, purchase and payment programs, CCC administrative and other general costs, international wheat agreement costs, donation of commodities to other nations, commodities sold for foreign currencies under Title I of Public Law 480, payments under the Wool Act and the Sugar Act, Soil Bank acreage reserve payments, and acreage allotment payments under the old Agricultural Conservation program.

These estimates are "realized costs" rather than total costs. For example, under the Sugar Act credit is allowed for tariff revenues collected on sugar imported into this country, out of which payments are made to producers. This approach means that over the 25-year period the Sugar Act is credited with a surplus of 347 million dollars.

Obviously, it can be argued that this is not a valid accounting procedure. Payments are made to sugar producers out of revenues available to the federal government. The mere fact that those revenues arose from tariff on imported sugar is irrelevant because consumers paid that tax just as surely as they paid their income taxes from which other payments were made.

Likewise, the estimate of costs for commodities sold for foreign currencies under Title I of Public Law 480 allows credit for foreign

currencies deposited to the account of the United States Government. The true ultimate value of those currencies remains yet to be determined. Very few people believe anything approaching full value will be recovered on that asset. Thus, it is easily apparent that the estimated 11.8 billion dollar cost for the price stabilization programs over the 25-year period is a minimum figure.

The USDA estimates that this 11.8 billion dollars was divided as follows: Basic commodities took 6.5 billion dollars. Designated non-basic commodities took 2.3 billion dollars. Other non-basic commodities took 2.4 billion dollars, and other costs not allocable by specific commodities took .6 billion dollars.

The USDA analysis estimates a total 25-year cost of 5.5 billion dollars for programs primarily for conservation of resources. This includes the Agricultural Conservation program, the conservation reserve program of the Soil Bank, the Soil Conservation Service programs, the Forest Service programs, and flood prevention and watershed protection.

How much of this 5.5 billion dollars should be assessed against true conservation and how much against efforts to increase current farm income is anybody's guess. Surely some of it went to both uses. This is particularly true of the Agricultural Conservation program payments, which totaled 4.1 billion dollars over the 25-year period. In most recent years they have been running about 200 million dollars.

The realized cost over the 25-year period for credit and related programs for electrification and telephone facilities, and farm purchase, maintenance, operation, and housing totaled 1.4 billion dollars.

The 25-year cost for research and education, including payments to states for the Extension Service, was 1.5 billion dollars.

The 25-year cost of school lunch, marketing services, regulatory crop and animal disease and pest control activities was 1.9 billion dollars.

All these items add up to a 25-year cost of 22.5 billion dollars. This includes the years from 1932 through fiscal 1956. Fiscal 1957 figures, not yet available, will no doubt substantially top the record figure of 2.6 billion for the previous year, and will probably push 4 billion dollars.

There is another item of 4.2 billion dollars which represents the wartime consumer subsidies on agricultural commodities. It may be argued that this was a subsidy to consumers and not to farmers. Be that as it may, the payment really went to farmers and came from

general tax revenues. If these costs are included, the 25-year total runs to 26.9 billion dollars.

In anybody's classification, well over half of this sum can easily be classed as expenditures primarily for stabilization of farm prices and income.

How the rest of it might be classified is subject to personal interpretation. In fiscal 1956, for example, of total expenditures in agriculture of 2.6 billion dollars, 1.9 billion dollars or 73 percent went for programs primarily for stabilization of farm prices and incomes. Another 217 million dollars went for ACP payments, a large share of which was used primarily for income stabilization purposes. This means that some 80 percent of total agricultural appropriations were for income stabilization purposes.

EFFECT ON PRODUCTION EFFICIENCY

Although the efficiency of agricultural production, as measured in total output per man-hour in agriculture, has more than doubled in the last two decades, we must still face the question of whether production efficiency might have increased even more under a different kind of federal farm program.

Some parts of the farm program have no doubt accelerated production efficiency in agriculture. For example, high-level price supports have been associated with the transfer of additional cash resources into agriculture and the incentive to increase yields, which have no doubt worked in the direction of increasing output per acre.

On the other hand, the system of acreage allotments for our basic crops has resulted in production quotas so small that many producers are nearly forced out of business. A cotton farmer with a three-acre allotment, a tobacco farmer with his one-half acre allotment, or a wheat farmer with an allotment of only 60 percent of what he formerly grew, finds it very difficult to be a low-unit-cost producer.

When a commodity starts being produced for the government rather than for a growing market, almost inevitably a ceiling is placed on opportunity. When acreage reductions are called for, the cut always falls most heavily on larger producers and usually on the more efficient producers.

This is especially true when federal programs take the path, as they inevitably must, of product diversion from the commercial market, production allotments, marketing quotas, and a growing maze of regulation and restriction over the operations of the individual farmer. It then becomes difficult for the individual operator effectively to follow

sound management principles in applying advancing scientific methods and technology available to him.

Consider for a moment what production allotments are doing to some of our farmers. The rationing of the right to produce to smaller and smaller production allotments results in a large number of relatively inefficient production units. This tends to raise unit product costs for the entire output. As a result, important sectors of agricultural production, in our most scientific and mechanized agriculture in the world, now find they are being undersold in foreign markets by underdeveloped areas of the world.

The system of high supports we have been using for our basic crops in an attempt to eliminate the risk of price variation, has sacrificed income stability. In other words, we are in danger of sacrificing income security for the illusion of price security.

This is a cost agriculture cannot afford to carry.

EFFECT ON MARKETS FOR FARM PRODUCTS

The adverse effect that our price-support programs, in and of themselves, have had on market outlets is obvious even to the casual observer. This, of course, is well supported by economic analysis.

Production of our basic commodities, under the incentive of relatively high price supports, zoomed ahead of effective demand, and unprecedented surpluses accumulated in the hands of government. These surpluses accumulated partly because normal markets for these commodities disappeared at the artificially maintained price levels.

A couple of illustrations will suffice. Price-support levels for butter were no doubt a very important contributing factor in the rapid decline in per capita utilization of butter over the last decade and a half. It can be argued, of course, that total fat consumption in this country was maintained with a shift from butter to vegetable fats. But this shift was largely induced by relative price differentials. And once the market for butter disappeared, it has become almost impossible to recapture it.

Cotton affords another excellent illustration of this same principle. The maintenance of relatively high prices for cotton in the last several years has been a tremendous incentive to the production of synthetic fibers, both at home and abroad. More than that, the production of cotton abroad increased tremendously under the umbrella of the United States price-support program. This meant that we lost a very substantial share of our foreign market for cotton, both to synthetic fibers and to foreign produced cotton, until we began a couple of years ago to sell CCC-owned cotton at a marked discount in the world markets.

It is impossible to place a quantitative estimate on the cost to agriculture of market deterioration under our price-support programs, but they definitely have served to impair farm incomes more than would otherwise have been the case.

EFFECT OF CCC OPERATIONS ON DOMESTIC MARKETING INSTITUTIONS

At the present time CCC has over 7 billion dollars invested in commodity loans and stocks. It has under its control nearly one billion bushels of wheat, over one billion bushels of corn, and some six million bales of cotton. It is acquiring and currently disposing of substantial quantities of butter, cheese, and dried skim milk. It is a very great factor in the rice market.

The free marketing system will be in danger if government price manipulation continues to grow. The government now has the power, either wittingly or unwittingly, to place economic pressure on whole groups of producers and distributors. Through its pricing and sales programs, the government can shrink or expand consumption. It can squeeze consumers out of the market or bring in new consumers.

A government heavily involved in commodity ownership can easily by-pass the private marketing system. Moreover, as the government becomes more heavily involved in the commodity business, the public pressure for this type of activity becomes greater. No doubt some economies would be attained by increased government activity in this area, but the threat to our private marketing system is increased every time government widens its role in the commodity field.

IMPACT ON OUR FOREIGN RELATIONS

Foreign customers are very important to the American farmer. This year, for example, our agricultural exports will reach an all-time high of about 4.7 billion dollars. However, about two-fifths of those exports will have moved under governmental programs of one kind or another. A substantial share of them will move under authorization of Public Law 480 and will represent a "sale" for foreign currency. Another major share will have been transferred abroad under authority of the Mutual Security program or relief schemes of one kind or another. Some will go for barter.

While we have learned in recent years to use our agricultural surpluses as a positive force in foreign policy, we must also recognize that every time we make a soft currency sale or a relief transfer, under whatever name you call it, it usually interferes with the normal export market of some friendly foreign nation elsewhere around the world.

It is within our power now to upset governments in foreign countries, to incite food riots, or to unbalance governmental budgets through manipulation of our surplus food and fiber disposal program.

This is not a healthy situation. Both our own governmental people in Washington and governmental leaders around the world are concerned about it. This situation is particularly serious for those nations who depend on agricultural exports for a major share of their total foreign exchange.

For example, the export of another half million bales of cotton, more or less, from this country is not of great moment to us. For Egypt or for Peru that amount spells economic life or death. The export of ten million pounds of butter from this country is of relatively little importance to us. However, if that displaces a like amount sold from New Zealand, for example, it would be a major economic disaster. Our wheat exports during the past year have reached record proportions. They have all been subsidized. This has brought rather stiff protest from our neighbor to the north. There is little doubt in the minds of many people that our wheat export programs were one factor in causing a major upset in the recent Canadian elections.

It would be false economy for this country to push its subsidized agricultural exports to the point that we alienate some of our friends around the world while at the same time we are spending some 35 billion dollars a year in a major defense effort to keep the free world knitted together.

Obviously our farm programs are now in foreign relations up to their ears. We cannot continue to pursue domestic farm programs and at the same time ignore the impact they have on our total foreign relations. Those who design and execute our agricultural programs must assume some sense of responsibility for the welfare of our total government, including our foreign relations.

PART III
Experiences in Public Policy Programs