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

Tobacco

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To many people the tobacco program has represented the epitome of workable farm programs during the last three decades. It has achieved relative price stability and improved incomes for producers. Understandably, it has been quite favorably received by tobacco growers. It has generated little, if any, complaint from processors or consumers about the favorable prices created under the program. It has been relatively inexpensive for the taxpayers as farm programs go.

Some of these attributes however, are associated more directly with peculiarities of tobacco production and use than with cleverness in the design of the program. Tobacco is a product which has no close substitute. It requires only a very small land area for production and makes extensive use of farm labor in areas which have chronic agricultural underemployment. Traditionally, it is not stored on farms from season to season. Almost all tobacco is sold through a single channel, the auction warehouse. It is inspected closely after sale by the federal government because of the heavy excise taxes on tobacco. Further, over the long trend, per capita consumption of tobacco has moved upward in contrast to the per capita consumption picture for the food and fiber complex. Add to these features the fact that tobacco increases in value in storage up to five years, and you have some important reasons for program workability. Grower satisfaction with the program, too, is enhanced by the countervailing power it affords to over one-half million producers in dealing with the handful of large-scale processors whose purchases are the very heart of the market.

My comments relate mainly to the cigarette tobaccos which represent about 90 percent of the domestic production of tobacco. I will largely ignore the cigar types, dark tobaccos, and exotic types. My comments will apply largely to the major cigarette types—flue-cured and burley—with lesser reference to Maryland tobacco. In the latter type intermittent program participation by growers has resulted in market differences in experience.[1] The health issues surrounding tobacco usage will receive only limited consideration.

ECONOMIC GROWTH

Prices of tobacco have increased markedly since the beginnings of the tobacco program in 1933. Under the program, prices have been well above free-market equilibrium levels [2] [3]. The continuing loan-storage activity for the major types supports this view. For all tobacco, market prices rose from 13 cents per pound in 1933 to 59 cents per pound last year, an increase of about 450 percent. When this is compared with the 563 percent increase in per capita consumer incomes during the same period, it is evident that the real price of tobacco at the farm level has declined. This makes a modest contribution to economic growth. However, the consumer benefited substantially more from the decline in real prices in agriculture as a whole, for which price gains averaged only 345 percent between 1933 and 1962.

The expected farm income effects from the favorable prices generated under the program have been somewhat modified by the influx of new producers, geographical expansion of production of the major cigarette types into areas far from their points of origin, and decreasing average size of allotments. Furthermore, a significant share of the price benefits of the program have been capitalized into higher land values for the allotment, with accompanying windfall gains to initial producers under the program and added costs of entry to those who follow.

In tobacco, the benefits of mechanization, are relatively unattainable due to the small size of acreage allotments. In burley, for example, the average size of allotment is just over one acre and almost 60 percent of all the allotments are less than seven-tenths of an acre. Flue-cured averages somewhat larger with about three and one-half acres per allotment. Limited transferability by lease of a maximum of five acres for types other than burley offers very modest opportunities for mechanization.

As a consequence, labor requirements for tobacco remain quite high. Flue-cured tobacco, for example, requires almost five hundred man-hours per acre to produce the crop. The total tobacco crop of 1961 required about the same total number of man-hours of labor as the 1934 crop and also produced about the same proportionate share of total cash receipts from farm marketings. In contrast, the food grains and the feed grains each now contribute a

[1]For a discussion of the program in Maryland tobacco, see [1].

substantially larger share to total cash receipts from farm marketings than in 1934, and each requires less than a third of the total amount of labor used to produce the 1934 crop. However, in much of the area in which tobacco is a major cash crop, the surplus resource is farm labor, which has sharply limited alternatives.

The costs of agricultural programs can significantly affect economic growth. In tobacco, the picture has been in marked contrast with most price-supported crops. Through mid-1960, the government has been able to dispose of tobacco taken under loan and to recover dollar for dollar on its investment with no losses other than the administrative costs of the program. A part of this success has been due to the effectiveness of the acreage control program in regulating volume of production. The upward trend in total utilization of cigarette tobaccos which provided a safety valve for increased yields resulting from the program and the increasing value of tobacco in storage at least equalling its carrying and storage charges has helped significantly. The upward trend of tobacco price supports has also helped to assure relative ease in disposal of tobaccos taken under loan.

However, tobacco with characteristics not desirable to the trade has accumulated under loan and led to some losses, not all of which show up in the accounting procedures used by the federal government.[2] As of the last of May of this year, realized losses for the price-support program reached 15 million dollars, which still leaves it among the least expensive of the price-supported commodities. As with other price-supported commodities, taxpayer losses in program operation act as a net deterrent to economic growth.

FOREIGN TRADE

Two government programs have had significant effects on foreign trade in tobacco. They are Public Law 480 and the acreage allotment and price-support programs. Government export programs have accounted for about 13 percent of U. S. tobacco exports since the enactment of Public Law 480 in 1954. This is substantially less than the proportion for all farm product exports. Of the 323 million dollars in export program sales since 1954, over 70 percent has been Title I (local currency) sales with the remainder going in barter deals.

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[2]In March of this year during hearings of a subcommittee of the Committee on Appropriatons of the House on U. S. Department of Agriculture appropriations for fiscal year 1964, Assistant Secretary of Agriculture Duncan admitted a loss of about 25 cents per pound on the bargain price disposal of government accumulation of 1955-56 flue-cured tobacco recently, amounting to a total of about 80 million dollars when all costs are included.

Local currency sales have been mainly in flue-cured, with lesser amounts of burley, fire-cured, and Maryland. Important recipient countries have been the United Kingdom, Egypt, Spain, Indonesia, Finland, and Italy. The mixture of "have" and "have not" nations in the list requires some comment. Sales of Title I tobacco to developed nations such as Britain and Italy were not usual and came at earlier periods in Public Law 480 when either financial problems or dollar exchange difficulties in these nations made them temporarily eligible.

Sales of tobacco for local currency in less developed countries are net additions to the volume of our tobacco exported. Their major significance lies in the development of market preferences in receiving countries. We hope economic development will eventually lead to increased trade in which the United States can share. We need to recognize, at the same time, that these export additions to tobacco are many years away [4].

Quasi-free shipments of a luxury good such as tobacco cannot validly be regarded as a contribution to economic development of underdeveloped areas, as can program shipments of surplus food and fiber. Tobacco processing and trade is often a government monopoly operation in Title I recipient nations. Interest in shipments of near-free U. S. tobacco may be colored by thoughts of the added tax revenue which its importation and use typically affords.

The effects of acreage allotments and price supports on tobacco exports have come mainly through effects upon quality and price. Flue-cured, the largest export type, illustrates these effects.

Limited acreage and favorable prices have encouraged the development of higher yielding tobacco varieties, which have in some instances been much less desirable to the trade (both domestic and export). A program of support-price discounts has been introduced to discriminate against these varieties by supporting their prices at only half the usual rate. However, the market has received substantial quantities of this slick, heavy, less desirable leaf in recent years. The reaction of the export market to these quality shifts can be illustrated by the 1956 flue-cured crop. Britain, a leading importer, cut its purchases 37 percent. West Germany, Australia, Belgium, and Ireland reduced their buying of U. S. flue-cured by 15 to 30 percent. In the following year, flue-cured varieties 139, 140, and 244 were given support prices of one-half the regular rates.

Excessive fertilization and the use of growth inhibitors for sucker control have been declared by both domestic processors and export buyers to be damaging to tobacco quality. The program has encouraged these practices by offering a "free ride" to some producers from increased yields when only acreage is controlled. While the proportion of these effects which can be charged to the program is indeterminate, the contributory role of the program in the rapid and widespread adoption of these practices is clear.

The volume of tobacco exports has also been affected by widening price differences during the last decade between United States leaf and comparable types of leaf from other nations moving in international trade. Spreads between United States and Rhodesian flue-cured tobaccos in export averaged 5 cents per pound during 1950-54. By 1961, Rhodesian flue-cured was selling in international trade at prices more than 20 cents per pound below United States leaf. Clearly, not all of the increase in price spread can be charged to the price-support program. Between 1950 and 1961 average export prices of U. S. flue-cured tobacco rose 48 percent while price-support averages were up 25 percent and domestic market prices climbed only 18 percent. How much of this rise in average prices of exports represents shifts among quality grades by buyers as a result of declining crop quality, too, is indeterminate, but this shifting appears to have had some influence on price.

Declining quality and widening price spreads have reduced the U. S. share of Free World exports of tobacco from an average of 42 percent in 1947-51 to 30 percent in 1961. This is in spite of the addition of Public Law 480 provisions for expediting tobacco exports. The increasing competition in tobacco exports from Rhodesia and its implications if and when Britain enters the European Economic Community may call for a careful reappraisal of price-support objectives for United States tobaccos entering the export market.

POLITICAL FEASIBILITY

History suggests a traditionally strong persuasiveness among tobacco producers in getting custom-tailored federal programs. Evidence of this strength is provided by the unique features incorporated in tobacco programs over the years. These range all the way from the exceptional mandatory 90 percent of parity to partially transferable allotments and minimum allotments, to mention only a few. The mandatory 90 percent of parity feature has been modified indirectly by changes in the base period and by removal of tobacco from the modernized parity escalator.

An important contributing factor in continuing political feasibility of tobacco programs has been the ability of growers of the different types of tobacco to compromise their internal differences and present a united front in requests to legislators. This solidarity has provided the tobacco programs with firm support from each of the major farm organizations, despite internal conflicts in philosophy in some instances.

While we generally think of legislation when we speak of political feasibility of programs, historically administrative decisions have had an important bearing on tobacco program operation as it affects the grower, warehouseman, and processor. The tobacco program has been and will continue to be politically vulnerable to pressures for particular administrative decisions regardless of the party in power. These decisions have ranged from determination of total allotment size through stringency or laxity in applying quota formulas to selection of price-support levels for tobaccos treated with growth inhibitors.

At present the health issue probably constitutes the principal potential threat to the tobacco program. If this issue is resolved finally and irreparably against tobacco, the program will be extremely vulnerable from the political point of view. Vulnerability of the tobacco programs to unfriendly political pressures, too, could be increased if losses are sustained from price-support programs in anything like the proportions suffered in wheat, cotton, and corn in recent years. Urban taxpayers and their legislators appear to be increasingly sensitive to such losses. The 3 billion dollars in annual revenue to federal and state government from excise taxes levied on tobacco is not likely to be an adequate defense as this sensitivity mounts.

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