CURRENT U.S. FARM POLICY ISSUES

Francis A. Kutish
Staff Economist, Office of the Secretary
U.S. Department of Agriculture

Secretary of Agriculture Orville L. Freeman's announcement early this year that wheat farmers would not be eligible to receive payments for additional voluntary diversion on 1966 spring-planted wheat marked a significant change in United States farm policy.

Since then the 1967 wheat allotment has been stepped up almost a third, or over 16 million acres. The rice allotment has been increased and soybean and the milk price supports raised to boost output. Clearly, United States farm policy is moving from one of great restraint on production to one of balancing production with use, while maintaining adequate reserves.

Some may look on this as a signal to return to the so-called "good old days" when the government was not concerned with farm policy. But history reveals that from the time of the early settlers the United States Government has been deeply involved in agriculture.

Our first national farm policy was essentially one to get the land settled. The government, through grants and cheap land sales, enabled the nation to grow in area and secure its frontier by populating it. Ever since, the national government in one way or another has been actively engaged in agricultural policy actions.

Concern about farm income problems eased in the 1940's as new demands were placed on farm production by World War II and early postwar reconstruction in Europe. But with the end of the Korean conflict, surpluses again began to accumulate. By 1961, feed grain carryover stocks had built up to nearly 85 million tons and wheat stocks to over 1.4 billion bushels. Realized net farm income in 1960 was more than $2 billion below the figure for 1953.

From 1960 to 1965, the policy objective became one of restraining production while expanding outlets. Price-support loans were reduced; government payment for acreage diversion and surplus disposal rose sharply. The acreage control programs tended to restrain expansion in stocks in years of good weather and to reduce stocks substantially in years of less favorable weather. Meanwhile, use—both domestic and foreign—expanded, and supplies were brought into better balance with market outlets.

I would sum up the U.S. Department of Agriculture's present farm policy approach as being:

1. Oriented to markets—recognizing the importance of maintaining the marketplace as the primary factor in farm pricing rather than using Commodity Credit Corporation acquisitions.

From 1953 to 1960, CCC acquired between 15 and 41 percent of the annual wheat crop, or an average of 27 percent; CCC corn acquisitions during this same period ranged from about 8 to 16 percent of the yearly corn crop, averaging 12 percent. In the past three years, CCC wheat acquisitions ranged from less than 1 percent to a little over 6 percent of the crop, averaging about 4 percent. CCC corn acquisitions varied from a little under to a little over 1 percent of the crop.

Payments to farmers have become an integral part of the market-oriented farm policy—totaling $3.35 billion in 1966. Whether made from public funds or partly from private funds (as with wheat certificates), payments permit separation of the function of income support from interference with market prices.

2. Oriented to world trade—recognizing the need for a realistic relationship between U.S. and world prices for farm commodities. One of the key purposes behind the feed grain program enacted in 1962 and the subsequent wheat and cotton programs has been to support prices of U.S. farm products at or near competitive world levels, so that we could compete in world markets with minimum resort to export subsidies.

In the coming year, U.S. corn and cotton will be sold abroad without any export payment; sorghum grain with little or no export subsidy. Wheat continues for the time being to require export payments of 20 to 25 cents a bushel (far below former levels). Tobacco and rice remain a problem, and the need here for more market and export programs is as great as it was for cotton.

3. Oriented to food assistance—recognizing that the old P.L. 480 played its role as a tool for surplus disposal. Today the real surplus stocks of grain, milk, vegetable oil, and rice are gone. Our foreign food assistance programs were founded on world food needs which were an aftermath of World War II. Then came the era of P.L. 480 which operated under the flag of surplus disposal. The new Food-for-Freedom bill before Congress puts a different emphasis on food aid:

Food aid no longer will be limited to surpluses. It will be made up of commodities determined to be of maximum use in meeting the desired objectives.

Food aid to the extent possible will "take into account efforts of friendly countries to help themselves toward a greater degree of self-reliance."

Let us look more closely at three of the main farm commodities.

Wheat stocks on July 1, 1966, were about 536 million bushels—lowest since 1952, but still two-thirds of a year's domestic food use plus commercial exports.

This year's wheat allotment was 51.5 million acres, the 1967 allotment will be 68.2 million acres. The Department expects that about 62 million acres will be harvested this coming year, which would provide a carryout of about the current figure on July 1, 1968.

In fiscal 1966, U.S. wheat and flour exports, due to the food crisis in India, reached an all-time high of 859 million bushels. This compares with about 715 million bushels in fiscal 1965 and 275 million in 1955.

Roughly, about two out of every five bushels of wheat produced in the U.S. are used domestically. Another bushel is exported for dollars. The other two bushels are shipped overseas on a concessional basis—with one of those two bushels going to India this year.

There are several uncertainties regarding the future. The first concerns the acceptance of the past rate of annual wheat disappearance as a measure of true demand or requirements. Certainly we have been more than generous with our food aid in many years and, coupled with the lower level of wheat prices that existed in the world during the late 1950's and early 1960's, wheat consumption undoubtedly was overstimulated.

A second question lies in whether or not world wheat production will increase as fast as needs. While the U.S. was the only major wheat exporting nation that seriously attempted to restrict production, Canada and the Southern Hemisphere nations probably did not encourage production. I believe the net result was a hold-down on potential that only now shows signs of easing. Australia and Canada both have increased acreages this year and have the largest acreage since 1950. Only France has a smaller acreage. This may be due to policy considerations, although weather last fall may have been a factor. Summing up the situation for the five major exporters, we feel that world supplies are likely to increase in 1967-68.

Less can be said about the Communist world's production capabilities, but many people believe that except for China we may gradually see a return to self-sufficiency in that part of the world. Should this happen the demands on world wheat supplies would decline substantially. Purchases by the Communist world have accounted for one-quarter to one-third of world trade in every year since 1963-64. In fact, world commercial trade showed little change in level from the end of World War II until 1960 when China started her foreign purchases. Almost all of the increase in total world wheat trade until that time resulted from concessional sales made by the U.S.

As long as we maintain the present level of concessional sales (Food-for-Freedom) we can expect little restriction on production of wheat. However, allotments must be continued to allocate the certificates which permit the portion of the wheat crop that is exported to move near the world price. Should the present level of our concessional sales decline, the Agricultural Act of 1965 permits adjustment again in the wheat acreage allotment.

Cotton is in the opposite position from wheat. It is discussed in the papers by Lowenstein and Firch. At this time I merely want to point out that this commodity still is in the inventory reduction category. This requires production restraints which reduce the crop below use.

The Food and Agriculture Act of 1965 enables us to apply some of the same features to adjust cotton production which proved so successful in wheat and feed grains. The support price has been dropped from 30 cents per pound for the 1964 crop to 21 cents for the 1966 crop, supplemented by a 9.42 cent price-support payment. I do not believe that there will be any great rush to expand cotton production at the 21 cent price, particularly as long as price-support payments are available.

Feed grains lie in between the cotton and wheat situations. The carryover stocks on this October 1 are expected to be about 47 million tons, with the carryout down well below this figure on October 1, 1968. With no need for further drawdown in CCC feed grain stocks in the coming year, a 1967 feed grain crop about equal to next year's use in the case of unfavorable weather and one which will replenish drawdown stocks in the case of good weather, now becomes the objective of the 1967 feed grain program.

Changes will be made accordingly in the program which recently has been diverting about 34 million acres of feed grain land from production. But if there were no feed grain program in 1967, and all these acres were available for production, with normal weather we probably would add 30 to 35 million tons to our carry-over in one year. And this recognizes that not all of this land would come back into full production in the first year.

Moreover, it is not clear that demands for feed grains will continue to advance at the recent pace. One of the first grain imports that India would cut back with better weather will be grain sorghum. And while commercial feed grain exports can be expected to continue to expand, it is not certain that they can maintain their recent rate of expansion.

On the domestic side, the present situation is clouded by the fact that much of the 1965 corn crop was of light test weight. This means that more bushels of corn by measure are needed to feed livestock. The result has been a record rate of disappearance (.95 tons per animal unit, compared with .90 the previous year). Thus, the current feed grain drawdown represents some unusual demands—foreign and domestic—plus a less favorable 1966 crop year.

The analyses of the Department of Agriculture still indicate that the intermediate outlook for farm corn prices is closer to a dollar a bushel than the current levels. Therefore, there is good reason to believe that for the next few years we will need a continued feed grain program, but one which will divert fewer acres while reducing stocks.

Thus, commodity programs still are needed. The agricultural scene can change very quickly. The demands of 1968 and 1969 may be quite different from those of 1966 and 1967.

The real test of the flexibility of the Food and Agriculture Act of 1965 is now at hand. The value of the act is that: (1) it provides for selective increases and selective decreases in major farm commodities simultaneously, and (2) it permits commodity programs to shift gears from one year to the next, depending on changes in weather and in demand. We must always remember, however, that no program can pinpoint production exactly—such as could be done with the output of washing machines. For this reason there is need to continue the price and income support features of the programs, also.

I would like to close this discussion of today's farm policy with these three challenges:

1. We need to continue the job of basic economic policy education. The several thousand letters which came to the Department

this spring indicate a vast unawareness of the impact of the level of price supports on matters other than a single family's income.

2. We need to promote an understanding among producers of how and why the 1967 feed grain and wheat programs result in fewer production restraints in the context of the changing current agricultural situation.

3. We need to continue efforts to bring about a better understanding of the income problems that still face a large number of small farmers and the need to speed rural development and reduce rural poverty.

We can compare farm policy to a three-legged milk stool. One leg represents the Congress, which must write the laws and vote the money. If policy does not meet with Congress' approval, it will cease to exist—or no new policy will come into being.

The second leg represents the Department of Agriculture, which must administer these laws and develop the framework within which they operate.

The third leg represents the farm families themselves. They must cooperate with the programs. They need to make intelligent recommendations for change and thus must understand the basic elements of the situation confronting agriculture and the consequences of possible alternatives.

If any of these three legs breaks, the stool will tip. It is the job of extension policy educational programs to help that third leg carry its load—by enabling farmers to better understand programs and their policy alternatives.

Today's farm policy is not perfect. We must continue to progress. But to do so, we must evaluate our policy in terms of what it is today—not what it was—and within the realm of the situation confronting us today—not what it was.

PART II

The Food Marketing System