SOME IMPLICATIONS OF THE 1977 FOOD AND AGRICULTURE LEGISLATION

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In recent years, agricultural and food legislation has been revised and renewed about every 3 to 5 years. Major bills were enacted in 1965, 1970, 1973, and now 1977. The so-called 1977 "Omnibus Farm Bill," the "Food and Agriculture Act of 1977," is the most comprehensive piece of such legislation ever to be enacted. It is also widely acknowledged as the most complex legislative package to be taken up in this session of the 95th Congress, excepting only the energy legislation.

Although still popularly referred to as a "farm bill," this Act treats most components of what would generally be considered "National Food Policy." The four-year bill has 19 titles treating commodity programs, grain reserves, foreign food assistance, domestic food assistance, research and education, conservation, wheat food promotion, grain inspection, advisory committees, and many other miscellaneous items.

The comprehensiveness of this bill has both positive and negative aspects. In recent years, there have been calls for explicit formulation of a national food policy — a comprehensive and consistent treatment of all the major areas relating to food production, processing, distribution, consumption, export, and aid. This bill, though not referred to as such, comes close to being such a compilation. To those who favor a broad national policy, the 1977 Act will be viewed as a step in the right direction.

On the other hand, there are those who see negative aspects to the expansion in scope of the "farm bill." The 1977 Act is extremely complex. The large size also increases the possibility of some very "bad" provisions being included in an otherwise good bill. The "gains" in some areas of the bill are seen as outweighing the "losses" of the undesirable provisions, making the final product, on balance, acceptable though less than completely satisfactory.

Another indication of the comprehensiveness of the 1977 Act is the associated budget outlays. The total budget outlays for all titles in the bill are estimated to average $12 to $13 billion annually over the four-year life (fiscal years 1979-82) of the bill. Food stamp

program outlays are projected at about $5.6 billion, P.L. 480 at $1.1 billion, agricultural research at $1.1 billion, and commodity programs and other Commodity Credit Corporation (CCC) activities at $4.8 billion annually — together totaling $12.6 billion. Of course, future domestic and world weather patterns will largely influence the actual outlays (especially for commodity programs), as will the economic health of the domestic economy (food stamp program).

The projected outlays for the commodity program provisions are substantially above those for the current Act, and during the course of development of the bill, the projected outlays increased substantially. As economic conditions in farming got worse during the year, Congress increased the income support (target price) levels for the major grains. This increased the potential transfer payments to the sector. A chronological listing of some of the major proposals advanced during the development process and their associated costs are shown in Table 1.

Table 1
Sequence of Alternative "Farm Bill" Proposals
And Estimated Budget Outlays[1/]
(dollars in billions)

Proposal	Fiscal Year 1979	1980	1981	1982	Average 1979-82
Original Administration Proposal, March 22	2.3	0.8	1.0	1.5	1.4
Modified Administration Proposal, April 19	2.4	2.0	2.2	1.6	2.0
Senate Committee Bill, May 24	4.3	3.6	4.0	4.7	4.2
House Committee Bill, as of July 29	4.2	1.4	3.0	2.0	2.7
Conference Committee Bill, as of September 2	4.4	3.3	3.9	3.6	3.8

[1/]Estimates include income support (deficiency), set-aside, disaster, and grain reserve storage payments and CCC loan and inventory outlays for grains and cotton.

The outlays for the major commodity programs (feed grains, wheat, rice, cotton, and soybeans) are projected to average $3.8 billion over the four fiscal years. Of this amount, 71 per cent ($2.7 billion) is direct transfer payments to agricultural producers. The remainder is Commodity Credit Corporation (CCC) loan and inven-

tory outlays (recoverable "costs"), and grain reserve storage and disaster payments. Annual outlays for other commodity programs — dairy, peanuts, wool, and tobacco — and for other activities of the CCC (farm storage facilities loans, interest, short-term export credit, and administration) average $1.0 billion, bringing the total outlays to an annual average of $4.8 billion.

Key Commodity Program Provisions

A full discussion of all the provisions of the bill, or even all those that relate specifically to the commodity programs is not possible. I will discuss only those that, in my judgment, appear to have the greatest implications for United States Agriculture or represent a significant departure from existing policy.

Payment Limitations

The $20,000 payment limit in the current law (the Agriculture and Consumer Protection Act of 1973) was increased in both the House bill ($35,000 with annual increases) and Senate bill ($50,000). The Conferees agreed upon an escalating limit for deficiency payments of $40,000 in 1978 and $45,000 in 1979 to wheat, feed grain, and upland cotton producers. Payments to rice producers are limited to $52,500 in 1978 and $50,000 in 1979. For 1980 and 1981, the limitation is $50,000 — applicable to total payments for feed grains, wheat, upland cotton, and rice producers. Disaster payments, certain resource adjustments (not land diversion payments), and public access for recreation are exempt from the limitation as are payments under the extra long staple cotton and wool programs. Also, any increased deficiency payments to farmers as a result of an administrative decrease in the loan level to maintain competitiveness in world markets (explained more fully below) are exempt from the limits.

While this provision has had little effect on program operations, I think it important as an indicator of the mood of Congress (and perhaps the non-farm public to some extent) toward agriculture. When initially established, the limit reflected the public's distaste for large payments being made to a small number of big producers, and its enactment was thought to have been evidence of the loss in the influence of the so-called "farm-bloc" and the "farm lobby" in Congress. However, the willingness to raise the limit, and to levels well above that which would have accounted for inflation since 1972 ($27,000), indicate less concern with that issue at present. Attempts to impose much lower payment limits than those adopted (to $20,000 by Congressman Paul Findley) and to include

payments under the sugar program in the limitation were defeated on the House floor.

Target Prices

A first significant departure from the 1973 Act is that the new bill provides for adjustment of the target prices for the 1977 crop year which were set by formula under the 1973 Act. Once adopted by the Conferees, this change prompted the Administration, in turn, to adjust the loan levels for feed grains (in late August). The adjusted 1977 crop target price and loan levels are shown below.

	1977	
Commodity	**Target Price**	**Loan Level**
Wheat	$2.90	$2.25
Corn	2.00	2.00
Cotton[1/]	.478	.426
Soybeans[1/]	None	3.50
Rice[1/]	8.25	6.19

1/ Established by current law and left unchanged for 1977.

The actions of Congress, acceded to by the Administration, affecting the 1977 crops will result in a substantial income transfer to the farm sector, especially to wheat growers and in the geographic areas most economically depressed. For wheat, the deficiency payment rate will likely be $0.65 per bushel (the differential between the $2.90 target and the $2.25 loan, since the market price for the first five months of the marketing year is expected to be at or below the loan) on the established farm yield for the seeded acres not exceeding the 1977 wheat allotment. For an established yield of 30 bushels, the payment would amount to $19.50 per acre. Farmers will receive payments in late November and December. (These payments are subject to the $20,000 limit, including disaster payments, in the 1973 Act.)

Deficiency payments for wheat for the 1977 crop (an FY outlay) could total $1.23 billion dollars. No payments will be made for corn since the loan level and target price are the same. While not affected by recent Congressional action, payments will also be made for 1977 crop rice (under the Rice Production Act of 1975). No payments are expected to be necessary on 1977 crop cotton.

The *1978 target prices and loan levels* in the 1977 Act are shown below.

Commodity	1978 Target Price	1978 Loan Level
Wheat	$3.00/3.05[1/]	$2.35
Corn[2/]	2.10	2.00
Cotton	0.52	0.51
Rice	8.45	6.34
Soybeans	None	(discretionary)

1/ The target price is $3.00 if the crop is larger than 1.8 billion bushels; otherwise $3.05.

2/ A target price is also mandated for sorghum but left discretionary with the Secretary for barley and oats; all are to be set on the basis of the same cost of production components as for corn. The loan level for these feed grains are set in relation to corn.

There are significant departures from previous law in the establishment and adjustment of target prices for 1978 through 1981 crops. First, the target prices are based on **individual** commodity **unit** cost of production, rather than derived from a generalized formula as in the 1973 Act. The 1978 targets are based (with minor exception) on the average of 1975 and 1976 unit costs of production including variable, machinery ownership, and general farm overhead cost components and a return to management (7 per cent of gross receipts) and to land (3.5 per cent of current price). From the established 1978 levels, out-year adjustments will be made using the variable, machinery, and overhead cost components **only** — changes in the management and land charges are **not** considered in the adjustments. This procedure is applicable to feed grains, wheat, and cotton. The target price for rice is determined in the same manner, except the level for 1978 will be an adjustment from the 1977 target price which was established by the formula in the 1975 Rice Act. A minimum target price was established for cotton (only) of $0.52 cents per pound for 1978 and $0.51 thereafter.

Formula pricing remains only for wool and dairy, and the parity concept is now only used for determining milk and sugar price supports. The parity concept is no longed used for the major crop commodities.

The use of the cost of production concept had great intuitive

appeal to legislators. The simplistic "cost plus a reasonable profit" notion has widespread acceptance until the practical problems of definition and measurement are encountered. The treatment of the land component is, of course, the most difficult and controversial. While the inclusion of the land component in the adjustment process (and the inevitable cost/price spiral) was somewhat avoided, the economic implications of adopting this approach are still unclear. The rationale advanced for the concept was that on the production side, producers should be indifferent in choosing among the commodities for production enterprises since the income support level of each reflects the cost of production. Distortions among crops in the target prices when based on individual commodity cost of production should be less than when set by a formula scheme. Thus, producer decisions would be expected to be based on anticipated market price, reducing the propensity exhibited in the past for producers to "farm the programs," rather than farm for the market.

Another departure from the past is setting the target price levels for the minor feed grains (sorghum, barley, and oats) independently of corn, i.e., these are set based on their individual cost of production. This will result in the target prices of these crops being higher (relative to corn) than in the past. The budget implications are obvious; deficiency payments for oats alone could be as much as $200-$300 million annually over the next four years. Also, shifts in the production patterns in regions where the minor feed grains are grown could be significant.

The target price level for rice also has economic implications, even though of a rather localized nature. The rice target price is obviously out of line with other crops measured on a cost of production basis. If the market price shoud remain near the loan for an extended period, deficiency payments will be large, CCC stocks of rice will continue to accumulate, and pressure will grow to increase rice programming under PL 480. All this could ultimately lead to perhaps again altering the rice program.

Overall, the target price levels are relatively high — to what they have been in the past, to expected market prices (assuming favorable weather), and as a proportion of total cost of production. These levels and the adjustment mechanism have a number of economic implications (as well as some political ones), most of which are subtle, and about which very little is known. Briefly, these include:

1. Potentially large income transfers (relative to historical levels) in the form of direct payments to the farm sector. Again,

the questions of the distribution of the program benefits (subsidy payments) and the structural ramifications are raised.

2. The target price relationships among crops (and setting targets for minor feed grains on cost of production) may well have an impact on the geographic location of production, with some significant shifts occurring.

3. The public image of agriculture. About the time of the significant turn of events in 1972, public criticism of the income transfers to agriculture was at an all time high. The chronic transfer with no apparent solution in sight, the seeming inconsistency of paying producers not to produce at the same time as concern for world hunger was growing, and the large costs ($3 million daily) for storage of government-owned grains all served to present an unfavorable image of agriculture to the public. That image and negative public sentiment have largely disappeared over the past five years but, with continued favorable weather, could quickly regenerate.

Loan Levels

One of the most significant features of the price support-loan programs was the adoption of a provision allowing the deescalation of the loan levels. Whenever the market price in the preceding year is no more than 5 per cent above the loan level, the Secretary may reduce the loan to maintain the competitive position of United States grain exports in world markets. The reduction is limited to 10 per cent in one year and in no event may loans be below $1.75 for corn, $2.00 for wheat, and $6.31 for rice. Also, in any year when the average price exceeded the loan by 5 per cent, the subsequent year loan levels "snapback" to their statutory minimums.

The adoption of this provision was obviously a result of the widespread recognition of the importance of world trade to United States commercial agriculture. While exercising this authority will obviously be a difficult decision for the Secretary to take owing to domestic farm sector political pressures, it does provide a mechanism to help avoid the United States again becoming the residual supplier of wheat and feed grains and the chronic accumulation of grain stocks.

When this provision is used, the Secretary must ensure that the total returns to producers (loan outlays or market receipts plus payments) are not reduced. The target price payment may be increased if necessary to accomplish this.

Elimination of Farm Allotments

The new Act provides that program compliance and benefit disbursement are to be based upon current plantings, rather than on acreage allotments determined from plantings in a historical base period. There was general agreement during debate on the bill that the existing allotments were woefully out-of-date, no longer reflecting current production patterns. Producers' response to market price signals and the general absence of programs (and controls) since 1973 resulted in significant shifts in the geographic location of production. The allotments, some of which were established as long as a quarter-century ago, simply no longer reflected current conditions. Thus, requiring compliance and distributing benefits based on the antiquated allotments would have been inequitable among producers and would have impaired the efficiency of the commodity programs.

Further, one of the most undesirable features of past programs was that the allotments tended to become capitalized and thus, in effect, represented a grant from the Government to the allotment holder. Removing the allotments eliminates this aspect from the commodity programs and using current plantings prevents this from occurring.

The full implications of using the current plantings concept are uncertain. Obviously, some changes in production patterns in areas across the country will occur as a result, but most should be in response to market conditions and not artificially influenced by the programs. Also, with all producers now able to plant any program crop and be eligible for the price and income supports, this may result in some adjustments in land values in certain areas of the country.

The elimination of allotments (except rice) was a bold step politically, made easier by the economic conditions of the past few years which obviated the need for use of allotments. This step could perhaps serve as a precedent or at least bring the allotment system for the remaining commodities for which it is used under greater scrutiny. It might even suggest a further reexamination of the peanut and rice programs.

Grain Reserves

The new bill includes several provisions relating to grain reserves. Specifically, a farmer-owned reserve program for wheat is mandated, but the terms and conditions are essentially identical to the programs announced by the Administration (using existing legal authorities) in April, 1977. Farmers are encouraged to hold

wheat off the market until prices rise to at least 140 per cent (the minimum can be set between 140 and 160 per cent) of the loan level (for the 1978 loan of $2.35, this is $3.29 to $3.76 per bushel). The Secretary may call the loans when the market price rises above 175 per cent of the loan level ($4.11 per bushel).

The Secretary is authorized to provide incentives for storage — payments to producers (may be terminated when the minimum trigger is reached) and waiver or adjustment of interest charges on the extended loans.

The minimum amount of the reserve is specified at 300 million bushels (8.16 million metric tons — MMT) and the maximum is 700 million bushels (19.1 MMT), with the maximum adjustment depending upon the outcome of the international grains agreement negotiations.

The bill also authorizes (discretionary) the Secretary to establish a similar reserve for feed grains. The Administration announced implementation of such a reserve (using existing authority) on August 29, 1977. A feed grain reserve of 17-19 MMT is planned, with a minimum release price of 125 per cent of the loan level (for corn, $2.50), and the loans subject to call when the price reaches 140 per cent of the loan level ($2.80 for corn).

The bill also encourages ("sense of the Congress") the President to work with other nations to develop an international system of food reserves to provide for humanitarian food relief needs. At the same time the feed grain reserve was announced, the Administration also announced its intention to request Congressional approval of a 6 MMT food grain reserve to be used for international emergencies and to serve as part of any required holdings agreed to in an international grains agreement.

The Administration thus plans to have a 30-35 MMT managed grain reserve composed of producer-held stocks (8.16 MMT wheat and rice and 17-19 MMT feed grains), the 6 MMH in the International Emergency Food Reserve, plus any CCC holdings (primarily 1976 wheat and rice) acquired through the loan program.

The bill sets the CCC resale price at 150 per cent of the loan level when a producer-held reserve is in effect; otherwise the resale price is 115 per cent of the loan level. This is a change from previous legislation and a more severe restriction in the use of CCC acquired grain.

The formation of this type of a managed reserve with specific operating rules changes the structure of national stockholding from that of the past quarter-century. The intent is to establish a price

corridor (between the loan level and the release price triggers) while avoiding the problem of large stocks "overhanging" the market and chronically depressing prices as occurred in the past. The likelihood of extreme grain price runups, such as occurred following 1972, is much reduced but price increases of 40-50 per cent are still possible (before the price triggers for both the producer-held reserve and CCC acquired grain are reached).

There are several implications to these procedures, and little has yet been done to fully explore them. Will this structure result in price moderation, but at relatively low levels? How will private stockholding be affected? What are the stability implications for the livestock sector — overstimulation, and further accentuation of the cycle? As the domestic reserves become linked to international reserves and markets, how will these closer ties affect United States agriculture? These are but a few of the questions which need research attention. This is a new experience for the United States, and its successful operation will likely require some trial and error.

Set-Aside Provisions

Authority for control of production through the withholding of cropland from production was continued in the hill, with few but important changes. The set-aside is, of course, to be determined from current-year plantings rather than allotments. Also summer fallow acreage no longer qualifies for inclusion, and the Secretary may require as a condition of eligibility for loans, purchases, and payments that the acreage "normally" planted to crops designated by the Secretary be reduced by the amount of the set-aside. (A "normal" cropping acreage based on 1977 plantings, adjusted for abnormalities, is to be assigned to each farm.) This prevents putting grass land and pasture land into cultivation after setting aside cropland. Thus, expanding total acreage cropped is restricted. The requirement that set-aside land be devoted to conserving uses was continued.

Attempts were made in formulation of the provisions to make them more effective in controlling production than in past programs, i.e., to reduce the "slippage." The exclusion of summer fallow acreage obviously has implications for the Plains states, and the constraint on total program crop acreage is also significant. The acreage part of the slippage may well be reduced and only the productivity and other non-acreage sources of slippage remain. This could have some effect on livestock production if some of the marginal acres brought into production since 1972 are used for set-aside and then perhaps permanently return to grass and pasture. An

interesting question also concerns crop yields. Will major crop yields again return to trend levels prevailing prior to the early 1970s if set-asides are used for several consecutive years?

Other Provisions

There are several other provisions directly impacting on commercial agriculture, but time precludes going through all of them. Three major areas of the bill that may have indirect but important implications for United States agriculture are noted.

Public Law — 480 Programs. Most of the changes in this program were to slightly increase the funding level, increase the ease and flexibility of program administration, and to tighten the potential for abuse, such as the allegations brought out in the current Korean influence scandal about rice shipments.

There is now a widespread feeling that all food aid and development assistance programs need to be reevaluated. Also, the President's concern with world hunger as part of the human rights policy provided added impetus for this appraisal. There are at least 5 major studies now underway that focus on this broad question.

PL-480 was an important outlet for surplus agricultural products when we had big surpluses. If we are again moving into a period of overproduction, there will be a natural inclination and farm sector pressure to again use this program as a vehicle for surplus disposal. However, the times have changed such that this avenue may no longer be available solely or even primarily for that purpose.

The Food Stamp Program. This program also had its origins in surplus commodity disposal. It has been changed over time but has retained some of its ties to the agricultural/food demand concept. However, the new bill eliminates the purchase requirement (eligible households were required to purchase a base amount of coupons in order to receive additional "bonus" coupons, the amounts depending upon their income levels). There is much disagreement over what effect this may have on total food consumption and farm product demand, and the nutritional/dietary levels of recipients. Looking ahead, what will be the impact on agriculture of subsuming the food stamp program totally into a general welfare reform plan?

Researching Organization and Funding. These provisions focus on the organization and funding of agricultural production and human nutrition research. New funding authorization ceilings are established (increasing annually through FY 1982) for on-going research in the food and agricultural sciences. Hatch Act

authorizations for State Agricultural Experiment Stations are increased, a competitive research grant program authorized, increased support through matching grants for providing veterinary medical facilities is included, and special grants for animal health and disease research are provided. The renewed attention to and concern for agricultural and nutrition research by the Congress is an encouraging development.

Summary Overview

To conclude, I would like to briefly view the bill from a broad perspective, now that the detailed provisions have been treated, and offer some observations on the 1977 legislation generally.

The new bill is really not radically new in a fundamental sense. For commodity programs, it is another bill similar in type to that in existence since 1970. It has some new and different provisions, to be sure, and it gives more explicit recognition to economic interdependence, but it is still basically an attempt to provide a quick-fix response to the short-term income ills of the farm sector.

The legislation does not depart from the familiar program structures in attempting to cope with overproduction. We still have not learned how to handle this very basic problem. We have not learned how to target programs (benefits) to the appropriate recipients, nor have we made much progress in recognizing and assessing the longer term impacts of the short-run policy decisions. Commodity programs are still developed for all producers, without distinction for size, economic situation, or other criteria, with important parameters like target prices (cost of production) based on the national averages. The underlying impacts of programs on entry, exit, capital values — in general, the structure of the farming sector — receive little or no attention in the policy process.

Domestic and worldwide weather will be the key to agricultural prosperity over the next four years, hence the key to whether the policy embodied in this new legislation is successful or not. It is unfortunate that in order to have a successful policy and prosperous farm sector, we have to rely on someone else's misfortune — production shortfalls from poor weather which result in increased U.S. exports.

If we have several more consecutive years of favorable United States and world weather, we will have the old familiar problems of the fifties and sixties with us again, perhaps with different trappings, but the same nonetheless. We need to look for new solutions, to develop and elaborate new policy options, and to bring these into

the public policy process for debate and refinement in anticipation of the next opportunity to reshape national policy.

Incorporating, with loss of identity, the food stamp program in a general welfare program will alter the power alliances among farm and consumer groups that have developed around this legislation. Farm sector groups may now have to reassess their support base and find new ways to gain the support of urban legislators.

If the old problems do remain with us, the next "farm bill" may well be fundamentally different — with policies and programs becoming oriented specifically to commercial agriculture, to small farms, and to other components of the food and fiber system — for the benefit of the consuming public, taxpayers, producers, and the nation as a whole.

(The views expressed are those of the author and do not necessarily represent officials positions of the Council of Economic Advisers.)

PART V

Agent Training in Public Policy