AN EVALUATION OF POLICY INSTRUMENTS

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Next year may be a milestone in the evolution of U. S. food and farm policy. Because the 1973 act expires in 1977 congress will have an opportunity to renovate policy in light of the radically changed food situation that has emerged in the past four years.

Consumers will be concerned about effects of farm policy on domestic supplies and food prices. Advocates of food aid for poor countries will push their cause. So will supporters of food programs for poor people in this country. Antitrusters will challenge devices by which farmers seek collective market power.

The heightened importance of food in the world and the U. S. as a food supplier will prompt proposals for use of food policy to achieve purposes having nothing to do with food. Hopefully, a true food and agricultural policy will be developed that reflects anticipation of the future rather than the residue of the past.

Tasks for Food and Agricultural Policy

Food and agricultural policy is expected to accomplish certain tasks and to achieve certain ends. However, there is no grand harmonious set of feasible ends upon which there is or can be full agreement.

At the present time there is great uncertainty about what the underlying food and agricultural situation will be in the next 15 years. Will hunger in the poor countries, high import demand among developed countries, and difficulties in expanding domestic production create chronic food scarcity and high prices in the U.S.? Or will an opposing combination of circumstances bring back the persistent surpluses of the 1960s?

At present, the overall situation seems delicately poised midway between the extremes. But the high sensitivity of agricultural markets to small shifts in the supply-demand balances gives little confidence that the existing situation will endure. Oscillation between the extremes over a decade or so is entirely possible.

Because of inescapable uncertainty about the future, food and agricultural policy should be flexible and capable of dealing with situations as they unfold. The tasks that policy should be prepared

to perform, therefore, are more numerous than if any one set of basic circumstances could be counted upon for the future.

The following eight tasks reflect the principal expectations of the various groups in the formulation of food and agricultural policy. No task is an absolute requirement for policy—each must yield a little if a conflicting task urgently needs to be performed.

Abundant supplies and reasoable prices to consumers. A strictly keyhole view of this task is that domestic food supplies can never be too large or food prices too low. A more informed view recognizes the social usefulness of exports, the role of prices in allocating food supplies among competing demands, the necessity of paying sufficient returns to resources to bring forth supply and, if circumstances are seriously adverse to farmers, the possible desirability of price support as a remedial device.

This very important task does, however, imply opposition to inefficient use of resources and to unwarranted compensation to any participants in the food supply system—farmers, food firms, or labor.

Food aid for the poor. An established national objective is to assure through government programs nutritionally adequate diets for poor people unable to buy them at existing prices.

Expansion of foreign markets. Both the national interest in importing many goods and services, notably oil, and the farmer's interest in expanding demand for his products make this an important task expected of food and agricultural policy.

Food aid for poor countries. Neither the scale on which food aid may be needed nor the extent to which the U. S. public will be willing to supply it is clear now, but at least some food aid is sure to be provided.

Stability of market supplies and prices. Agricultural markets are highly sensitive to shifts in supply and demand. Risk to producers, dissatisfaction of consumers, and reduced efficiency in farming and the food industry are among the undesirable consequences.

The task is to bring greater stability to markets for foods. But this cannot be expected to include insulation from the effects of inflation in the economy at large or to mean maintaining normal food prices despite enduring scarcity or surpluses should they develop.

Income enhancement for farmers. Farmers, like other economic

groups, are unlikely to concede for more than brief periods that their incomes are high enough. If farm incomes were so low as to reduce most farmers' level of living below the American norm and to threaten farmers' solvency, the majority of nonfarmers probably would agree that higher farm incomes were desirable. In some other circumstances, disagreement between farmers and nonfarmers can be sharp.

Farm income improvements can be obtained from two different sources. The first is price increases obtained by eliminating inefficiencies, unnecessary price lags, or excessive profits in the processing and distribution of farm products. Such price improvements are not at the expense of consumers and are consistent with good economic performance of the food system. The second type of farm income increase is obtained by means that raise retail prices or taxes and bring farmers and nonfarmers into opposition.

A further important consideration is the personal income distribution among farm people. When the task is to raise farm income from unacceptably low levels, many persons prefer that the added income go to those who need it most rather than in proportion to farm size.

Consistency with U. S. international policy. The task here is to make food and agricultural policy consistent with international policy in the national interest. Questions regarding the relation between the two types of policy arise specifically in the international trade and food aid areas. This is more generally with regard to the nation's use of the supply of food as an instrument of international policy.

Low governmental cost of food and agricultural programs. The form taken by proposed solutions to several food and farm problems is expenditure of government funds such as payments to farmers or for food stamps. Burdens on taxpayers are increased, or added inflation may result from deficit financing. The cost of government programs is an important constraint on food and agricultural policy.

Policy Instruments

Several important instruments are available with which to achieve tasks that food and agricultural policy may face in the future. Frequently, packages of instruments are required to accomplish particular tasks. For example, price support loans, temporary land retirement, and payments to farmers were used in the latter 1960s to support incomes of grain producers.

Also, some instruments contribute to more than one task—price support loans increase farm income and stabilize markets when surpluses exist. Despite the high complementarity of some instruments, however, simplicity requires that they be treated one by one.

In the following discussion of policy instruments, first consideration is given to those that can be expected to be potentially useful or at least proposed regardless of whether scarcity, surpluses, or intermediate situations exist. Next are policy instruments most applicable when surpluses and low farm income prevail. The last group consists of instruments that might be used if persistent scarcity appears.

Reserve stocks. Reserves are means of increasing market stability in the sense of smoothing out annual irregularities in supplies and prices. The potential benefits are market stability plus (1) probably encouragement of export market expansion, (2) availability of supplies for food aid for poor countries, and (3) some protection for the U.S. in case of national disaster. The principal charges are the costs of carrying stocks and operating the program.

Stocks likely to be carried voluntarily by producers and the trade will not likely prevent substantial price gyrations. Greater, though not complete stability, seems achievable in markets for storable crops, and indirectly in livestock markets, at acceptable cost. Probably the average level of farm prices of crops would be little changed from the average expected in free markets.

A strict reserve program would be less favorable to crop producers' incomes, of course, than would programs that support farm income on falling markets and permit farmers to capture the full benefit of rising markets. The need for clear stocks management guidelines, administrative skill, and integrity of program personnel is high. There is much more controversy about reserve stocks and more complications than this brief sketch can suggest.

Collective action by producers. Bargaining associations and marketing cooperatives are means, in suitable circumstances, of increasing market stability, enhancing producers' incomes, improving equity of nonprice terms of sale, and increasing marketing efficiency. Income enhancement may be achieved (if circumstances are favorable) through marketing procedures such as uniform flow to markets, better allocation among geographic destinations, lower cost delivery and handling methods, and even reduction of excessive profits of marketing firms. All are consistent with good market performance.

Also, producer incomes can sometimes be increased by market power that enables the organization to set prices higher than equilibrium levels and to manage excess supplies by diversion to secondary markets or by delivery restrictions. Such methods ordinarily raise consumer prices and generate controversy as to what is equitable for producers and consumers.

Voluntary collective action usually is feasible only when concentration of production or market areas permits most of the output to be brought under the management of one producer organization. Control of volume of production is seldom possible, which limits the potential market power attainable by voluntary collective action.

Marketing orders are useful adjuncts for exercising power in some situations. Legislation to confer mandatory controls over production, market disposal, and prices on producers collectively—such as marketing boards or collective bargaining enabling acts—are frequently proposed to strengthen producers' market power.

A significant counter force is the growing tendency to apply antitrust laws to the producers' organization in the same way they would be applied to ordinary corporations. Food price inflation has changed the former apathy of the public to this issue.

Whether farmers will get more or less public support for collective action is largely a political question. My own impression is that the opportunities and needs for several types of collective action in marketing farmers' products are growing. However, the more obvious forms of raising prices through unregulated market power will not, in the end, be permitted.

Marketing orders. Orders provide government-supervised market regulation in producers' interest and are most feasible in those situations that are favorable to voluntary collective action. Their essential function is to provide market-wide controls over product disposal—and, for fluid milk, prices that voluntary producer organizations can rarely achieve.

Under suitable circumstances, marketing orders can increase market stability and producers' incomes by orderly marketing of products. Direct and substantial effects on producers' incomes apparently are possible only when minimum prices are set, as for fluid milk, or when market supply is curtailed, as it sometimes is under state marketing orders.

An indirect effect is achieved when a marketing order enables a

strong producer bargaining association or marketing cooperative to exert more influence than it otherwise would have. Premium prices obtained by dairy cooperatives in markets regulated by orders are an outstanding example.

Public scrutiny of monopoly price devices for farmers is making distinctions among the various purposes of marketing orders increasingly important. Their orderly marketing functions are socially useful, and under present conditions orders seem essential for stability in most fluid milk markets. But public acceptance of direct and indirect use of marketing orders to raise prices in an obvious fashion is more likely to be eroded than to increase.

International trade instruments. General lowering of barriers to international trade in farm products has been urged by important U.S. groups for years. The strong comparative advantage of the U.S. in food production would be expected to yield net advantages for agriculture and the nation if trade were liberalized. But effects would vary within agriculture, with sugar and dairy producers prominent among the losers and grain producers prominent among the gainers.

My own expectation is that other countries will reduce barriers only as their own national interests are served and as it can be done at little or no loss to their own farmers. Trade in food will trend upward despite existing barriers and as some barriers are selectively lowered.

Import restrictions are now being urged on palm oil, beef, and other products. Export subsidies of one kind or another have been used in the past for numerous farm commodities. Though such measures usually have some effect on incomes of particular producer groups, they are inconsistent with the basic trade position the U.S. should take to increase its agricultural exports in the long run and to improve its international relations.

On the other hand, if a nation undertakes to support the price of a farm product, it makes no sense to permit imports to grow while the support program is in effect.

The U.S. appears to have an opportunity to encourage stability in international markets and to increase its own exports by adopting policies likely to stimulate desirable responses by other countries. The U.S. might, for example, carry reserve stocks and assure (within limits) supplies to foreign buyers who take stable volumes under advance arrangements.

The result might be wider use of contract sales, more carrying of stocks by importing nations, and capitalization on the U.S. advantage as a large-scale exporter. The much-maligned arrangement with Russia is a constructive development in this direction.

Food aid instruments. Reserve stocks are essential for any substantial food aid for poor countries. The volume of aid currently being given is small. The amount that might be needed in the next decade to prevent hunger abroad is impossibly large. The U.S. is exercising virtually no leadership in dealing with a problem that can become desperate for some countries and, therefore, important to us.

We could announce a willingness to make an annual commitment to provide an amount of grain that is impressive by current standards but well within our capacity to supply. We could take leadership in arranging for orderly distribution of food aid among countries and in developing terms conducive to its effective use. Such steps might improve our standing among nations and prepare others and ourselves for dealing with a crunch that may come with little warning.

Domestic food consumption subsidies. USDA research suggests that the food stamp program is for one-half to two-thirds effective in increasing recipients' expenditures for food. The remainder is an increase in their income available for spending on other goods and services. The program is thus more effective than equivalent cash grants in increasing food expenditures but more narrowly constrains consumers' choices.

The limited data on the subject suggests that the stamp program's contribution to essential nutritional needs is much less than to food expenditures, because some purchased foods are of little nutritive value or supply nutrients not needed in larger amounts.

Apparently, significant contributions are made to incomes of farmers who produce the types of foods most demanded by stamp users. Administrative problems in reserving benefits to the truly poor have appeared and have eroded support for the program.

Reduced price meals under the school lunch program and some other nutritional programs also supplement incomes and nutrition of the poor. Probably welfare would be improved by shifting food subsidy funds from the special milk program to reduced-price meals under the school lunch program.

Perhaps the most potent argument for retaining the various food consumption subsidies is not their special impact on nutrition but the political feasibility of providing income assistance to the poor in this way.

Price support. This is the first of several policy instruments that might be used to support farm income, particularly in times of surplus. The two familiar devices are nonrecourse loans as for grains, and direct government purchases as for manufactured dairy products.

Price support increases the income of producers if output is not restricted and also ordinarily increases it but to lesser extent, if output is restricted to the amount that can be sold at the support level.

Stability of markets is increased, for price support puts a floor under the market, and stocks acquired for support purposes are often available for release later if prices temporarily rise. Benefits to producers are approximately in proportion to the amount sold. They cannot be restricted to a particular size group. Costs to government depend on the level at which price is supported, the duration of support, and the volume of production of the commodity.

When the U.S. is by far the largest actual and potential supplier of a product in world trade, modest price support may reduce the volume of export very little and might actually increase dollar earnings. But when important competition does or might exist, significant price support is likely to reduce both export volume and dollar earnings.

Such a result is bad for the nation and reduces the effectiveness of price support for improving farmers incomes. Apparently, the U.S. can support prices of feed grains, wheat, and soybeans in times of surplus at levels low enough not to stimulate production elsewhere but high enough to be of some help to U.S. farmers. However, high supports can cause great difficulties.

Production control devices. Production control is likely to be needed when price support or supplemental payment programs are in effect. This is in order to prevent wasteful production and surplus stocks. Limitation of land devoted to a crop, although an imperfect device, is usually the most practicable form of crop control.

Non-use of the land withdrawn from a crop is essential to prevent transfer of resources to other crops and seems necessary if

the controlled crop occupies much acreage. Sales quotas can accompany land restrictions and can be used alone for some crops or for livestock.

Production control is primarily a farm income support device. It is also important as a method of stabilization. Reserve stocks can be viewed as a first line of defense against instability, with production control a second line when stocks become excessive. Both stocks accumulated in time of surplus and land withdrawn from production increase the stabilization capability of agriculture.

Farmers have agreed in the past to compulsory production control in return for high-level price support if land did not have to be retired. But compulsory land retirement has not been acceptable to farmers. Payments to farmers just high enough to induce sufficient voluntary compliance with a land retirement program, so that markets are not overburdened at price support levels, have been workable.

The cost to government is substantial and increases rapidly as the degree of price support rises. So-called voluntary production control for crops, employing compliance payments, appears to be feasible only if accompanying price supports are modest.

Compliance payments have a built-in insurance feature. Ordinarily they are based on normal yields and are made even though the farmer has a crop failure. There is little opportunity to influence the distribution of the benefits of a joint price support, production control, and compliance payment program among producers, because large producers not eligible for payments can nevertheless produce and sell at the supported market price.

Supplemental payments. These payments are made to supplement producers' incomes and either do not require producers to comply with production controls or are in excess of the amount required to induce participation. The wool program uses supplemental payments only. The wheat program of the late 1960s had, in effect, supplemental payment on top of compliance payments.

Supplemental payments add to farmers' incomes and can be modified to limit benefits going to particular classes of farmers. Supplemental payments can be exceedingly costly to government if applied to important products without accompanying production control. If paid on exported products but not accompanied by tight production controls, supplemental payments are a form of export subsidy and will understandably be resented by other countries.

In times of very weak markets the target prices of the 1973 act would lead to payments that might be either supplemental payments, compliance payments, or a combination of both. The secretary of agriculture has wide leeway as to when he must invoke acreage restrictions. If he chose to make the payments called for when market prices were below target prices without requiring production control, he would be administering a strictly supplemental payment program.

If he required acreage restriction, producers would have to comply to receive payments, but the prescribed payment formula might produce just the amount needed to obtain desired compliance, or a higher or lower amount. The fact that the amount of the payment is known only near the end of the crop year rather than prior to planting reduces the plan's effectiveness and equity for production control.

Purchase and noncommercial disposal. A common device has been to purchase poultry, beef, and several other products when prices were low and to dispose of them in such outlets as the school lunch program or foreign food aid.

Such purchases give some income support to farmers and reduce instability by keeping falling prices from going as far as they otherwise might. Products donated to the school lunch program probably largely displace other products without much effect on total utilization of food.

Production incentives. Here attention turns to policy instruments that might be used if enduring scarcity seemed likely. Attractive long-term price guarantees for basic food and feed crops would encourage farmers to make the substantial investments often required to bring new land into production or to increase the productivity of old land.

Long-term loans at subsidized interest rates for land development might be used. Assurance of sufficient petroleum products for fertilizer manufacture, crop production, and drying, could be given. Environmental restraints significantly obstructing food production but not essential to human health might be relaxed.

Research on agricultural technology could be increased. So could research on non-agricultural food sources, on new food products such as meat substitutes, and on human nutrition. There is an obligation on the part of society to help producers adjust without undue hardship if accelerated output expansion to meet national objectives is not needed.

Export restrictions. This point logically belongs under the international trade topic discussed earlier, but its recent prominence warrants special mention. In my view, export restriction is a warranted part of a food policy that encourages importing nations to carry stocks, to make advance arrangements for their principal needs, and to rely upon U.S. supply if they hold up their end of the bargain.

Export restrictions would then be applied when importers made exceptional demands that the U.S. could not meet without materially depriving its regular export customers or its own consumers (and livestock producers). In this sense, export restrictions applied according to established and understood guidelines would be a second line of defense against market instability accompanying scarcity.

But hit-or-miss restrictions to placate a labor union, to avoid heat from consumer activists, or to escape from traps resulting from having no policy at all are entirely different and should not be allowed to happen.

Applications to Current Issues

Let's bring the foregoing discussion of policy instruments into focus by outlining what a comprehensive food policy might be like.

The Agriculture and Consumer Protection Act of 1973 will be the starting point in considering legislation needed in 1977. It would have to be substantially modified and expanded, and other policy positions would have to be developed, to build a satisfactory framework for dealing with potential future problems.

The act contains provision for a token disaster reserve. This should be transformed into a directive for an operating reserve stock program including at least feed grains, wheat, and soybeans. The Commodity Credit Corporation, starting gradually, would acquire, and later dispose of, inventories as necessary to maintain total national stocks of designated commodities at prescribed average levels. This could be done over, say, seven-year periods and to keep national stocks within stated limits each year. Prices would not have to fall to loan (support) levels before stocks were acquired. The mechanics of the program are highly important.

Price support through crop loans should be continued, but the levels applicable in 1978 should be set high enough to make loans likely to be effective if real net farm income dropped to its pre-1973 position.

Changes in loan levels in later years should be made according to specialized indexes of changes in non-land production costs for the crops. This would be preferable to the scarcely relevant formulas now provided for target prices.

In most cases acreage control provisions of the set-aside type and applicable also to soybeans, peanuts, and tobacco, should be continued to deal with surpluses (exceeding reserve-stock upper limits) should they appear.

Strictly compliance payments, set at levels necessary to get required participation and announced prior to planting dates, should replace target prices; payments would be used only when set-asides were in effect. Acreage allotment bases for administration of the program urgently need to be updated perhaps to the 1974-76 average.

The principal domestic food consumption programs should be continued but tightened as necessary to effectively reach the poor. If the "welfare mess" were ever resolved by means of a well-designed general income support program for the poor, the food stamp program could be terminated.

In the international trade area, authorization should be provided as necessary to enable the administration to develop the policy already outlined. This would encourage advance arrangements with importing countries to make supply commitments and to establish guidelines as to how exports would be allocated in the event of severe shortage.

Further, the U.S. should take positive leadership in developing orderly means of dealing with potential problems of providing food aid to poor countries. Authorizing changes are needed in P.L. 480. Attention to food aid should not divert the U.S. from the more important task of helping poor countries to increase their own food production.

Changes in legislation relating to collective marketing by farmers and to marketing orders probably are not advisable now. But the administration may have to emphasize market stabilization and orderly marketing procedures rather than monopolistic pricing. Possibly attacks under the antitrust laws will weaken the latter.

The probability of persistent scarcity is not now high enough to warrant use of the more ambitious instruments to expand output. But neither is sufficient food so assured that the nation should seek to avoid all risk of having to provide farm income support.

Thus, loan levels should be high enough to assure farmers of tolerable prices if farmers overproduce, reserve stock goals should be set at generous levels, and research on agricultural technology, new foods, and nutrition should be pushed. A little too much food will be a lot easier to live with than too little.

PART III

IMPACTS OF JUDICIAL AND REGULATORY DECISION MAKING