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Introduction

Public price and income policy for the agricultural and food sector of the United States commonly refers to the commodity programs, the national grains reserve, crop production control, agricultural trade, and domestic and foreign food distribution. The primary focus of these policies on farmers and their farms in bygone decades has long since been expanded to encompass the welfare of consumers, the interests of diverse nonfarm groups, the balance of imports and exports, the prosperity of the entire agribusiness complex, the macroeconomics of foreign exchange rates and domestic monetary policy, the taxpaying public, and the nation's budget deficits. During the half century since its inception, price and income policy has evolved as surely as has the agricultural sector to which it is directed. However, in few past periods of evaluation and revision has it faced the concerns, attention, and importance now being accorded it as another major two year evaluation gets underway.

By the time the Agriculture and Food Act of 1981, which is the current statutory embodiment of price and income policy, expires on September 30, 1985, the public must decide what, if any, policy should follow. This particular cycle of decisionmaking is spotlighted because of the unprecedented current Treasury burden, the present importance of the international market, and the volatile economic wellbeing of the farming sector.

Note the uniqueness of the situation. When has the public expenditure for any private sector essentially equalled the net income earned by its producers, as is the case with the current estimated budget outlay for farm commodity programs of $21 bil. Where else has a policy resulted in the public purchase of a fourth to a half of the annual production of an industry, and even then after all the costs have already been sunk, only to have that very product given back to those same producers to induce a halt in production, as was done with the PIK program this year. When has public transfers been distributed largely on the basis of firm size such that the largest producers receive the largest payments, totaling millions of dollars to certain

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producers as occurred with this same program. Can this rapid rise in transfers be reconciled with a simultaneous ceiling on free food distribution through food stamps at the very time of high unemployment. How often has the real net income to producers in an economic sector dropped by over 50% in a span of only three years as was the case with farming from 1979 to 1982. And how many sectors exhibited an 8% compound growth in labor productivity during the past two years, as did farming, while there was no growth in the remainder of the economy. In what sectors could we find the exports continuously rising in real terms for eight of the ten years of the decade of the 1970s serving as a market for a third of its total production, only to shrink by 15% in the past two years as with agriculture, and that simultaneously with back to back years of record crop production. And finally, when before has there occurred the greatest public intervention ever for a sector, in terms of budget outlays, from an Administration pledged to reduce that very intervention. This is the anomaly of the agricultural picture and the policy environment in which the 1985 Act must be fashioned.

Yet, agricultural price and income policy has its very roots in economic crises and political controversy. It has apparently survived from the 1929 Agricultural Marketing Act to the present 1981 Act because of farm price instability, national food security, periodic depressed farm income, export earnings, traditional agricultural fundamentalism, and rural political power.[1]

The evaluation for the 1985 policy, already well underway, is both economic and political. Economic components are the supply and demand situation for the agricultural product, the efficiency of its production, the distribution, level, and variability of the factor returns, and the budgetary impacts. Political components include the size of the farming community and its dependent industries, the power and diversity of the related private interest groups, the spillover into foreign policy and national security, the demand of political participants for public intervention into the agricultural sector, and the equilibrating supply of the public to support programs and transfers. Seldom has the public attention been so widespread, the politico-economic stakes so high, and need for understanding so acute.

To help us build a framework for understanding and evaluating this upcoming agricultural policy development let us proceed through three questions: (1) What is our present policy; (2) What is the policymaking schedule, and (3) What are the future policy options and alternatives.

Present Public Agricultural Policy

To manage our limited discussion, we will focus on the commodity, reserve, and trade issues, with the latter alongwith foreign exchange rates left to the subsequent paper. However, we should be mindful that these commodity programs have evolved in an integrated policy also embodying the most massive public domestic and foreign food distribution efforts known to the market-oriented part of the world. Decisions about farm commodities will not likely be made in isolation from their impacts on food costs nor from these food distribution programs that are of special interest to the urban economy.

Present provisions of the Agriculture and Food Act of 1981 are outlined in Table 1. The commodity, reserve, and trade titles can be summarized as follows:

(1) Mandatory 3-5 year national grains reserve for purposes of national food security and foreign trade and aid reliability, with a maximum cap of no less than 700 mil. bu. of wheat and 1 bil. bu. of feed grains. The grain is to remain "farmer-owned" under a government non-recourse loan with storage, interest, and release prices generally at the discretion of the Secretary of Agriculture. Since commencing in 1978, grains reserves have been alternately built up and released with some stabilizing effects. However, for the 1981 and 1982 marketing years, the Administration used the reserve as the primary mechanism for farm price and income support, resulting in a record 1.1 bil. bu. of wheat and 3.3 bil. bu. of feed grains. This program is only available to eligible producers, normally those voluntarily reducing base acreage in production.

(2) Minimum price supports through the traditional non-recourse loan for the major crops, approximating minimum world market prices, with provisions for some reduction in times of excessive supplies and also for increases, both at the discretion of the Secretary. They were raised slightly by that discretion for 1983, and have now been lowered again. This program is similarly available only to eligible producers. The loans provide an alternative during the course of the marketing year for producers to obtain the highest possible price, thereby stabilizing the annual price, but in the absence of effective production control they have resulted periodically in a build-up of government-owned stocks. This is most evident with the controversial dairy support program that not only has no production control features but also has not evolved as have the other programs toward use of world market prices and target price payments.

TABLE 4. SUMMARY OF PROVISIONS OF AGRICULTURE AND FOOD ACT OF 1981

ITEM	PROVISIONS	IMPLICATIONS
DURATION	Four years, 1982-1985 (FY) Fiscal Years or crop marketing years.	Direction set except for food, but yearly changes likely.
FOOD DISTRIBUTION Domestic	Food stamp program continued for only one year. Maximum outlay $11.3 bil./yr.; April adjustment postponed. More restrictions on eligibility; experiments on cash-out cont. Workfare permitted if local govts. obtain Sec. approval. Increased program monitoring and authority for enforcement. Surplus commodities free to children, elderly, and food banks.	Program uncertain; new policy needed in 1982. Cost escalation reversed with 20% funding cut-back. Less participation and benefits to those eligible. Work requirement for recipients likely to increase. Efforts increased to reduce fraud. Storage costs saved; needy use products in surplus.
Foreign	P.L. 480 continued but funding level left to appropriations. Projects may include literacy and health but be measureable.	Level of program subject to yearly budget forces. Accountability and admin. of aid programs strengthened.
GRAIN RESERVES	Farmer-held reserve mandated for both wheat and feed grains. 3-5 yr. loans at levels no lower than regular loans. Single trigger release price is set at discretion of Sec. Reserve max. no less than 700 m. bu. wheat & 1 b. bu. feed grns. CCC stocks resale minimum at 110% of release price. Sec. discretion to use storage, loan, & interest to manage	Insures govt.-farmer controlled reserve for security of consumer, export market, and aid. Reduces high and low extremes of farm & consumer prices. Increases average size of reserve and Treas. cost. Permits much flexibility for Sec. to achieve objectives, but interest rate min. at Treas. cost.
COMMODITIES Wheat	Price support (non-recourse loan), minimum: 1982-85 -- $3.55/bu. If average price in any year no greater than 105% of loan level, support may be lowered 10%/yr. to $3/bu. floor price. Target prices min. on national aver. return on established yield & planted acres to producers meeting conditions: 1982 -- $4.05/bu. 1984 -- $4.45/bu. 1983 -- $4.30/bu. 1985 -- $4.65/bu. Sec. discretion to index on per acre 2 yr. aver. var. costs. Set-aside out of planted acreage and acreage reduction with conservation practices specified may be a condition for benefits. 1982 -- 15% set-aside announced by Secretary. Cross-compliance and paid diversion also discretionary with Sec.	Initial support up 11% from past year but below average prices past 3 yrs. and not higher than world prices. Increases stability of producer & consumer prices. Results in periodic buildup and cost of govt. stocks. Raises minimum prices for exporters and consumer prices. Maintains min. producer incomes with initial targets up 6% from, but below projected nonland costs of, past yr. Results in periodic government payments to producers that could reach $1.5 b./yr. Treas. cost. Productivity likely increased by price/income stability but decreased by production control. Reduces supplies relative to demand by voluntary action. Much discretion on price/target levels and controls.
Corn (price support on grain sorghum, oats, barley, and rye, as well as target prices on sorghum, oats, & barley, all proportional, latter at Sec. discretion)	Price support (non-recourse loan), minimum: 1982-85 -- $2.55/bu. Support could be lowered same as wheat, except $2/bu. min. Target price (same conditions as for wheat) at: 1982 -- $2.70/bu. 1984 -- $3.03/bu. 1983 -- $2.86/bu. 1985 -- $3.18/bu. Indexing of target discretion of Sec. same as for wheat. Set-aside, acreage reduction, paid diversion, cross-compliance same as for wheat: 1982 -- 10% set-aside announced by Sec.	Implications are generally same as for wheat, but with price stability, income levels, productivity, and consumer impacts also indirectly affecting livestock. Initial support up 6% from past year and below average farm prices past three years. Initial target level up 12% from past year and higher than projected nonland costs of past year. Periodic government payments to producers that could reach $1.5 bil./yr. Treasury costs.
Soybeans	Price support only (non-recourse loan), minimum: 1982-85 -- 70% of three middle prices past 5 yrs., $5.02/bu. min. Support could be lowered as wheat but $4.50/bu. floor. Production controls and cross-compliance prohibited.	Implication generally similar as for corn, except no voluntary production control possible. Min. support, now mandatory, initially likely same as loan past year and as are projected nonland costs.
Cotton	Price support (non-recourse loan), minimum: 1982-85 -- Same formula as past year's but with 55¢/# min. Target price, similar to wheat, at higher of 120% loan or: 1982--71¢/# 1983--76¢/# 1984--81¢/# 1985--86¢/# Indexing of target discretion of Sec. same as for wheat. Set-aside and paid diversion as for wheat, but no cross-compliance.	Implications generally as wheat but no cross-compliance. Initial support up 5% from past year and min. higher. Initial target price same as past year, but well below projected nonland costs for past year. Periodic government payments to producers that could reach $.3 bil./yr. Treasury costs.
Rice	Price support min. to all producers (allotments eliminated): 1982-85 -- Cont. formula of 75% target; lowering min. $8/cwt. Target price and production control as wheat with min. levels: 1982-85 -- $10.85, $11.40, $11.90, $12.40/cwt. respectively.	Implications generally as for cotton except greater reliance on exports could be more problematic. Initial support and target levels up from past year and much above projected nonland costs of past year.
Peanuts	Price support (non-recourse loan), minimum: 1982 -- $550/t. 1983-85 indexed to costs up to 6%/yr. for declining national quota from 1.2 mil. t. to 1.1 mil. t.	Allotments suspended so high price/income protection to quota holders and high domestic consumers prices. No controls on additional production, little Treas. cost.
Sugar	Price support (loans, purchase, import duties) min.: 1982-85 -- increasing each year from initial 17¢/# to 18¢/#.	Initiates intervention at prices likely above world, with cost to consumers, but little to Treas.
Dairy	Price support (purchase of mnfr. products), minimum: 1982-85 -- $13.10, $13.25, $14.00, $14.60/cwt. respectively. Minimum supports could be raised if govt. purchases fall.	Producers income protected some, consumer costs raised, imports restricted, no production control, Treas. costs high, recently $3 bil./yr.
Wool and Mohair	Price deficiency payments for all production at 77.5% of formula.	Support down 10% on formula; Treas. payments to $80 m./yr.
Payment Limitations	Combined price/income payments limited to $50,000/yr. per person, excluding payments for resource adjustments or disaster.	Minimal cap to big farmers; reduces their participation and hence interferes slightly with production control.
Disaster Payments	Disaster payments generally eliminated; still discretion of Sec. in cases of severe economic emergencies for crops.	Assistance for disasters unlikely with new crop insurance, which Admin. intends to make available.
RESEARCH AND EDUCATION	Continues federal research-extension-teaching programs; funding increases of 9-14%/yr.; expanded program areas.	Funding for agriculture and food likely to barely keep up with inflation; some shift to states emphasized.
CONSERVATION	New programs of grants, loans, and assistance for farmland conservation, but no funding, with some shift to states or locals.	More admin. attention to conserv.; programming and funding likely joint with states with level not decided
EXPORTS Embargo	Producers compensated 100% parity if part of separate embargo.	Protects producers from and deters isolated embargoes.
Promotion	Ag. Export Credit Fund established and market promotions encouraged.	Increased govt. involvement & some funding for exports.
ADDITIONAL, inc. Meat Imports	Sec. required to verify species and quality of all meat imports.	More monitoring of meat imports to domestic standards.
Farm Income	Sec. must est. task force to study general farm income insurance.	Provide info. on alternative tax/price/income policy.
Cost of Production	Sec. must include interest as cost; est. advisory board; more flexibility given to Admin. in estimates.	Cost of production studies likely more flexible to reflect changing conditions and judgments.
Family Farm	Support of family farm system reaffirmed; studies on status cont.	Provides info. on trends & policy impacts on family farm.
FmHA	Emergency Loan Program extended over one yr.; $600 mil. may be dispersed at discretion of Secretary.	Additional lending unlikely due to Admin. position on budget and on private lending.

(3) Target "prices," escalating each of the four years of the Act, for the major crops, approximating average nonland costs of production. In operation, they provide minimum average per unit returns--not price per se--with any difference between the target and loan or average market price becoming a direct government payment. This program is similarly available only to eligible producers.

(4) Payment limitations of about $50,000 per person. However, the Administration side-stepped this provision with PIK by maintaining these were not monetary payments, resulting in some unusually large transfers of product to large producers. This provision has gradually evolved to blunt the skewed distribution found in scales and earnings, but its curtailing effect is minimal.

(5) Several production control techniques (acreage reduction, paid diversion, set-aside, and cross-compliance) are available at the Secretary's discretion, with compliance achieved voluntarily through inducements to producers, such as price supports, reserves, target payments, and the PIK above. They provide a mechanism for the public to assist the private decisionmaking of farmers to balance production with effective demand over time so as to stabilize and maintain prices at levels compatible with other support provisions of the policy. They have been cumbersome, sometimes erratically used, require public inducements either through the Treasury or trade restraints or consumer prices, and involve a market intervention usually reserved for private market power. They have resulted in acreage taken out of production--not the same as reduced production--of from 0 to 80 mil. acres during the life of the 1981 Act.

(6) Disaster payments to eligible producers for severe natural-caused castastrophes have been generally replaced by a partially subsidized private crop insurance program that, although expanded, only attacts a small sign-up.

(7) Export embargo protection is provided by a mandatorily-triggered public price or payment program at the high parity levels in the event of any separate governmental prohibition on agricultural exports. In addition, exports in general may be supported by publicly subsidized promotion and credit to the extent of funding and at Administration discretion. Substantial import restrictions on certain agricultural products to protect the integrity of the above market interventions are provided in separate policies.

Policymaking Schedule

The likely scenarios of decisions leading up to the termination of the 1981 Act are best previewed through the past experience surrounding that

Act [3]. Background research, publishing, discussion, workshopping, and posturing are well underway to a degree far in excess of the previous period and almost sure to intensify in the coming two years. Congressional Hearings and issuance of briefing documents are already in progress in both Houses of Congress, as well as in agencies of the Executive [2, 5]. The current efforts of the Secretary for changes in the final years of the 1981 Act to freeze target prices and lower minimal support prices not only are today's skirmishes but preludes to major battles ahead.

Commencing in mid-1984, more serious, carefully scheduled Congressional Hearings are likely, but it is unlikely that either branch of the federal government or either major political party will issue a comprehensive policy proposal prior to the 1984 election. Electioning is much more comfortable in an environment of goals, general directions, defense of decisions, and attacks on policies. Thus, that election outcome will share equal top billing to yet another force shaping the new policy, that being the economic conditions characterizing the agricultural sector during 1985.

The inauguration of the President and onset of the 99th Congress will signal the start of the deciding round of policymaking. That will tell the actors in the Executive, not only Agriculture but also White House staff, OMB, Treasury, State Department, and Council of Economic Advisers, and in the key committees assignmentsof Congress. That will open the communication channels of policymaking to an ever-expanding cadre of interest groups, spanning the agricultural general farm and commodity organizations as well as the urban general consumer and special interest associations permeating every facet of American life.

From the first six months of 1985 should come fairly comprehensive proposals from the Secretary's office and comprehensive bills from the respective Agricultural Committees for both farm commodities and food programs, either integrated or separately. Budget priorities are likely to overshadow all other matters before Congress until after the May deadline. In mid to late summer, completed bills are likely to appear on the floor of the Houses. From then until a final compromise decision is forged and disposed of by the President, which could also involve a veto, intense discussion and political negotiation can be expected among interests within agriculture, between agriculture and other sectors, between political leaders, between Houses of Congress, and between the Legislative and Executive branches.

The bargaining can be expected to be protracted, possibly extending beyond the September, 1985 termination of the 1981 Act, thereby necessitating one or more temporary extensions and/or partial alterations to the lame duck legislation. It is entirely possible that the final act of policymaking in the Congressional Conference Committee could exceed the marathon sixteen days devoted to the 1981 Act, eventually decided by the switch of one vote over the final night on one political side of the table.

Future Policy Options

Foresight into the future direction of this nation's agricultural price and income policy is not blessed with normal scholarly precision. The possibilities span the full range of imagination, particularly in view of the difficulty of the problems being addressed, the growing intensity and breadth of current interest in this policy area, the uncertainty of the political as well as economic environment twenty-four months into the future, the volatility of the world scene, and--not to be overlooked--the unpredictable creativity of the professionals already participating. However, the scholarship of economics in general, and economic policy in particular, is continually challenged to distill likely but not highly probable directions of public decisionmaking. An understanding of the past is an invaluable resource in these projections.[4]

Whatever future price and income policies come forth could be refutations of essentially all such public policy or may be simply familiar packages of policy instruments slightly retuned. Alternatively, program innovations might appear to better ensure price stabilization, income security, food adequacy, trade reliability, and fiscal responsibility. These could involve such principles as insurance, targeting of programs for particular regions or commodities or producers, declining compensation with size, self-help institutions, and indexing of benefits to various measures of economic wellbeing. Following are selected alternative agricultural price and income policies to exemplify the range of choices:

(1) *Gradual Phase Out* of all support policies, payments, production controls, and trade interventions, letting domestic private market decisions determine production, prices, incomes, and trade with other nations, who in turn, continue to pursue their own national policies. This approach would place the responsibility on individual farmers, and on their cooperatives and other agribusinesses upon whom they depend, to carry the risks of market instability, inventory adjustment, and financial viability. Any costs attached to these functions must of course be borne by the producers and the consumers of their products. Domestic and foreign consumers alike would reap the eventual consequences of such market operation, whatever they may

be. The government would be relieved of the frustrations of present policy implementation and the Treasury of the burden of program administration and transfers. Such a policy would set this nation's policies even farther apart from those of other nations, be their agricultural importers or exporters.

(2) *Supplementation of a Gradual Phase Out* of present price and income policies, with carefully structured techniques to augment the market system. These could include publicly assisted national income insurance and futures markets to facilitate better private risk bearing, a public recourse loan program to even out farm prices during the marketing year, and a minimal farmer owned reserve recourse loan program to provide the desired level of national food and trade security. This approach would cushion the total risk bearing by farmers, occasioned by the first alternative above, with this minimal and strictly limited public intervention, which could also enhance the development of and experimentation by farmers with marketing options more common to the nonfarm business community. The Treasury would shoulder some minimal burden, while the consuming and trading public would be affected by any changes in the market stability or by any lowered costs of risk bearing.

(3) *Continuation of the Primary Provisions of the 1981 Act*, modified with "fine tuning" of certain provisions found wanting due either to their substance or to the discretion exercised in their implementation. Candidates for such policy incrementalism are:

(a) Designation of a maximum as well as minimum reserve to encourage its stabilizing and security objectives while discouraging its use for farm price and income raising objectives.

(b) Indexing price supports to a recent multi-year market price average to smooth the market variability but avoid significant interference with trade and avert accumulation of government stocks.

(c) Indexing of target prices to recent multi-year average nonland costs of production to provide an income "safety net" with payments flowing directly--and exposed--from the Treasury.

(d) Extending of payment limitations to kind as well as monetary transfers, and use of a declining schedule for all such larger permitted payments.

(e) Linking of all price and income program benefits to soil conservation and nonpoint sediment water pollution control performance on all land in the farming unit.

The results of this approach would be similar to the present policy tempered by slightly less potential market interference, less massive transfers to individual producers, more costly achievement of production control objectives but greater achievement of multi-purpose public objectives. Economic wellbeing of farmers would be more dependent upon public policy than the previous three alternatives, and their risk bearing shared with that public through the market interventions and the Treasury burden.

(4) *Expansion of Public Market Intervention* through replacement of voluntary production control with compulsory compliance following producer referenda supervised by a new National Marketing Board, through greater reliance on price supporting borne by consumers in lieu of the Treasury, through aggressive negotiation of international market agreements to stabilize shares of foreign markets, and through the use of the necessary associated import controls. This approach bestows more market power upon farm producers than the others, and protects their returns in a domestic market with only secondary attention to trade dependence. In so doing, this nation's agricultural policy would converge with that of other countries of the world.

Finally, price and income policies might be designed as "change instruments" on behalf of the public to bring about conservation of land or water, population dispersion, nutrition improvement, income redistribution, family farm structure and control, enterprise shifts, environmental quality, desired trade flows, and others.

When public policies are viewed as instruments, as institutional creations, or as responses to societal demands, rather than as rigid goals, scientific norms, or as embodiments of ideology, one can envision infinite possibilities for their future use. The challenge to all those helping to shape the public agricultural and food policy for 1985 is to have as many options remain open as long as possible and to achieve public understanding of both the alternatives available and their probable consequences.

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