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ISSUES IN A FOOD POLICY

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Never in recent years has the food industry experienced such turbulent, trying times as in the past eighteen months. The immediate future seems much like the immediate past—continued tight supplies of many commodities, rising production costs, and higher food prices. From one end to the other the food industry is experiencing rapidly rising costs of doing business, leaving many in a potentially precarious financial position should product prices decline substantially.

Discussion of food policy has broadened and assumed a new intensity with opinions divided over both issues and solutions. Some emphasize the need to manage exports, others the need to maintain or expand exports. Some point out the need to build stocks, others the pitfalls of public stockpiling. Some see the short food supplies of the past two years as a temporary shift in a long-term trend of rising per capita production, others as the beginning of the Malthusian specter of chronic food shortages. Some stress all-out production, others the danger of doing so.

Before discussing food policy issues, it may be helpful to examine briefly the economic climate within which policy choices must be made.

THE SETTING FOR NATIONAL FOOD POLICY

Throughout much of the last two decades food supply pressed heavily against effective demand. Large carryover stocks of many crops were available to offset production shortfalls and planning errors. Idle cropland allowed individual program decisions to be considered in isolation—any increased need for land could be taken from a stock of idle crop acres. There was no need for concern over competition between crops and livestock; excess crop acres provided a margin for expansion of both. Further, underemployment of labor and capital resources provided the complementary inputs, and planning could safely assume ample supplies of fuels, fertilizers, and insecticides. These circumstances led to an environment in which policy decisions involved relatively few variables and considerations.

But circumstances have changed dramatically in the past two

years. The farm sector is operating at near-capacity levels. Millions of acres once idled by government programs have been made available for production. Supplies of fuels, fertilizers, and insecticides are relatively scarce and high priced and promise to remain so for years to come. Stocks of grain are low and any substantial rebuilding in the United States is at least a year off. Feed-livestock relations are seriously distorted, posing both immediate and potentially long lasting adjustment problems for the livestock-poultry-dairy complex.

Whereas we could at one time reasonably equate agricultural policy with food policy, we can no longer do so. Food policy has become a major component of national economic and trade policy.

Conflicts among societal goals such as efficient production and distribution of food, preserving and broadening economic opportunity, wider sharing of real income, and preservation of resources and environmental quality are open and sharp. A much more comprehensive, systematic approach to development of food policy, not just agricultural policy, is needed to reflect the increased complexity of our current circumstances.

FOOD SUPPLY POLICY ISSUES

For most of the past forty years, food supply policy in the United States has concentrated on control of crop production and restraints on food imports. With excess capacity available, supply policy limited crop production and provided for purchase and storage of excess output. With a potential for excess livestock production due to underemployed labor, abundant grassland, and abundant grains and concentrates, an effective system existed for orderly but controlled expansion of total food supplies. Supply policy was relatively simple: Control production and support prices to adjust grain and oilseed production to meet domestic and export needs. Price-support loans removed a measure of market risk to crop producers. Only during war was policy seriously concerned with expansion of farm production.

Sometime in the late 1960's it appears that the situation began to change. Production of food for domestic consumption began to level out as foreign livestock-derived demand for feedstuffs grew and domestic programs to restrict supply and deplete government held grain stocks began to take effect. The primary impact occurred in animal and animal products. The index of animal products available to consumers climbed about 15 percent between 1960 and 1967, but the same index increased only 2.5 percent between 1967 and 1973. Pork production slowed, sheep and dairy cow

numbers continued downward mainly from competition of beef cow herd expansion and tight labor supplies. Total supplies of red meat began to stabilize.

Following the initial export boom in mid-1972, the buoyant cash market for grains and soybeans caused many producers to retreat from traditional livestock production. And the guaranteed market prices for crops and uncertain markets for livestock tended to discourage livestock production because of the relatively greater risks involved.

When there was abundant feed, labor, and complementary resources, the greater risk in production of livestock had little impact on supplies. As markets tightened, however, and labor resources were drawn away by more attractive off-farm job opportunities, the risk differential between crop and livestock production became more important. National agricultural policy with its emphasis on the crop sector became less effective in meeting the demands of consumers, who were shifting away from cereals and toward meat and protein products. The government programs aimed at regulating crop production, coupled with a policy of export expansion mainly for crops, raised serious problems for the livestock industry. The greater degree of market certainty for crops tended to bias resource use. Examined from the view of a country that has been demanding more meat and protein, the past concentration of policies on crop production must be questioned.

Another question associated with food supplies is the appropriate policy on grain stocks. For decades, supply policy has included a heavy element of carryover stocks of primary agricultural commodities. They came into existence as a means of supporting farm prices. As a derivative, the nation was provided insurance against shortfalls in domestic production—or sharp expansions in export demand. This stability protected consumers against large fluctuations in the price of food. But these stocks also had high budget costs and were generally viewed as a burden. In the process of reacting to this problem, policy assigned a heavy weight to ridding the country of burdensome stocks. Price supports were lowered, especially in real terms, and accumulated stocks were disposed of through food aid and subsidized exports.

With reduced world production of food in 1972 and subsequent sharp rises in commodity prices during the past two years, the role of stocks has again come to the forefront. Unless world food conditions change dramatically, rebuilding of grain stocks will be very slow. An important question is whether only commercial stockpiles will be sufficient in the future. Will current policies provide

adequate stockpiles? Should we accumulate publicly held stocks? At what levels should loan and target prices be established? Should we have a stockpile for emergency food aid and relief purposes and another for commercial price stabilization purposes? Should such stocks be managed by interested bodies, coordinated by international bodies, or be a part of an international grains agreement? These are important policy issues.

Some very immediate supply policy issues confront us. Feed grain supplies for domestic use are going to be tight and relatively high priced. An issue of current debate is whether export limitations should be imposed to protect domestic feed supply. The issue is complex and brings into focus conflicting forces within agriculture, between agriculture and consumers, between domestic and foreign users of feed grains, and between food policy objectives and balance-of-payment and trade objectives.

Other supply policy issues revolve about actions to increase imports, to rescind supply-restraining marketing orders, and to lower the many barriers to increased productivity in the food industry.

MARKETING POLICY ISSUES

The marketing share of food products represents considerably more than one-half of the cost of retail food. However, over the years far less than one-half of the policy emphasis and program expenditures on food products have been devoted to marketing. Public expenditures on improving the flow and quality of products moving across retail checkout counters are relatively insignificant compared to either supply or demand expansion policies.

One major element of marketing policy is a set of grades and standards established in the past to facilitate the orderly movement of food products. But times have changed. The mix and quality of products have shifted, merchandising methods have gone through a revolution, but the regulations have remained static.

The broad impact of grade and standards regulations on the efficiency of farm production or even retailing economics is only speculative. More questions need to be raised and more effective research initiated concerning their impacts on performance of the food industry.

A very important set of issues revolve around the structure and organization of the food industry. The North Central extension publication on "Who Will Control Agriculture" raised many of

these issues and set forth alternative configurations having very important policy overtones. A wide array of issues turn on questions of the nature and degree of competition in food markets, on concentration of economic power, and responsiveness of the input and product markets to consumers' and producers' needs. The farm sector issues include how much power farmers possess through group action devices such as cooperatives and marketing orders.

The conventional marketing institutions—grades, orders, and cooperatives—are significant but by no means include the most important public policies affecting food marketing. Transportation accounts for a large portion of the final cost of food, and this sector has had to function under an extraordinary burden of government regulation. As a consequence, the transportation industry is far less efficient than it could be, and that affects the cost of food. The National Commission on Productivity recently completed a thorough review of productivity in the food sector and made recommendations that are worth reviewing.

It should be of concern that agricultural economists have so little to say about the behavior of firms and the performance of the food processing, manufacturing, and retailing sectors. Many of the most crucial decisions affecting farmers and consumers are made in the board rooms of food companies. Why should the agricultural research establishments defer to the Federal Trade Commission the important questions of whether collusive or monopolistic practices exist in retailing, processing, and handling of food and agricultural commodities. We have not integrated farm supply and marketing policies to yield a consistent, wholistic food policy. A myriad of consumer oriented, protective legislative initiatives have been proposed and several enacted in recent years. What do we know about the impact of such measures on consumer welfare? Upon costs of processors and handlers? Upon retail food prices? These are increasingly important elements of food policy.

DEMAND POLICY ISSUES

Consumption of food is far more flexible than most of us believed. Total food consumed per capita in 1973 was down 1 percent, protein consumption was down 2.3 percent, and meat consumption was down 4.8 percent. There have been some sharp shifts in eating habits. Consumption of fresh fruits was up 5.3 percent, fresh vegetables down 2 percent. There have been other shifts, especially in dairy products, where small price differentials have brought large changes in consumption habits.

Changes in food consumption this year are primarily reactions to changes in relative prices. The reductions occurred despite attempts to increase food availability through sharp cutbacks in Public Law 480 and commercial export subsidy programs.

In contrast, there has been a sizable increase in domestic food assistance programs. Even so, the sharp rise in food prices has meant less real value from food assistance programs. To what extent are we prepared to guarantee the poor and other disadvantaged groups against the ravages of escalating food prices?

Public Law 480 and domestic food assistance programs focus attention on the trade-offs between satisfying needs of low-income domestic food consumers, low-income foreign consumers, and domestic consumers ineligible for food assistance. Programs to encourage exports to other countries have included direct subsidy of commodities for export, differential pricing of sales from CCC stocks, provision of low-cost CCC credit, use of Import-Export Bank credit to facilitate sales, and acquainting foreign consumers with products and commodities available for export. This differential approach in administering policy to satisfy foreign and domestic food demand has brought about some sharp conflicts in the past year. Curtailment of livestock production as feedstuff prices rose caused a temporary embargo on exports of oilmeal products, a clear demonstration of the conflict between domestic food demand and export demand.

The trade-off between domestic and export markets raises an obvious question: Should the government continue a policy of agricultural export expansion, and how vigorously, when this leads to more expensive food to our own consumers? This issue becomes especially significant when we recognize that U.S. markets provide a major share of the rationing function among the industrial countries of the world since many other countries isolate their domestic food markets. Is it in the interest of the United States to absorb a significant share of the adjustment of the fluctuations of world agricultural production? These issues will face resolution in coming months through various international and national forums.

CONCLUSIONS

The immediate future for the U.S. food industry seems likely to be marked by continuing tight supply relative to effective domestic and foreign demand. Stocks of major food commodities will remain low, some precariously low, for at least another year. Distortions in livestock-feed relationships are unlikely to be soon resolved and

repercussions may extend for several years. Coupled with strong inflationary pressures rampant throughout the economy, the most likely near-term scenario features high commodity and food prices and rapidly escalating production costs throughout the food industry.

Policy options in the immediate future are limited. On the supply side the best that can be done is to pursue programs which will encourage a high output in 1975 while managing disappointing 1974 supplies in a manner that will create the least possible distortions. Some hard choices have to be made.

Judgments of agricultural economists suggest that the chronic excess capacity that has characterized U.S. agriculture for so long will not likely persist in the decade ahead. Willard W. Cochrane suggests aggregate demand will tend to press against aggregate supply with the real prices of farm commodities and food trending upward. George W. Brandow concludes that the most likely outcome is small excess capacity by 1985. But both Cochrane and Brandow foresee possibilities of wide, unpredictable gyrations around central tendencies in the food sector. Both emphasize the need for flexible policies and argue for purposeful creation of publicly held stocks to buffer swings in production and trade.

The questions of whether we should have publicly owned reserves and the levels of such stocks are a central, vital policy issue. Related to this is the basic question of our posture with respect to food aid and technical and economic assistance to the developing nations. Is the future to be characterized by potentially great year-to-year instability in food production relative to growing demand? To what extent and in what ways should producers be protected against such instability to achieve desired food policy goals? Does the Agriculture Act of 1973 provide an adequate measure of protection to farmers?

In about another year we will need to begin facing the issue of what, if any, program is to be developed to succeed the Agriculture Act of 1973. Should the essential features of that act be extended? Should other commodities be covered? What loan and target prices will be appropriate in light of inflated price-cost relationships? What standards should be applied to adjust loan and target price levels? How much stability in farm prices and incomes do we want to provide? An even more basic question is whether an urban-oriented, inflation-conscious Congress will pass any legislation aimed primarily at one group of citizens.

An activity deserving high priority on the research agenda of agricultural economists should be that of identifying the diverse components of national food policy as distinct from national agricultural policy. Only when these components have been identified systematically and their interdependencies, conflicts, and trade-offs analyzed can we begin to fashion a rational, integrated set of programs comprising a national food policy.