DISEQUILIBRIA

. . . when things don't fit and other thoughts

Paul L. Kelley on Another Land Grant Challenge

It's Time (Past Time) for Land Grant Universities to Internationalize Their Commodity Agenda

The Need for Argument

The way to better public understanding, as you suspected I would say, is through more vigorous disputation—robust debate. Making public policy is an adversarial proposition. Policy should not be based on somebody's computer-driven religious faith and "proof" of the truth. To expose the issues, we need journalistic specialists in economics and economists skilled in talking to the press and the public.

Here is where CHOICES comes in: The first two lively issues are getting the magazine off well in the direction of healthy argument. CHOICES will attract controversial debate. It will invite controversy; it will publicize disagreement. Not alone for the sake of the argument and stirring readership but for the sake of informing the political-economic community—everybody. I look for CHOICES to become a prime source of information on policy relating to food, farming, rural society and the public interest in these affairs for newspapers, magazines, and the electronic media.

CHOICES can become the national forum for food and agricultural policy debate—more than a mouthpiece for the ag economists themselves but also an outlet for legislators, business executives, labor leaders, government officials and others with something to say about its subject matter. The first two issues contained an admirable diversity of these opinions. C

For a copy of Donald E. McCloskey's book "The Rhetoric of Economics" *write to the University of Wisconsin Press, Madison, WI, 53715. The cost is $21.50.*

In the second issue of CHOICES, Edward Schuh challenged land grant universities to narrow the gap between the frontiers of knowledge and problems of society. Where Schuh appealed for more relevance, Paul Kelley has a more specific plan for commodity policy analysis.

Research and extension programs at land grant universities with few exceptions are losing credibility as a key source of research and extension information for designing national farm and food policies. They are losing their place because they have not "internationalized" to deal with the irrevocable interdependence of agriculture in a world economy.

Possible explanations of this situation include: (1) misplaced priorities, (2) lack of a broad conceptual program strategy, and (3) institutional lag in redirecting their missions in a significant way towards problems arising from interdependence of world agricultural systems.

Misplaced Priorities

For several decades, research economists at land-grant universities have spent an inordinate amount of time studying such topics as the elegance of the so-called "competitive market," questions of U.S. agricultural resource allocation, and microeconomic issues of the firm. However, the principal problems that plague U.S. farmers today are centered in macroeconomic policy issues, dealing with major societal concerns such as the national deficit, exchange rate policy, and the impact of worldwide trends in real prices of food and fiber on farm incomes and survival.

As the relevant educational gap for the national agricultural policy agenda widens, a rapidly increasing number of groups have sought to establish themselves as basic sources of credible knowledge in this area. Many of these organizations are well-heeled, non land-grant-based, and tend to make use of only a small elite group of specialists from land-grant universities. Let me name a few: Curry Foundation, National Agricultural Forum, Dialogue, Council for Agricultural Science and Technology, National Center for Food and Agricultural Policy, American Enterprise Institute, and the National Planning Association.

There are some exceptions such as the Center for Study of Domestic Agriculture Policy at the Department of Agricultural Economics of the University of Missouri and a similar center for the study of International Trade Issues located in the Department of Economics at Iowa State University. And certainly I do not wish to imply that there are no others. But top administrators in land-grant universities and the profession of agricultural economics have some cause for concern about the trend noted above.

Developing a Conceptual Strategy

In terms of agricultural policy, the role of research and extension programs at land-grant universities is simply to provide citizens with an improved information base for participation in group decision processes. There are at least two broad areas of relevant inquiry involved. The first concerns the dynamic nature of the decision process.

We really have limited, rigorous, research knowledge of how national agri-

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cultural policy decisions are made. There is considerable wisdom and folklore among active practitioners about how the "art" is practiced. But as scientists and teachers, we are hard pressed if asked by a group of local citizens to explain the exact paths they might pursue—and predicted consequences—of a proposed policy change. Some of the best work analyzing this problem has been centered at Washington University in St. Louis, under the direction of former Secretary of Agriculture, Clifford Hardin.

The second broad conceptual question concerns the basic analytical framework that is most relevant in "explaining" the fundamental economic nature of the farm problem—its causes, and the parameters that are subject to change if a change is desired in the aggregate economic outcome. For this latter area two principal "empty economic boxes" ought to be our concern:

—What is the most likely long-term trend scenario for real world food prices?

—What are the most likely year-to-year or multi-year, short-run cycles about the long-term trend?

The research agenda of the land-grant university system ought to be filling these empty economic boxes and our extension programs extending knowledge about them for at least two reasons:

—To determine if interventions are possible by any subgroup of the overall system, which can alter the outcomes and dynamic path of the system over time.

—To determine the likely outcomes and paths of the system after the various possible interventions.

Institutional Lag in Redirecting

When it comes to marketing issues close to producers research and extension programs in agricultural economics historically have proceeded more rapidly—in part because of the indigenous knowledge of research and extension workers. These personnel grew up on farms. They understand operations of local marketing institutions and market processes.

But as research and extension programs have focused on problems nearer the consumer in the marketing chain, the research and extension agenda have become more difficult and complex. Witness the research data problem in domestic market structure studies.

However, with expansion of export markets for grains in the 1970's, research and extension personnel at land-grant universities faced a totally new economic environment in which to implement their mission. Since grain exports account for a very large share of cash receipts from farming, it is elementary that the land-grant university mission is incomplete if a vacuum of knowledge exists for this totally new and different market phenomenon.

U.S. producers, market agencies, and consumers require new information. But the land-grant university response to this new state of world agricultural markets has been slow and reasonably predictable. Programs have focused on enhancing foreign buyers' knowledge of technical aspects of grain marketing processes—such as U.S. grading standards, quality problems, storage and transport concerns. These programs have been in a technical mode, requiring some—but not major—adjustments by U.S. scientists.

What has not been recognized, however, is that major new investments in human and nonhuman capital will be required. We have a long way to go in understanding the economic processes related to the new phenomenon of international grain markets before we reach parity with traditional programs.

Updating the Land Grant Commodity Policy Agenda

Research on predicting long-term and short-term price relations cannot proceed effectively unless researchers have on-site research capability in international markets. This will require a different funding and research management process than for domestic research. A substantial block of concentrated time will be needed for the researcher to be involved in overseas market research.

Similarly, extension staff will need the opportunity to study abroad to gain first-hand knowledge of these operations, if they are to be credible in bringing information about these processes to U.S. producers and consumers. In short, the scientific expertise of the research, teaching or extension academician needs to be combined with the business and institutional knowledge of top executives of major grain exporters and governments both here and abroad. We can then develop reputable research and extension programs that deal with the role of international markets in our national food policy agenda.

In the new export market environment land grant university administrators must recognize that their staffs no longer have the indigenous knowledge about export market processes that so ably enhanced past research, teaching and extension programs on domestic agricultural marketing issues. There will be leakage problems as land grant personnel who gain expertise are siphoned off to industry. But that factor must be built in the overall land-grant strategy, if we are to institutionalize capacity in this area. We have no choice but to internationalize. Otherwise, we risk the enormous danger of admitting that we have a major long-term gap in our research, teaching and extension commodity policy agenda at land-grant universities. C

More Information

See *Farm Programs and the Congressional Subcommittees*, by Clifford M. Hardin, Center for the Study of American Business, Washington University, Box 1208, St. Louis, Missouri 66130, November 2, 1984.

The Introduction to *Imperfect Markets in World Agricultural Trade*, by Timothy Josling, pp. 1-8, Allanheld, Osum and Co., Monclair, New Jersey, 1981, for a discussion of the lack of research attention given to the analysis of imperfect competition in world agricultural markets.

Current Issues in East-West Trade Relations, by Paul L. Kelley, a paper presented at the Seventh International Conference on Soviet and East European Agriculture, Gignon, France, July 9-13, 1984.

Agricultural Policy; A Synthesis of Major Studies and Options, by Gordon C. Rausser and William E Foster, a paper presented at the National Conference on Food, Agriculture, and Resources: Policy Choices 1985, sponsored by the National Center for Food and Agricultural Policy and the National Agricultural Forum, Washington, D.C., December 4-6, 1984.

Solution to Quote-Acrostic

(from page 47)

Thomas Jefferson. Rural Virtues: "Those who labor in the earth are the chosen people of God. The mobs of great cities add just so much to the support of pure government as sores do to the strength of the human body."

Wayne Boutwell on Marketing Loans

An Idea Whose Time Arrived

Now a principal feature of U.S. commodity programs, marketing loans can help U.S. agriculture compete in international markets. It is important to understand how this feature works in conjunction with price supports for it has significant implications for U.S. farm income and government expenditures, as well as the competitiveness of U.S. farm products in international markets.

"In 1985, new farm legislation should be based on policy objectives which reflect the changing global economics of agriculture today . . ."

From the statement by Ben Morgan, Chairman of the Board of the National Council of Farmer Cooperatives, before the U.S. Senate Committee on Agriculture, Nutrition and Forestry, March 7, 1985.

As Congress began to draft the 1985 Farm Bill, the farm economy was steadily deteriorating. In addition, it was increasingly clear that traditional farm programs aimed at reducing production no longer offered a solution to the problems facing agriculture. Changes in global economics and other factors external to agriculture including fiscal and monetary policies—were causing the United States to lose its export markets.

As the U.S. reduced its production other countries simply expanded, capturing a larger and larger share of the world market. This in combination with debt problems of many lower income countries led to continued excess production worldwide and lower prices in the face of stagnating exports.

As worldwide competition began to increase, the U.S. found it difficult to maintain its market share. U.S. price supports (loan rates) for many commodities were set well above market-clearing levels. This, together with the spectacular rise in the value of the dollar, not only made it difficult to compete, but further encouraged even greater foreign production.

With domestic surpluses continuing to mount and little or no improvement in prices, the U.S. faced even more pressure to reduce production at a time when its share of the world market was declining. It was increasingly clear that without a change in direction, this downward spiral in U.S. agriculture would continue.

Clearly, U.S. farm policy was at a crossroad. It was apparent that now was the time to review the objectives of U.S. farm programs and find ways to make U.S. farm products competitive in international markets.

A New Policy Objective

For the past 50 years, U.S. farm programs have had three major policy objectives: (1) provide income support for farmers; (2) maintain adequate supplies of food and fiber at reasonable prices; and (3) ensure the orderly marketing and distribution of agricultural commodities.

All three of these objectives are essential to building broad-based support for any farm program. However, in 1984 it became apparent that an additional objective was necessary if U.S. agriculture was to be prosperous. U.S. agriculture must be able to compete effectively in the international marketplace. Exports had become the lifeblood of U.S. farm prosperity.

The debate then centered on how to compete in export markets without sacrificing long-term objectives of U.S. farm programs including income support for farmers.

In response, a number of farm and commodity groups, including the National Council of Farmer Cooperatives, joined together in support of a new concept called the "marketing loan."

This support prompted a number of Congressmen to introduce bills in both the House and Senate. Among those introducing legislation were Senators Thad Cochran (R-MS) and David Pryor (D-AR), as well as Representatives Arlan Stangeland (R-MN) and Pat Roberts (R-KS).

Thanks to them and other farm state

How the Marketing Loan Works for Rice

The marketing loan for rice became effective April 15, 1986, as prescribed in the Food Security Act of 1985. For the 1985 crop, the target price remains at $11.90 per cwt and the loan rate at $8.00 per cwt.

Producers who comply with acreage programs may receive a deficiency payment equal to the difference between the target price and the higher of the loan rate or the season average price received by farmers.

With the marketing loan, producers who receive the $8.00 per cwt. loan from the Commodity Credit Corporation (CCC) using their commodity as collateral, may repay the loan at the lower of the loan rate or the prevailing world market price for rice.

This world market price is determined by the Secretary of Agriculture. In early June, that average world price was around $3.40 per cwt. Loan and repayment levels vary with the type of rice produced.

Under the previously announced program, the rice would have been forfeited to the CCC and the cost to the government would equal $8.00 per cwt. plus the interest plus all future storage costs. Under the marketing loan, the government costs are limited to the difference between the loan rate and the repayment level. In early June that would have been $4.60 per cwt. Since the CCC does not receive forfeited grain, there are no future storage costs.

For the 1986 crop, the target price will be $11.90 per cwt with a marketing loan rate of $7.20 per cwt instead of the $8.00 for the 1986 crop. However, the resulting deficiency payments and the loan proceeds will be reduced by 4.3 percent in compliance with Gramm-Rudman-Hollings. Producers will again be able to repay their loans at the lower of the loan rate or the prevailing world price but not lower than 50 percent of the original loan rate, i.e., $3.60 per cwt.

Wayne Boutwell, is President of the National Council of Farmer Cooperatives and was a key person in conceptualizing the marketing loan concept.

members of Congress, the marketing loan concept was approved by the House and Senate and signed into law as part of the 1985 Farm Bill. For cotton, rice, and honey the program is mandatory while it is discretionary for wheat, feedgrains, and soybeans.

Key Feature

The key feature of the marketing loan is simply this: allow farmers to repay their price-support loans at the lower of the loan level or the world price. In the past farmers repaid price-support loans at the loan level or forfeited the commodity to the Government. Thus, the price support loan became the effective support of market prices. Not the case with the marketing loan.

This simple but fundamental change ensures that U.S. agriculture will be able to compete more effectively in the international marketplace. Price-support levels or loan rates would no longer serve as an umbrella over the world market. At the same time, producer farm income is protected at the established loan rates and target prices.

The marketing loan has other advantages. The need for supply management programs is reduced. In addition, it encourages foreign competitors to share in efforts to adjust production in order to bring about a better balance between supply and demand.

Finally, the marketing loan means smaller government stocks to the extent that increased exports are realized and production adjustment efforts both here and abroad are more effective.

The year-long debate on the marketing loan centered over how low prices would go even though farm income would be protected. This would directly affect the cost of the program.

In the end, Congress produced a compromise that protects the government against unlimited budget exposure by putting limits on how low the repayment can go. Once the limit is hit the repayment level serves as the new price support level and operates the same as the old program.

In Summary

The 1985 Farm Bill found farm programs and policies at a crossroad. Agriculture had changed dramatically since the 1930's and government programs were in need of critical review in recognition of the changing global economy. The development of the marketing loan was in response to that need. How well it succeeds, of course, depends on a number of factors. But to the extent it is fully implemented the opportunity exists for U.S. agriculture to compete effectively in the international marketplace. C

Marshall A. Martin, Harold D. Guither, and Robert G. F. Spitze on the 1985 Food Security Act

Most Farmers Got Much of What They Wanted

Most farmers got much of what they wanted in the 1985 farm legislation. One major exception was the substantial reduction in the loan rates. The Act did retain most previous farm programs.

Here is how the provisions of the 1985 Food Security Act compare to what, in early 1984, farmers and ranchers in 17 States said they wanted in food and farm policy.

The Act permits a substantial lowering of the loan rates. Comparing 1985 loan rates with those set by the Secretary for 1986, wheat was lowered from \$3.30 to \$2.40 per bushel; corn from \$2.55 to \$1.92 per bushel; rice from \$8.00 to \$7.20 per cwt; and cotton from \$.0573 to \$.044 per pound. Milk remains at \$11.60 per cwt and soybeans at \$5.02 per bushel.

Most farmers in 1984 did not favor the lowering of loan rates to increase exports. Less than 30 percent of the farmers in 16 of 17 States (Washington was the exception with 41 percent) favored such a policy.

The Act bases loan rates on a five-year moving average of market prices (dropping the high and low years).

Forty percent or more of the farmers in each of 17 states favored this approach.

The Act retains all target prices for 1986, and wheat and corn for 1987 at the same levels that prevailed in 1985 with gradual reductions in target prices permitted for 1988, 1989, and 1990. At the

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About the Policy Survey

In anticipation of the 1985 Act, public policy researchers and extension specialists in several states surveyed farmers and ranchers to obtain their views about future U.S. food and farm policy. Mailed in early 1984, the farmer preference survey included questions concerning alternative policies for price and income support, trade, soil conservation, food assistance, and program costs.

More than 8,000 farmers responded to the survey. The 17 States represent 50 percent of all cash receipts from farming in the U.S. and 50 percent of all U.S. farms. These States also represent over one half of the U.S. livestock, food grain, and oilseed production; two-thirds of the feed grain production; and one-third of the cotton production.

The 17 States included in the survey were: Illinois, Indiana, Kansas, Michigan, Minnesota, Nebraska, Ohio, South Dakota, Wisconsin, Idaho, Washington, Alabama, Florida, Oklahoma, South Carolina, Texas, and Maryland.

The specifics of the survey results may be found in *U.S. Farmers' Views on Agricultural and Food Policy: A Seventeen State Composite Report,* authored by Harold D. Guither, Bob F. Jones, Marshall A. Martin, and Robert G. F. Spitze, North Central Regional Research Publication 300 and Extension Publication 227, December 1984.

time of the survey target prices and related deficiency payments were popular among farmers, and most wanted target price levels maintained. A few wanted them increased. In 15 of 17 States (Wisconsin and Maryland excepted), more farmers favored the continuation of target prices than their discontinuation. And in 13 of 17 States, the majority of farmers wanted target prices frozen at prevailing levels. Only in Texas, Nebraska, South Dakota, and Idaho did most farmers want higher target prices. Very few farmers wanted lower target prices. However, as many as 13 percent in one state favored lower target prices.

The Act sets minimum and maximum set-aside percentages for 1986 through 1990 and provides for voluntary participation for the major crops.

Farmers' preferences for production control methods are very diverse. In the Eastern Cornbelt the plurality favored voluntary programs. In the Great Plains mandatory programs were most frequently preferred. In the Lake States, Northwest, and the South East, farmers preferred elimination of set-aside, price-support, and government storage programs.

The Act continues the Farmer-Owned Reserve with only minor changes.

The Farmer-Owned Reserve was popular in all 17 States. In Washington farmers were equally divided, but in the other States the favorable percentages were much higher.

The Act retains payment limitation at $50,000 per farmer.

Most farmers in 13 of 17 States favored no change in the payment limitation. In only four States (Ohio, Wisconsin, Alabama, and Maryland) did a plurality of farmers prefer a reduction in the payment limitation. There was only limited support in any of the states for increasing the payment limitation.

The Act provides for export credit, export credit guarantees, and targeted export assistance (export PIK).

Export subsidies were very popular among farmers in all 17 States. In all States at least 40 percent, and in 12 of 17 States at least one half of the farmers supported the use of export subsidies by the U.S. to match subsidies offered by our competitors.

The Act continues P.L. 480 foreign food assistance. In all but one State (Alabama) more farmers favored U.S. food aid than opposed such a policy. The strongest support for P.L. 480 was in the major grain producing states.

The Act continues food stamps with a modest increase in expenditures.

In 13 States farmers favored a reduction in food stamp expenditures, while in the other States farmers thought food stamp expenditures should stay about the same.

The Act calls for a whole dairy herd buy-out program to reduce milk production.

When asked if they would favor a policy to pay farmers to reduce dairy production if milk production remained excessive in 1985, farmers in 15 of the 17 States said no. In only Minnesota and Texas did farmers favor paying dairy farmers to reduce milk production.

The Act initiates a long-term conservation reserve program with a goal of taking 45 million acres of erodible land out of production by 1990. A "sod-buster" provision denies commodity program benefits to producers that till fragile land.

Two-thirds of the farmers in the 17 States favored greater emphasis on government sponsored soil conservation programs that limit commodity program benefits going to farmers who do not follow recommended soil conservation practices.

Passed concurrently with the Food Security Act of 1985 was the Gramm-Rudman-Hollings Balanced Budget and Emergency Deficit Control Act of 1985. This legislation calls for a reduction in most 1986 farm program payments by 4.3 percent. This cut is presently set at $823 million from a previously estimated expenditure of $17.2 billion for farm price and income support programs for the 1986 fiscal year.

When asked if the U.S. should balance the federal budget even if it meant some reduction in farm program payments and price supports, two-thirds or more of the farmers in all 17 States said, "yes," if applied to all government programs. Thus, despite concern with the current financial stress in American agriculture, a majority of farmers indicated a willingness to share in the reduction in government spending in order to reduce the federal budget deficit.

In summary, with two exceptions, the Food Security Act of 1985 contains provisions favored by most U.S. farmers surveyed in 1984. These two major exceptions are the reductions in loan rates and the buy-out of dairy herds to reduce dairy production.

About 18 months elapsed from the time of the survey in early 1984 and the passage of the 1985 Food Security Act. During this time concerns increased sharply about export opportunities; large government stocks, especially of grains and dairy products; financial stress of farmers, and the overall budget deficit. Whether these concerns caused a significant modification of farmers' views about loan rates and about dairy surpluses is, of course, not known. It is clear, however, that the legislators were influenced by these concerns. ■

How Farmers and Ranchers Viewed the Features They Got

Summary of Attitudes from 1984 Survey on Features Later Incorporated in the 1985 Farm Bill

	Farmers' Views in 1984		
Features of Food Security Act of 1985	**Strong Support**	**Mixed Support**	**Little Support**
Lowers loan rates substantially			x
Bases loan rates on a moving average of market prices	x		
Continues target price/deficiency payment program	x		
Initially retains recent target prices with later gradual reduction		x	
Continues voluntary acreage set aside		x	
Continues Farmer-Owned Reserve	x		
Retains $50,000 payment limitation	x		
Includes export subsidies	x		
Continues P.L. 480 foreign food aid	x		
Increases food stamp expenditures modestly			x
Pays farmers to reduce dairy production			x
Initiates long-term conservation reserve program	x		