The World's Largest Open Access Agricultural & Applied Economics Digital Library

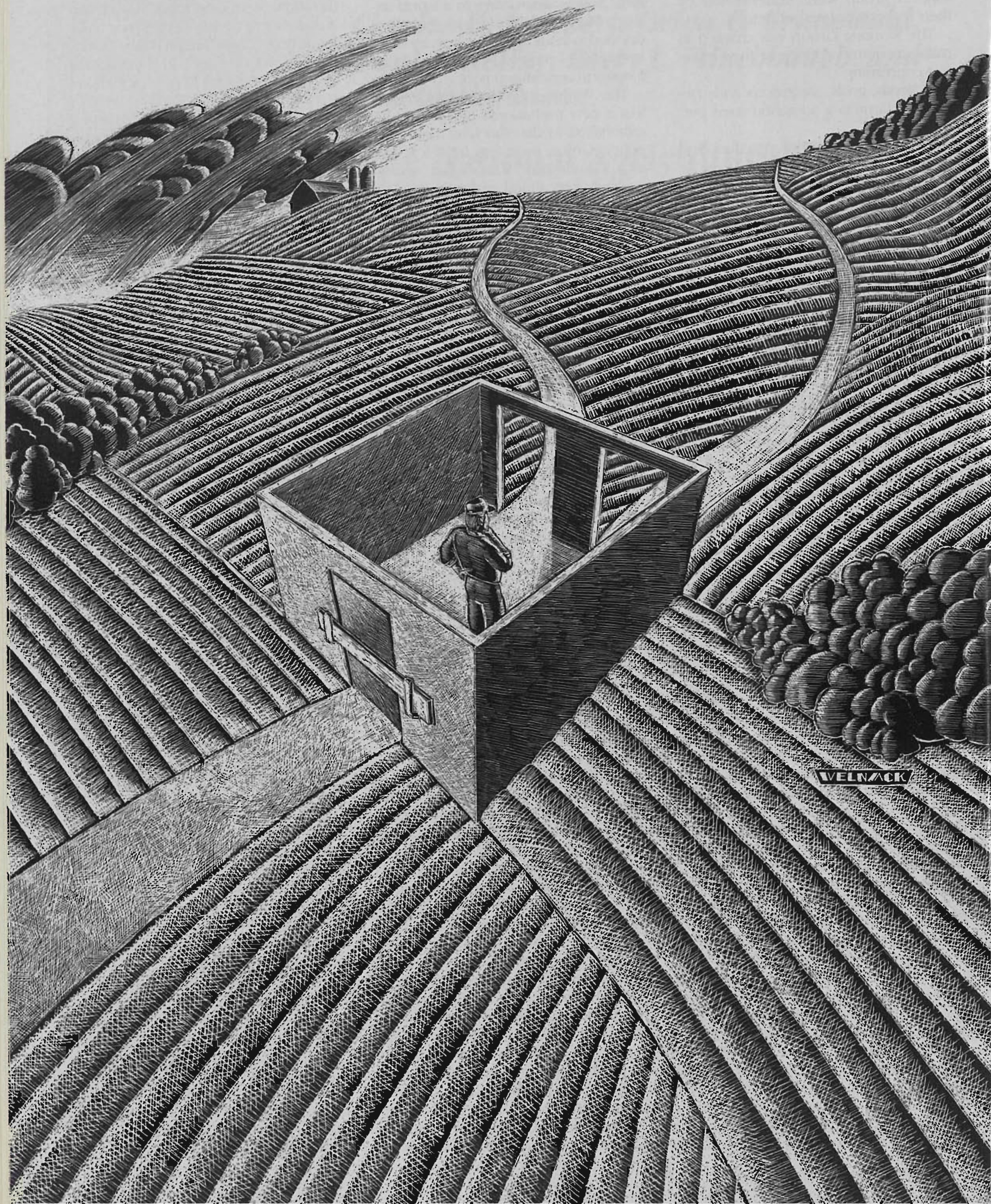
This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*


WELNACK

John E. Ikerd on No Road Dead Ahead

Running Out of Room to Swerve Between Domestic and Export Policies

U.S. agriculture is at a crossroads. One road to the future leads toward freer markets for agricultural commodities, allowing prices to seek market clearing levels. This road eventually could lead to a growing and profitable agricultural sector through expanding export markets for agricultural commodities. This free market road is filled with potholes, detours, and possibly some washed-out bridges. It is marked: "proceed at your own risk." No one can promise that the road is even passable.

The other road to the future leads toward greater reliance on government policies to stabilize farm incomes and prices and to protect U.S. farmers from growing foreign competition. This road promises a more stable, predictable future for farming. This road is straighter and smoother, but there are many road signs. Speed limits are strictly enforced, and only a limited number of cars (farmers) are allowed to travel this road. No one is sure just where this road leads in the long run.

Farmers are in a dilemma. Most realize that they would lose large sums of money or would be out of business without current government farm programs. Yet they prefer not to be dependent on the government for their economic well being. But they can't have both. Sooner or later society will choose one road or the other—the export, free market road or the domestic government control road.

Some will contend that we have had a mixed domestic and international oriented policy in the past and that we will have a mixed policy in the future. We have not and will not. Our past policies have been domestic in orientation, regardless of claims to the contrary. It is very difficult to find examples of commodities that we export in significant quantities which are not produced primarily for domestic utilization.

In general, we export commodities which fit demands and preferences of U.S. buyers, graded by U.S. standards, packaged in U.S. size units, with English labels. Even commodities such as tobacco and cotton, which have consistently depended on export markets, are produced and marketed according to U.S. standards. We depend on quality and price to sell exports, not dependable supplies of commodities tailored to foreign demands. We do not share scarcities and surpluses between domestic and foreign markets. We embargo exports when supplies are scarce and dump surpluses while we support domestic prices.

Only in the 1970's did U.S. farmers catch even a glimmer of the possibilities of an international agriculture. In that decade world demand for agricultural commodities was so strong that domestic farm policy had little effect on U.S. exports. Even then, the use of export embargoes and continued import restrictions on commodities such as dairy products and sugar maintained a domestic market policy orientation. However, the 1970's proved that it was possible for U.S. farmers to compete with foreign producers, at least during periods when foreign economies are expanding and world political tensions are easing. True export oriented policies would be expected to make U.S. producers competitive in a less favorable world economic environment.

Farmers cannot have the safety of government intervention and the profit potential of free markets.

No one can promise a return to the farm prosperity of the 1970's with a shift to free market farm policies. The rewards of an international agriculture are potentially large but highly uncertain. Successful exploitation of international markets will require accommodative macroeconomic and national trade policy, as well as internationally oriented agricultural policies.

Successful penetration of international markets for agricultural commodities in general will require a free market orientation for most if not all agricultural sectors. Protection might be successfully negotiated in cases where food security is a dominant concern, as in the case of milk. But, protected sectors could not dump surpluses in world markets without damaging trade prospects for other sectors.

Supplying the world markets could easily absorb more resources than is currently allocated to U.S. agriculture. This could mean a larger agricultural sector for the future. But this would happen only if the resources in farming accept returns lower than present returns at least in the short run. Thus, the big question is the uncertainty of whether U.S. agriculture can compete in a global economy at international market prices.

The long-term trend toward fewer and larger farmers likely will continue into the future with international or domestic oriented policies. Agricultural productivity will almost certainly continue to grow faster than domestic demand, as has been the case for the past 50 years. Fewer and fewer farmers almost certainly will be needed to supply domestic markets. The better farmers will prosper under either policy orientation, but marginal producers will continue to be squeezed out. Producers who are average today will become the marginal producers of tomorrow.

The choice is between an uncertain but potentially growing agricultural sector with profits for efficient producers who can compete or a shrinking but more stable agricultural sector with continued rewards for individual farmers who are able to innovate and grow within the constraints of programs that limit production.

Neither choice would solve income problems for small and mid-sized family farms. Maintenance of a family farm based structure of U.S. agriculture eventually will require direct income supplements, separate from commodity price support programs, regardless of the orientation of market policies.

The 1985 Farm Bill—They Chose Not To Choose

The administration entered the 1985 policy debate proposing a rapid transition to a free market agriculture. Farm state Democrats responded with proposals to retain most existing income and price protection programs and to pay farmers to take more land out of production. Faced with this difficult choice between free markets and government intervention, policymakers chose both.

Target prices for most program commodities were frozen at current levels for three years with modest reductions there-

ILLUSTRATION BY BRUCE WELNACK

John E. Ikerd is Head, Extension Agricultural Economics Department at the University of Georgia, Athens.

after. Both the dairy herd buy-out program and the conservation reserve program pay farmers to take resources out of production. Most special programs, such as those for peanuts and sugar, were retained without any free market adjustments.

On the free market side, loan prices were dropped sharply for most commodities with further downward adjustments scheduled for later years. New market loan programs for cotton and rice have allowed market prices to drop below program loan price levels. In addition, new export enhancement programs allow U.S. exporters to subsidize exports to buyers under certain conditions if needed to meet competition.

The administration claims victory and maintains that the 1985 Farm Bill is clearly a transition policy leading to a free market agriculture. But, farm state congressmen have an equal claim to victory in that price and income protection for farmers was maintained, even enhanced in most cases, by the 1985 Farm Bill. If both sides won, who lost? The taxpayer lost.

The gap between market oriented loan prices and income protecting target prices is filled with tax dollars. Export subsidies and conservation reserve payments, although paid in PIK certificates, come from tax dollars. The conflict between free markets and government intervention was resolved through increased budget exposure. A farm bill that was projected to cost around $ 56 billion over 5 years cost nearly one half that amount in its first year alone.

The policy choice between free markets and government intervention is yet to be made. The crossroads between international and domestic market orientations is just ahead. Current agricultural policy is costly, controversial and counter-productive because it is in conflict with itself. It seems unlikely that taxpayers will be willing to finance this policy conflict indefinitely. Sooner or later, a choice must be made.

Why Can't We Have Both?

Why do farmers have to choose between an internationally or domestically oriented agriculture? Why can't they have both? Haven't they always sold in both domestic and export markets? Isn't policy just a matter of how much emphasis to place on domestic food security relative to international trade?

The choice is between being a *dependable* supplier of *both* domestic and export markets with *minimum* price protection for U.S. farmers and being a *dependable* supplier of domestic markets *only* with *maximum* price protection for U.S. farmers. This is a choice that must and will be made.

An internationally oriented U.S. agriculture could not protect farmers from chronically recurring depressed world market prices, like those of the 1980's, without losing access to world markets. Policies which support domestic prices above world market levels during the periods of oversupply leave the U.S. in the role of a residual supplier in world markets, as was the case during the 1950's and 1960's. So, a choice must be made.

Policies that are consistent with one alternative are basically inconsistent with the other. Pasour points out that "price supports for farm commodities are incompatible with trade expansion because import barriers are a necessary appendage of farm policies that hold domestic prices above world price levels." *There is no free lunch in world trade. The taxpayer is buying the farmer's lunch through the 1985 Farm Bill.* When the taxpayer quits picking up the tab, what then?

Transition to What?

The Harkin-Gephardt farm program proposal illustrates the domestic oriented choice. It calls for supporting prices above world market levels by supply restrictions rather than government payments. Resources would move out of agricultural production and into other uses, presumably with restrictions on their future reentry. Land bank and conservation reserve type programs would likely absorb most of a greatly reduced agricultural federal budget outlay.

Continuation of the policies of the 1985 Farm Bill illustrate the export oriented choice. If this legislation remains intact through 1990, U.S. loan prices for grains and oilseeds undoubtedly will have dropped below world market prices. Thus, declining target prices in the latter years of the 1985 bill will drop target prices nearer world market levels. A decision to cut target prices still further under these conditions would reflect a commitment to make U.S. commodities competitive on world markets, even in the face of domestic oversupply.

A recovery in world market prices would cut farm bill budget outlays making a decisive policy change less urgent. However, these higher prices would make both choices more feasible politically. A decision to retain fixed farm support prices that will not follow world market prices downward, would encounter less opposition with world markets near or above support levels. At the same time a decision to tie support prices to world market prices, as a percentage of a moving average of past prices, would likely encounter much less resistance during a time of more favorable world markets. So, higher world commodity prices in 1990 won't let us avoid the basic choice.

Other Policy Alternatives

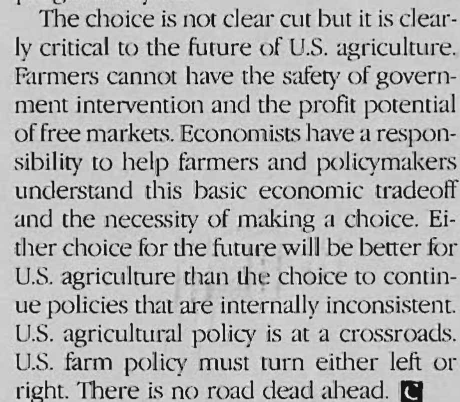
Other alternative policies likely will be given serious consideration in the coming farm bill debate. Two price system approaches, such as that currently used for peanuts, likely will be proposed for other commodities. The productivity and export program, proposed by Lesher in 1985, is a variation of two-price policy. The objective of a two-price program is to set a higher domestic price to support U.S. producers' incomes while allowing unrestricted production for export markets at lower world market prices. Such a policy seems to work well for peanuts and possibly could work for any other commodity where consumers' costs associated with high domestic prices is an insignificant consideration.

Wheat is a possible candidate for a two--price program if wheat producers are willing to give up their domestic feed wheat market. Cost of wheat is a minor consideration in pricing a loaf of bread. Taxpayers are not likely to support programs that significantly increase their costs of food as a means of supporting farmers who sell to foreign buyers at much lower prices than they receive from sales at home. A two-price system also requires restrictions on imports in order to maintain higher domestic prices. This makes exports of commodities not covered by two-price programs more difficult. Thus, a two-price policy ultimately leads to a domestically oriented agriculture.

Other policy proposals more clearly recognize the necessity to choose between domestic export orientations. Some policymakers support targeting government benefits to small and mid-sized family farms or to farms in financial stress. Such programs presumably would leave larger, corporate farmers or farmers without financial problems to reap the rewards or penalties of a free market agriculture.

Some people propose programs that support farm incomes rather than support commodity prices. Again, such programs would leave prices to be determined in free markets and to follow market price levels. One variation of such a proposal is the Boschwitz-Boren proposal..

A variation of the Boschwitz-Boren program would be a permanent government program buy-out.



The choice is not clear cut but it is clearly critical to the future of U.S. agriculture. Farmers cannot have the safety of government intervention and the profit potential of free markets. Economists have a responsibility to help farmers and policymakers understand this basic economic tradeoff and the necessity of making a choice. Either choice for the future will be better for U.S. agriculture than the choice to continue policies that are internally inconsistent. U.S. agricultural policy is at a crossroads. U.S. farm policy must turn either left or right. There is no road dead ahead.