Book Reviews

Managing Farm Surpluses.

By Frederick V. Waugh. Planning Pamphlet No. 117. National Planning Association, Washington. 90 pages. April 1962. $1.75.

THIS PAMPHLET is the result of work done by Mr. Waugh while on leave from the U.S. Department of Agriculture under a Senior Research Award in Governmental Affairs from the Social Science Research Council. Although it presumably is written for a nonprofessional audience, it has the characteristics that have distinguished his professional writings—subtle blend of theory and common sense, the adept use of illustration and anecdote, and clarity of presentation which leaves the reader convinced. In fact, the reader may be too convinced on some issues.

The pamplet begins with the sensible assertion that we shall continue to have farm surpluses, and that, therefore, the problem before us is how to best make use of them. It starts with a discussion of the magnitude of the problem, examines the various alternative uses of the surpluses, and ends with a program for managing agricultural surpluses.

In his introductory section, Waugh defines surplus "as the amount that cannot be sold in normal competitive channels of trade at an established or agreed upon price, and with no subsidy at all." But, as he moves on, it is clear that he is implicitly defining a surplus as that quantity of farm products which will reduce factor returns to resources in agriculture to unsatisfactory levels. His programs are those which would move on all fronts to improve factor returns in agriculture, assuming they are likely to be low indefinitely into the future.

Waugh's prescription for managing the surpluses are: First priority, defense reserves; second priority, domestic food distribution via a food stamp plan; third priority, export assistance. He is willing to go along with further research on industrial uses, promotional campaigns, and self-help programs although he is not optimistic as to their probable impacts. The only thing which he definitely opposes is the destruction of surplus agricultural products.

Waugh correctly recognizes that a program of adequate defense reserves will have little impact upon the continuing problem of surplus disposal. Even so, I think the author's high priority is well placed; for we appear unconscious of the probable effect that a minor, much less a catastrophic, interruption of our food supply would have upon our economy. It is reckless to ignore adequate food reserves, given our huge stocks of farm surplus products and other unemployed resources in the economy.

The author clearly believes that an expanded food stamp program deserves more attention than it has received in the postwar period, and his arguments for it are persuasive. While I agree with him to a large extent, there are some points in his analysis I should like to question.

First, he classifies food stamp plans as diversion programs, having previously classified diversion programs as those where one maximizes net returns from markets with different price elasticities. He then goes on to suggest that a food stamp plan, *even if financed by farmers*, would increase their net revenue. This appears questionable to me.

An initial evaluation of the pilot food stamp plans started in 1961 showed that increased *food expenditures* represented about 90 percent of the value of the subsidy. Actually, this must vastly overstate the increase in demand for farm produced products. Much of the increased expenditures apparently went for *increased* marketing services. For instance, Detroit participants increased their dairy product consumption less than 1 percent in volume, but 43 percent in value; their bakery products consumption by 29 percent in volume and 47 percent in value, while reducing their volume of flour and other cereals; and their consumption of potatoes and sweet potatoes 5 percent in volume and 27 percent in value.

Now I would not want to argue that a shift from dried milk to French vanilla ice cream or from boiled potatoes to potato chips is undesirable; and, in fact most of the big shifts were to animal products, fruits, and vegetables. I should think, however, that the price elasticity of these low-income groups for the farm component of food would have to be much higher than that of nonparticipants in order for a nonsubsidized program to increase income. I am not familiar with evidence of this substantially higher elasticity. Therefore, while I would favor expanded food stamp programs as good multipurpose welfare programs, I believe they are a very expensive way to increase the incomes of farmers.

In general, Waugh's discusssion of our export diversion programs is balanced and good. I do wish, however, he had devoted more attention to cutting through the confusion that is involved in our foreign currency sales. The continued illusion that these represent a certain (usually high) value to the recipients and a given budget cost (quite low) to us seems likely to prove dangerous over time to both our foreign aid and farm program. There would appear to be little question as to the desirability of using our surpluses to the best advantage abroad. The use of completely fictitious book-keeping may hinder rather than help achieve this objective by malallocating them both in quantity and destination.

The author has made excellent use of the economic principles that underlie diversion and subsidy programs, and enable these programs to be used to improve farm income. At the same time he tends to brush aside such principles as efficient resource use, comparative advantage, and marginal utility. I wonder if they are not as important in program analysis as the others used?

In summary, I would recommend this pamphlet to all interested in farm policy. It explains clearly why we are doing some of the things we are doing, why we will continue doing them despite frequent objections from many sources, and why we should do more of some of them. This is a significant feat in 90 pages. I should not be surprised if opponents of the programs feel there are some missing points; but, given the assumptions with which the author began, I think the most relevant issues were discussed.

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