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# NOTES ON AGRICULTURAL POLICY ISSUES:

Discussions at the 1977 Meeting  
of the American Agricultural  
Economics Association

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## FOREWORD

This report condenses remarks made at a panel discussion on policy issues at the 1977 meeting of the American Agricultural Economics Association. It reflects thoughts on future challenges facing agricultural economists as they consider various policy issues, ranging from environmental and resource considerations to liberalized trade and international market stability.

The opinions stated are those of the respective panelists and commentators, and do not necessarily reflect the opinions of their employing institutions or the U.S. Department of Agriculture.

The panel members, in the order of their remarks, are:

L. T. Wallace, University of California, Cooperative Extension Service

Lee Day, Cornell University, Northeast Regional Rural Development Center

Willard Mueller, University of Wisconsin

J. B. Penn, Council of Economic Advisers

T. K. Warley, University of Guelph, Guelph, Ontario, Canada

The moderator of the session was Alex McCalla, University of California. Comments and questions are those of Bill Easter, University of Minnesota; Jim Seagraves, North Carolina State University; Lloyd Halvorson, Science and Education Administration, USDA; Lyle Schertz, Economics, Statistics, and Cooperatives Service, USDA; Harold Halcrow, University of Illinois; Don Paarlberg, Purdue University; W. E. Hamilton, American Farm Bureau Federation; and Phil Raup, University of Minnesota.



Kenneth R. Farrell  
Acting Administrator  
Economics, Statistics, and  
Cooperatives Service

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DISCUSSIONS AT THE 1977 MEETING  
OF THE AMERICAN AGRICULTURAL  
ECONOMICS ASSOCIATION

L. T. Wallace: Resources and Environment

The era of limits is here (expressed in budgets, by "deaf ears," and by increasing social and political frustration), at least for the short run. I believe that many economists are not yet prepared to deal with the policy realities of the situation (including advocacy analysis, inconsistency, and differing value systems). This is not an indictment, nor is it a judgment of our professional integrity, training, or zeal. Rather, it is my impression that we simply have not kept pace with society by not recognizing that an increasing number of resource-use decisions are being made by applying nonmarket, instead of market, allocating criteria; that there is a quasi-public and very political nature of decisionmaking surrounding almost all natural resource use; and that public welfare and investment aspects associated with natural resource and social capital infrastructure are not yet adequately handled by price or welfare theory.

The assumptions in both micro and macro theory need modification and reexamination, with recognition given to the need for explicit acceptance of institutional parameters. Given the socio-political dynamics surrounding the economics of natural resource investment and development, we've a crying need for modification in the definitions of both equity and efficiency toward a more holistic approach. Market criteria of 25-30 years ago may not be adequate today, considering the leavening influence of increasing numbers and kinds of regulations and laws, which, to a greater degree than ever, limit (or enhance--depending on one's point of view) one's access to, use of, and rewards from the Nation's natural resources. Society's goals are certainly broader than they were 30 or even 20 years ago. Evidence can be drawn from the proliferation of widely differing advocacy points of view expressed in legislative and administrative hearings, and formal organizations that are now lobbying legislators and the media.

As a result, a question I would ask is: have economists restricted themselves needlessly in economic jargon and esoteric paradigms, rather than opening the profession to the development and analysis of positive policy options concerning resource use? Have we kept pace sufficiently



with the perceived changes in the bundle of rights and their associated risks? We thought we knew about property, about its value in use or exchange. We defined natural resource use mostly in that context. Yet as we become more aware of evident externalities, and of advocate groups who are saying "no, the bundle is not what you thought it was--we see it this way," are we keeping our theoretical perceptions and models up to date? How do we cope with the number of people who are becoming increasingly analytically articulate, raising issues of a more holistic nature, and pointing to large gaps in our information, in its quality, and in our knowledge about the effects of alternative resource uses?

We must admit that there are gaps in our knowledge of various economic interrelationships within our present-day society, and about potential tradeoffs within it. These gaps point the way to the increasing potential importance of pertinent economic analysis about policy and institutional parameters, including regulations. There is certainly a place for competent analysis if we accept the challenge. An example is: What are the economic consequences (incidence of benefits and losses, timing and sequencing of resource control, etc.) on various groups in society from alternative goals and methods of governance concerning our Nation's watersheds and storage basins? Within a single water basin or watershed area, aspects of total available supplies, water rights, water quality, water distribution, and water pricing are often administered, regulated, and enforced by different legal entities--different not only at the local and regional levels, but at the State and Federal levels, and between public officials and private entrepreneurs as well.

I submit that most economists are hard pressed to deal with the situation described above, and to make reasonable, understandable, and useful analyses for policymakers and others outside the profession. If we did include more policy in our resource use formulations, perhaps we might make more economic sense out of the legalisms surrounding the water problem areas.

Given the increasing influence of nonmarket forces on resource allocations, if market price continues to be assumed as the prime resource allocator, analysis on that basis alone will make the ensuing product increasingly useless and wasteful of everyone's time and effort. A thorough appreciation and understanding of the more holistic forces is needed to make analysis about resources more economically and socially useful.

## Lee Day: Rural Development and Rural Communities

Probably the major issue with respect to rural communities and rural development in the next decade will be whether or not we will have a rural development policy. I recall a statement made by a friend over 10 years ago to the effect that rural development was more a slogan than a policy. And I believe that is nearly as true today as it was then.

I wish that I could foresee some new emerging issues in rural development; instead I see an unfinished agenda of policy issues that have been left unresolved for several decades. I see three major unresolved issues. First, what should be the geographical distribution of the jobs, income, and access to services--and by geographical distribution I mean the Sunbelt versus the industrialized Northeast, metro versus nonmetro, and inner city versus suburbs? Second, what should be the personal distribution of jobs, income, and access to services--and by that I mean across income classes, between men and women, among racial groups, across age categories, etc.? Third, what techniques should be used to bring about these desired distributions?

I would expect that the major policy debate will take place around techniques rather than desired distribution. But much of the differences about techniques will rest on the underlying differences about the desired distribution. Pragmatically, it may be too much to ask of a society as complex as ours and subject to so many crosscurrents that we have a clearly articulated, consistently followed policy regarding the geographic distribution of people in jobs. Perhaps all we can reasonably expect is the periodic information on the directions in which actions of the Federal Government are tilted. Are they tilting toward metro areas? Are they tilting toward the suburbs? If this is the case, we can reasonably expect that the Congress and the Executive Branch will demand of the scientific community, and especially of the economic research community, some assessment of the impact of that tilt or alternative tilts. Such factors need to be considered as consumption of scarce resources (particularly water and fossil fuels), pollution of the environment and the cost of maintaining or improving the environment, access to public services and the cost of the access, the distribution of new jobs relative to existing underemployment and unemployment, and the cost of supplying the population with a wide variety of final consumption goods. In an urban-dominated society such as ours, both the direction of the tilt and the techniques that influence distribution of jobs, income, and services are likely to have a strong urban flavor.

A few comments on distribution of public services seem appropriate. Access to quality services is especially important for rural areas, partly because it improves the well-being of rural people, partly because it is a means of expanding the stock of human capital, and partly because access to services is a powerful consideration in attracting new industry and expansion of existing industry. Nearly everyone recognizes that the low density of population is the unique problem of rural areas with respect to the delivery of services. But it is not equally well recognized that the solutions found for high density urban areas are not likely candidates for low density rural areas. We need organizational and technological innovations in the delivery of services to rural people.

With regard to organizational innovations, we should pay attention to the public choice school of political economics, and there I refer you to the Ostrows of Indiana University and Robert Bish of the University of Maryland. Take, for example, performance contracting with nearby municipalities for all or parts of service delivery systems as an alternative to the traditional municipally operated delivery system. Think also of multiple uses of at least parts of school structures and transportation vehicles. Specialty teachers, for instance, may be transported to students rather than the other way around. Or two-way visual communication networks may serve as a substitute for onsite specialty teachers. Composting toilets and drain water recycling are possible substitutes for traditional and expensive sewage collection and treatment plants. And communication systems which feature optical fibers may be a partial substitute for onsite physician services in sparsely populated areas.

Now a few comments on distribution of jobs and income. Job creation is likely to be an extremely critical issue. Contributing factors will include continuation of the changing role of women, pressures to delay the retirement age, and continuing demands by other people of the world that they receive a greater share of the benefits of the use of limited natural resources. If jobs are not created in sufficient numbers, it is not going to be difficult to figure out who suffers. It will be the rural underemployed who will become more underemployed, and the unemployment rates, particularly among minority groups and minority youths, will continue at high levels or even increase. This, together with the growing dissatisfaction with welfare programs and heavy tax burdens on middle-income classes, could bring about a problem of critical proportions. Arguments over techniques or programs, continuation of the current variety

of welfare programs versus income maintenance versus public works versus public service jobs will probably take place in an environment in which the able-bodied must work.

Parenthetically, I like to think that the current discussion of small farm research and extension legislation is the reflection of a search for an efficient way to help our lower income, rural people achieve a higher level of income. Admittedly, this is sometimes difficult to sort out in view of discussions about feeding a hungry world and small farmers being the backbone of rural America. We will, I hope, eventually realize that some of our development tools have provided powerful incentives to substitute capital and natural resources for labor. Examples are investment credit and accelerated depreciation schedules. On the rural scene, we have a considerable affinity for loans to build sewer and water systems, usually in the most capital-intensive manner, as well as houses, industrial parks, and new plants.

I believe we have paid too little attention to job creation and the distribution of income. The link between loans and structures on the one hand and jobs in general and for the needy in particular is too weak. There is too much incentive to substitute capital for labor and too little attention to targeting programs to benefit specific population strata. Admittedly, loans have advantages. Some forms of loans do not show up in the Federal budget and the direct cost is nil until such time as there is a default. But the indirect cost resulting from the weak link between loans and jobs and flowing through underemployment, unemployment compensation, increased welfare costs, and increased expenditures for public works and public service employment may be very large indeed.

We need to explore other techniques for influencing the distribution of jobs and income both geographically and among income class and among other classes of individuals. For example, there was a bill introduced in this (1977) session of Congress--H.R. 334--which provides for a tax credit for 50 percent of the wages for new employees (subject to certain limitations). One could wish that these new employees had been defined in terms of full-time equivalents of additional employees. Further, the bill could be modified to provide a differential tax credit for employing special disadvantaged groups based on personal characteristics or the characteristics of the community in which they live. There are, of course, alternatives to the tax credit system, but in a time when people are so sensitive about the size of the Federal budget, there are some political advantages, if not economic advantages, to a tax credit mechanism.

A brief comment on strategy. Some of the elements of the society at large, and of course of this professional society, have argued with a considerable element of truth that the strategy of the past was to identify a critical problem and then, in a sense, solve it by throwing money at it. One would hope the strategy of the next decade will be to experiment first and then evaluate--i.e., try out on a limited basis alternative ways of influencing the distribution of jobs, income, and access to services. After these experimentations and evaluations, "throw money at it"--but with a little more accuracy than we have been able to do in the past.

### Willard Mueller: Organization and Market Structure

What I am going to do is talk about some priority areas that in my view require, in part at least, use of industrial organization concepts. First, I think the most neglected area, and perhaps the most important to be examined, is the impact on agriculture of macro-economic policies to achieve full employment without excess inflation.

Since the enactment of the Employment Act of 1946, we have been committed to a policy of full employment without excess inflation. Yet the whole post-World War II experience teaches us that for various reasons there is a persistent tendency for inflation to ignite well before full employment is reached. This phenomenon is present in all capitalistic market economies. One important cause in the view of a growing number of economists is that segments of business and labor possess considerable discretion over price and wage decisions. The use of this power is related in a very complex fashion to a struggle over income distribution. Such power seems to render ineffective or at least severely limit sole reliance on macro-economic policy as a tool for achieving full employment without inflation. It is in this environment that the free market segment of agriculture may be especially hard hit, because as a competitively structured industry in selling, it becomes caught in an inflation-induced price-cost squeeze as macro policy restricts demand and prices for agricultural output but does not effectively exercise similar restraints on prices of inputs.

I think the effects of this were reflected in the spectacular plunge in the parity ratio between the end of 1973 and midsummer of 1974. During the 1973-74 period, we had applied a very restrictive monetary policy, although we had a balanced budget. In similar situations, countries throughout the world had been applying income policies, a euphemism

for some sort of wage and price control. When such policies are used, as they have been in Europe and Canada and the United States in varying forms, the type of policy selected is of great importance for agriculture. For if the problem of inflation is related to or caused in part by a market power problem, different forms of controls or no controls are needed in competitive sectors than in other sectors.

It is interesting that in the history of this Association and our profession, some of the first work dealing with this problem was done at USDA--Gardner Means' famous memorandum to Secretary Wallace, for example, in which he spelled out the differences in administered prices and agricultural prices. This initial work was subsequently picked up by general economists. For a period of time, people in USDA and others in agricultural economics were concerned with this, but I submit that we should give it a great deal more attention. Only a few people in our profession--the most notable, Edwin Nourse, the first Chairman of the Council of Economic Advisers, and John Kenneth Galbraith, who still has roots in agricultural economics--have pursued this problem.

I'll just tick off some other areas more rapidly. In my view, we have to do a great deal more work in examining the structure, conduct, and performance of the entire food system, from farm inputs to farm distribution. There have been many changes since 1965-66, when the Food Commission studied some of these problems. Most of the information upon which the Commission based its analyses and conclusions is extremely dated--at that time, the most recent census data were for 1963. So today, we really know a great deal less about some of these problems than we did a decade ago. Since then, the market power of large corporations has grown considerably, industries have become more concentrated, and many enterprises have become multinational. Some specific areas that need looking into are the potential of conglomerate-derived power to restructure industry and its impact on performance, the significance of product differentiation in terms of its impact on structure and performance of industry, and the whole new overlay of Government regulations that impact on the structure and performance of the food system.

Economists must seek better knowledge of the nature of the changes in the food system, their causes, and their impact on performance. Also, they must participate in interdisciplinary legal-economic research designed to develop alternative public responses to them.

I think we should also be looking at more, including non-economic, values in developing the performance norms of the food system. Agricultural economists generally have shunned or dismissed the views of nutritionists, home economists, and just plain consumers and their advocates, who are very concerned with the quality of the products and services generated by the food system. Many of the problems that they deal with do lend themselves to economic analysis. I think we should also be more receptive to including among our performance norms some factors that rest on the findings of other disciplines.

There are a couple of other areas that we should be looking at, and already are to some extent. One is the seeming breakdown of pricing systems in some farm markets. Live-stock economists have been talking for some time about what has happened to pricing efficiency as meatpacking becomes more decentralized. It is hoped that agricultural economists will have more to say about this problem than that it is a classic example of an inevitable tradeoff between pricing efficiency and operating efficiency. Researchers should explore the feasibility of alternative ways of improving the process by developing communication networks, and so on. I suspect, however, that if the problem is inherently a structural one, improving information alone will not guarantee competitive prices.

Finally, I think we should be looking at or continue to look at the role of agricultural cooperatives, particularly within the framework of industrial structure. For instance, how can co-ops improve pricing and operating efficiency, what are the circumstances in which co-ops promote or restrain competition, what role can they play in improving the coordinating process in a vertical system?

So there are for you bright young people many research areas that are exciting and productive. But do not expect to find your new research ideas in that jammed-packed kit of splendid theoretical and quantitative tools you all leave our graduate schools with. You must use these sparingly and judiciously and not as mere ornaments to decorate analysis of trivial problems. Real demand for analysis is created largely by the march of events. Your first job, then, is to become sufficiently familiar with the real world so that you can identify some problems worthy of the talents you have acquired.

J. B. Penn: Commercial Agriculture

My focus is on emerging issues in the commercial agriculture area. I have tried to restrict the few issues that I have to avoid overlap with the other panelists, but we must recognize that the issues in the commercial agricultural area overlap with many of the issues the other panelists have mentioned. All will need to be integrated in the analysis and eventual resolution.

Very shortly, if not vetoed, we will have a new farm bill, a further progression of the kind that we have had since about the mid-1960's. We've learned many things since then, and over time we have improved the legislation in great part. But the one thing we seem not to have learned is how to deal with the periodic overproduction problem. We seem not to have learned that price support and direct payment schemes are only "quick fixes;" they do little to alleviate the underlying problem.

The new bill was developed with the immediate problem of depressed farm incomes foremost in the minds of policymakers. Thus, a very shortrun view has been the determining force. It is widely recognized that there are a lot of agricultural producers, namely some wheat, rice, sugar, and livestock producers, that are in some financial difficulty. But by no means are all producers of these commodities in difficulty. The young farmers who purchased land in the past 2 or 3 years at highly inflated prices and existing farmers who expanded their land base or made major machinery investments and have to service major debt out of lowered incomes are certainly having cash flow problems. But there are a great many farmers who have little debt, own their land, and are doing quite well and have done quite well since the large price increases that began in 1972.

It is also now widely recognized that a small number of farmers, about a half a million or so, produce the great bulk of the Nation's food and fiber. These are generally the larger farmers and the ones hypothesized to be the most economically efficient, having unit production costs well below the national average. So this leaves some 2 million farmers, the smallest farmers, who control a significant portion of the Nation's resources, yet produce only about a fifth of the output. This group is hypothesized to be the less efficient, higher cost producers, and many of them supplement their farm income with off-farm income.

The point I want to suggest is that in this latest bill, and in the bills we have had previously, the price and income



supports are aimed at farmers en masse. There is no distinction as to size and efficiency, need, or any other criteria that recognizes diversity among farms. As a result of specifying price and income support as national averages, some producers received windfall gains--generally the larger, more efficient, ones who continue to bid up the land prices, accelerating the trend toward fewer and larger farms--while the largest number of the farmers--the smaller farmers--may not be helped sufficiently by the price and income support set on a national average basis.

I would suspect that an issue emerging in the next 4 to 10 years will be the form of commercial agricultural policies. Consideration will likely be given to approaches different from the price and income policy that we've had, with more attention being accorded the structural and the distributional aspects. Just as movement now is toward cashing-out the food stamp program, I think we may see a movement toward cashing-out the farm commodity programs; that is, there may be more targeting of the programs--perhaps only minimal disaster assistance programs for the largest farmers and other kinds of programs with graduated amounts of assistance for the middle-size and small farms. Economic criteria may be the only underpinning for programs targeted to larger farms, with general welfare or other distributional criteria as the underpinnings for programs for the smaller farms.

This is a very broad issue that has been given several labels--structure, the family farm, small farm viability, and control of agriculture are a few. It encompasses the problem of land price inflation, rates of resource returns, entry/exit, Government regulation generally, and on and on. It is certainly not new; it has been around for a long time. The forces that are pushing this issue are coming from various sources and directions and may be quite different from forces of the past. And, just as was said earlier today, I think that it is time that we give renewed attention to developing new, innovative policies and programs for the future, perhaps in the vein suggested by Boulding some 10 or so years ago. To paraphrase, we need to be concerned with people programs rather than commodity programs--programs that focus on price and income support policies for people and not for wheat and cows.

A second, more specific issue that will likely come in the public domain in the next 2 to 5 years is the whole area of dairy policy. I think we will see a reexamination of national dairy policy--from the price support program to market orders to trade restraints to the producer indemnity program. This reexamination may be occasioned by conditions

now developing. The Commodity Credit Corporation is now accumulating large stocks of milk products--the support price is above market-clearing levels. A remedial lowering was precluded when the House and Senate farm bill conferees increased the minimum support level to 80 percent of the parity prices for 2 years (through March 31, 1979). The Senate bill had extended it much further, and the adoption of the 2-year extension may be more than just coincidence. Some people would like to see a great accumulation of milk products coincide with the expiration of this legislation, which would generate pressure for "reform" of the entire dairy program.

Another emerging issue is resource use and conservation. The record high commodity prices after 1972 caused expanded production, and many people feel that this came at the expense of sensible conservation practices that were traditionally employed in farming. For instance, windbreaks were removed in the Midwest and Plains, plowing was done right up to the fence row, and marginal lands in the Plains were brought into crop production that perhaps shouldn't have been. We continue to see horror stories of the large amount of wind and water erosion occurring. I think it is only a matter of time until this is a topical issue--perhaps emerging under the general question of environmental protection, or land use policy, where the problem is how to get private individuals to act in a way that is also beneficial to society generally.

The tobacco price support program is a well-known and recurring issue. Critics will continue to note the apparent inconsistency of subsidizing production by one Government department of a commodity that has been determined to be a health hazard by another department of Government. The important research question is how do you resolve this apparent inconsistency. How do you perhaps phase out the support program? What kind of adjustment assistance do you provide to the 400,000 or so farmers producing the commodity? How do you help the economies of the very localized areas in which this production is concentrated?

A final area that I will just briefly mention is the U.S. grain marketing structure, and more broadly, our whole trade structure. Our increased exports of recent years have underscored that we are a market economy exporting grain in a world market where our major competitors and many purchasers have central marketing systems, placing us at a competitive disadvantage. But the issue is much broader than that; it involves our trade stance generally. Is it in our best interests to predominantly use bilateral agreements,

or look to multilateral agreements, many commodity agreements, and how does this interrelate with our stance in the GATT negotiations? I think the whole area of our posture in international trade is an issue that has to come forward, yet it is one in which we perhaps have the least solid research base.

I conclude with a word about the provision of economic research for policy purposes. The universities and the foundations, in addition to Government, could have a much greater role in developing policy options, assessing their merits, and in bringing the longer run issues to the public's attention, so that they may be discussed, modified, refined, and eventually evolve into some kind of policy. I think that Government agencies generally are necessarily shortrun oriented. They don't have the time nor the interest in looking much beyond 4 years at a time. Thus, the development and hard analysis of many policy options simply have to come from elsewhere, and I suggest the universities are a logical place.

#### T. K. Warley: International Trade

My remarks will be directed at selected aspects of two broad topics: trade in temperate zone agricultural products, and the politicization of the terms of trade.

On trade in temperate zone agricultural products, my major point is that we may be neglecting some aspects of freer trade and paying too little attention to other objectives of trade policy.

Our preoccupation with the goal of freer trade is easily accounted for. It is consistent with the prescriptions of received theory; it has been the dominant theme of the GATT system; and improving access to foreign markets for agricultural products in which they have a comparative advantage is a primary objective of the commercial diplomacy of most countries. Consistent with this preoccupation, we have devoted considerable effort to identifying the market distortions which flow from national farm programs and associated trade arrangements, measuring their welfare costs, and estimating the welfare gains which would flow from their dismantling or from a change in the methods by which protection is accorded.

This work is needed and valuable. However, I believe we need to pay more attention to other aspects of trade liberalization if we are to provide policymakers with the

information they require. These include (1) the income distributional effects of freer trade between countries, between sectors and regions within countries, and within agriculture; (2) the size and time paths of required adjustments under different degrees and rates of trade liberalization; and (3) the nature of adjustment assistance programs which might be used to compensate individuals and groups disadvantaged by a movement toward more liberal trade regimes. Further, we do not yet have a solid program of research examining the empirical basis for the factors which are commonly used to justify protectionist policies. These include the dynamic benefits of protection, terms of trade effects, factor market distortions, noncompetitive product markets, vulnerabilities to interruptions in national food supplies in open markets, and the difficulties of macro-economic management with an unstable and unpredictable food trade sector. We know little about the nature and empirical characteristics of many of the concerns which make national farm programs everywhere so protectionist and durable.

More tentatively, I believe I detect a shift in emphasis within the GATT system. The promotion of freer trade seems to have become a less compelling theme in international economic relations. We are witnessing more emphasis on "the management of interdependence" in ways which, while permitting an expansion of trade, augment the capacity of the international community to achieve, separately and jointly, a collectivity of goals which reach beyond the benefits of efficient resource use obtained via extended international specialization. These include stability, predictability, security, and equity in sharing the burdens of adjustment to changing market conditions and in the discharge of common food systems tasks.

It would be helpful to the relevance of our work if we could incorporate these other dimensions of international relations and policy into a guiding vision of an "international food policy agenda." Permitting a larger proportion of world food consumption to be satisfied from low cost sources is, of course, an important item of this agenda, and the one which we have traditionally addressed.

More recently, we have become interested in international food market stability. Witness the warmth with which we've greeted the contention that trade liberalization would enhance commodity market stability, and the resources we have devoted to the reserves issue. But the canvas is broader than this, and we should be working on more of it. In particular, we need to incorporate into our analysis of market instability the effects of fluctuations in aggregate demand

and exchange rate changes, and expand our analysis of solutions beyond trade liberalization and multilateral reserves management to include the contribution of multilateral commodity agreements with a range of objectives, provisions, and mechanisms; the scope for multilateral codes on safeguards, export subsidies, and export restrictions; the role of "soft safeguards" and bilateral and plurilateral cooperation on pricing and traded volumes, timing, and directions; and the contribution of information and policy confrontation to the progressive and constructive harmonization of domestic farm and food trade policies.

One final thought on trade in temperate zone agricultural products. We now realize that our analytical models must incorporate policy-inclusive excess supply and demand functions and the effects of variations in currency exchange rates. However, if they are to reflect reality, they must also account for structural attributes of markets such as the number and characteristics of participants; the influence of objectives other than price or revenue maximization; and the reality of product heterogeneity and differentiation rising from intrinsic quality attributes and the different bundles of services attached to raw products by sellers. This is a particularly worrisome area for empiricists, since competitive models may be inappropriate while models of oligopolistic competition commonly yield indeterminate outcomes. Moreover, if, as I believe, the dynamic markets for the future of temperate zone agricultural products lie in the centrally planned economies and the less developed countries, the competitive models we have had some basis for using in the past in examining trade relations among the market economies may not provide a sure foundation for the work that will be required of us in analyzing trade between market and nonmarket economies.

### Politicization of Commodity Trade

The recent North-South debate about the terms under which commodities of export interest to the LDCs should be conducted is not an ephemeral feature of international economic relations. Most observers anticipate that we shall witness concerted interventions in commodity markets on a widening scale for an expanding range of commodities to achieve the objectives of enhancing commodity market stability and a contrived redistribution of world income. Many of us take a dyspeptic view of this development by reason of our doctrinal preferences for competitive markets, the discouraging experience with previous international commodity agreements, the fear that the pursuit of stability and equity will entail substantial losses of efficiency in global resource

use, and the anxiety that policy instability will be more disruptive than market instability. We would generally prefer an extension of "first best" global intervention--more direct aid, improved balance of payments support and compensatory financial arrangements, improved access for third world products in first world markets, more competitive markets, wider use of futures markets, and the like. And it is important that we continue to address these topics because of their potency, and lest they go by default. However, as a profession we are increasingly going to be asked for counsel on second best policy approaches to the objectives of commodity market stabilization, international income redistribution, and more control for the LDCs over markets, their earnings, and their economic destinies. It is my impression that as a profession we have only just begun to make contributions to the design of international commodity policies with tolerably favorable benefit-cost ratios. The task facing us is formidable. For example, within the context only of the stabilization objective, the further we develop stabilization theory and adapt it to market realities, the more indeterminate are the outcomes of interventions. Moreover, we have not yet determined empirically the functional forms and parameters of supply and demand relationships for most of the important traded commodities. We know little of the response of supply and demand in a stabilized environment. We know still less about the response of private holders of stocks to the presence of publicly funded stocks. And we have hardly begun to explore the influence of structural attributes of markets and intercommodity and intra-commodity group substitutional relations on stabilization-orientated policies.

More generally, we shall have to do more to establish the still unresolved relationships between (1) trade and development; (2) export receipt instability and growth rates; and (3) the linkages and interdependencies between the LDCs' export sector and the rest of their economies. Further, we shall need to explore more closely the income distributional effects between and within countries of LDC-oriented trade strategies, whether they take the form of policies which promote trade liberalization or concerted commodity market regulation. These are not insubstantial issues to which agricultural economists are being asked to make a deeper commitment. International commodity policy is the core of the new international order we are trying to forge that will ensure an improvement of the lot of hundreds of millions of poor people in poor countries. Equally important, the accelerated growth and enhanced stability of incomes and foreign exchange earnings in the LDCs is of crucial importance to the pace of expansion of third world demand for the products of the North American agricultural

system. Thus, we can also serve our traditional constituency by broadening the reach of our work to include issues of international commodity trade policy.

### Comments and Questions

Bill Easter, University of Minnesota

I want to ask you a question about whether the current Administration is beginning to use the market system more to allocate resources. There is some indication that it is using or attempting to use taxes to take account of externalities that are created in the market and that it is considering raising prices of irrigation water in Federal projects as well as raising prices in energy in general. If there are some attempts to use the market system to allocate our natural resources, more than we have in the past, do you see this as the way we should try to go in the area of natural resources, and what are some of the problems you see if we do more in this direction?

Response by L. T. Wallace

I think that raising the price of irrigation water from \$1.25 an acre-foot to maybe \$3.50 to maybe \$5.00 is a move, but we'll never make it on that score toward real market pricing. I think if we do go into market pricing, he that has can buy access into public resources, public lands, public oil fields. One of the consequences may be an increased concentration of economic wealth and resource control. Not necessarily ownership, but control in the United States. For example, in California--half of which is publicly owned--I hypothesize that if we look at the concentration of control of public lands, I would bet we would find it pretty well held by relatively few ranchers and loggers or logging companies, rather than by a broad constituency. And I think this goes back to inability or an unwillingness to define what it is we want in this Nation. We think that belief in the myth of the private market--which doesn't exist any more, I don't think--will solve it. I don't think it will solve it. I think it takes a politician who is willing to risk being a statesman.

Jim Seagraves, N.C. State

I'd like to ask J. B. Penn to elaborate a little more on the issues related to tobacco and what you consider inconsistencies. It seems to me that you should relate that to exports and talk to us about the effect of the high price, if any, on consumption.

### Response by J. B. Penn

I was trying to be neutral in the way I stated that issue, knowing its high sensitivity. However, regardless of one's position, I think it is pretty obvious that with much more active consumer groups, we will have much more public awareness of the health hazards of many products. For instance, saccharin was banned on the basis of only two Canadian studies. Yet, there have been many, many more studies on the health hazards of tobacco, and that evidence is pretty well accepted. So it is only natural that many people will continue to question programs that continue to channel Federal funds into production of this commodity.

Somebody told me a story only yesterday that former Senator Benson once responded when questioned about this apparent inconsistency by saying that supporting the price above market clearing levels was an attempt to decrease the demand for the product. But, it is fairly obvious that this apparent inconsistency--with tobacco determined a health hazard on the one hand, versus Government funding to produce it on the other--will be the point around which the examination begins. In the past Congress we saw at least two attempts to abolish the tobacco program. They didn't pass, of course, but I think the pressure is building, much like that which occurred with the peanut program.

### Lloyd Halvorson (USDA)

There is one overriding question on this issue that I would like to make some comments on, and that is whether or not we are doing a good job of applying the theory of resource allocation to all of the research alternatives. Now, OMB is certainly putting a lot of pressure on research administrators to do a better job of what OMB would call applying systematic rationality to identifying the research issues and allocating the money so as to maximize the returns. Therefore, I was wondering if this panel would comment on the performance of past research and whether we can do a better job of allocating resources in the future?

### Response by L. T. Wallace

Charles French addressed this question in part when he told about the study of the National Academy of Sciences. You can try to delineate new possibilities and you can define those possibilities in terms of a reality which is both politically founded and dollar oriented, or you can say--what if we had unlimited resources? I don't think we as economists really have chosen our research projects on the



basis of the highest social payoffs. I think that social payoff has often been determined by the number of articles we can get out of the research project, instead of by what's going to be the impact on people. I think we seldom ask ourselves--one question that French kept asking his crew time and time again--if we solve the problem, so what? Someday, somebody is going to write a book with the title "And Then What?" I think that is probably going to be worth reading.

#### Lyle Schertz (USDA)

My question relates closely to Halvorson's. Do the panel members visualize a process which would lead to a better articulation of priorities? Obviously, the panel has some very definite priorities in mind. Others in the audience do, too. But as I understood the discussion yesterday morning, we as a group don't articulate very well what the priorities should be and the potential payoff if they guided our work. So my question is, do you have suggestions for a process whereby priorities for work by members of this association were better articulated?

#### Response by Lee Day

I don't really have anything new to suggest. I do think that the attempt to involve consumer groups and citizens in general in establishing research priorities is a very plausible one. Too often scientists, working by themselves and without the input from lay citizens, tend to establish priorities that are more a reflection of their own interests and their own skills rather than the priorities as viewed by citizens. I would not want to think that the citizens should have the total say in this, but the two working together can help the development of priorities.

#### Harold Halcrow

Penn mentioned the concentration of control in public lands and Mueller spoke on the concentration in the food industries and elsewhere. It seems to me we are recognizing these things as problems and yet we are not saying very much about policies that we might follow to counteract the tendencies we consider undesirable. We have things to say about tax laws, things to say about credit, we have various matters that could be brought to bear here. I am wondering if the panel doesn't want to say a little more about this?

Response by Willard Mueller

Perhaps people don't listen, but I have had a lot to say about it for some years. I think there is a growing awareness and concern in our profession with this problem. I have certainly noticed a change over the last decade. But, I don't think that agricultural economists have been particularly in the forefront in this respect. We have largely followed general economists. In fact, probably because of our training, probably because of where we do our research, and for a lot of other reasons, there seems to be considerable hostility on the part of some people in the Association toward those who raise these kinds of questions (about developing policies to counteract growing industrial centralization). I think it is a good deal less unpopular to talk about these things today than it was in 1960, but I still find an interesting contrast between the response of general economists and agricultural economists to research in this area.

For example, following a study that gained some attention a few months back, which we did for the Joint Economic Committee, many agricultural economists, not having seen the results but having heard the publicity and some criticism, presumed that we were probably wrong. On the other hand, I found an entirely different kind of response on the part of general economists.

But there have been people who have been talking about these kinds of problems--Oscar Hoffman certainly has in recent years. I feel these problems are so intricately related to so many things that we do in the profession--not just economics but the impact of concentrated economic power on political decisionmaking--that we should be concerned. I am somewhat optimistic that we will be.

But I sometimes think, however, that our profession is too tightly knit--because we know personally so many of the leading "lights" of this profession (we can easily get most of them in this room). The profession may have become too chummy and establishment oriented. As a result, it is hard for someone to be a maverick and to depart from the crowd, and since students do what their professors do, the new entrants tend to follow in the same path. So how do we implement or how do we express these policy concerns? I think there are a lot of opportunities--there are a lot of people asking for help. All recent surveys show that never before in my lifetime has the public been more concerned with centralization of economic power. Unfortunately, many people have become equally disenchanted with their

representatives in Washington and therefore are fearful of letting the Government, which is the only instrument for dealing with centralized private power, attack some of these problems.

#### Further Comments from L. T. Wallace

As far as resources go, I don't think we have any concept of what would happen if there were unleashed concentration. We allow it in certain utilities, but what if agriculture were considered a utility? We don't know what would happen. Is the question, then, a relevant issue or is it much more a question--within what bounds and what sort of rates of return and that kind of thing. Besides it may become irrelevant then. If we really do have a cheap food policy, if we really do believe some of the junk we put out about economies of scale, if we really do believe that trash, maybe we should encourage concentration rather than discourage it. On the other hand, how does that balance off against income policies in urban areas, and income redistribution--the kinds of things that Lee was talking about? What is efficiency? I claim that we don't know what efficiency is.

#### Further Discussion by Halcrow

I feel that one thing we need to do is recognize our own biases. We like success, and successful people are successful, and we like to work with them. In our educational programs, it seems to me we need to also recognize the concentration and the effects of it. Secondly, it seems to me that we must not be afraid of examining some of the public policies that are leading to concentration, such as treatment of capital gains, the way we allocate our credit, and so on.

#### Don Paarlberg

This question is for J. B. Penn. We have witnessed in the last months an indication of considerable political power in Congress on the part of the agricultural interests, the old historic farm bloc, and my question is whether this manifestation of power is an indication that this group is still potent in its own right, or to what degree is this the result of coalition, alliances with nonfarm groups like consumers and labor people, minimum wage, food programs, concessions in the environmental area, and so on. Do you have any feel for what goes on between the historic agricultural bloc and the nonfarm people?

Response by J. B. Penn

Well, I think you are right in saying that there seems to have been a reemergence of the traditional participants who many people had largely dismissed in recent years. In fact, some people have suggested that the omnibus farm bill should more appropriately be called the "National Wheat and Sugar Producers Relief Act of 1977." I have mixed reactions. On the one hand, I think it has been obvious that the traditional organizations demonstrated a lot of clout in getting the price and income supports raised to much higher levels than the Administration wanted. There was a real power struggle and they won. On the other hand, I think that by having an omnibus bill--where you have P.L. 480, food stamps, research, and commodity programs in one bill--you get so many participants that there is much, much more opportunity for tradeoffs. So I think there have been a great many coalitions and deals struck and that would tend to not support the notion that the traditional groups have been so powerful. The consumer groups have been less visible than they were in the period of high food prices, and I think they have generally had much less input this time. They were around, but they were more behind the scenes, so it's questionable as to how much influence the consumer groups really had. Overall, I really have a mixed reaction about whether these have been major power shifts or not.

Don Paarlberg (further comment)

Just a quick comment--an observation. It seems to me, as viewed from the bench, that the alignment on agricultural policy is now different from what it was. For a long time, we thought it was the Democrats versus the Republicans--it clearly is no longer that. Then for a time, we thought it was the farmers against consumers, and evidently it is not that. What it seems to be is the White House, the Executive, which has concern for the general public welfare, versus the special interests strongly entrenched in the Congress. That is presently true as we see in the alignment; that was true during the previous 8 years, when a different political party was in the White House. I think it is important that we who deal with agricultural policy at least know who the protagonists are.

J. B. Penn (additional comment)

I think that is true. Also, I think that we may not have fully realized the extent to which USDA is in the middle. You have the agriculture interest groups and the Congress on the one hand, and OMB, CEA, and the other groups in the

White House on the other hand, and the Department of Agriculture now finds itself in a bit of a different role than it has before. In the policy formulation process, USDA is not sure if it should be the strong advocate for farmers and should align itself with the interest groups. At the same time, USDA is not sure how far it should deviate from the Administration's overall policy. I think this is a troubling time for the Department in this respect.

W. E. Hamilton

I'd like to make a comment supplementing the discussion of the omnibus bill, and then I'd like to ask J. B. Penn a question which he may not want to answer. I think that because an omnibus bill gets so big and there are so many issues, that from the standpoint of people who may want to change it, it is quite a job stirring up much opposition to a provision or support for a provision--there are just so many things in there that many become detail and it is much more difficult to make significant amendments in an omnibus bill than it is in a simpler bill.

Now I want to ask J. B. to comment a little more on the dairy situation, which you indicated may be facing reconsideration sometime in the future. The traditional way of solving dairy surpluses eventually has been to lower the support, which isn't politically acceptable at the moment, so now we have the target price concept. When you think about applying the target price to dairy products, you run into some dilemmas. The manufacturing milk support price is the basis for the fluid milk price, which is a much bigger part of the market. If you put a target price on and allow the manufactured milk price to drop, unless you amend the market orders or do something else, then the fluid milk price drops and the target price becomes a very expensive program. On the other hand, if you try to widen the gap between manufactured milk prices and the fluid milk price by amending the orders, that brings an attack on the orders and some problems there. What do you see as our way out of this dilemma, and I can understand if you wouldn't want to comment.

Response by J. B. Penn

The farm bill is the most complex, intricate piece of legislation the Congress will consider this year, with the exception of the energy bill. It is very complex--most Congressmen don't understand it and except for those on the Agriculture Committee, few have even a little understanding of what's in the bill. On your dairy question, I don't fully

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certain groups within agriculture. We are moving in Canada toward full cost of production pricing for a wide range of commodities and it's a vicious circle of prices-costs, costs-prices, and diminishing competitive position of our industry, or particular sectors of our industries. At some stage, the cycle is going to collapse. That is what I was alluding to when I said that policy instability may be far worse than the price and market instability that these kinds of concepts--like cost of production pricing--are designed to alleviate.