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The Agriculture And Consumer Protection Act Of 1973: Its Economic Implications For Minnesota

Introduction

RECENT WORLDWIDE commodity shortages with attendant rising prices represent a dramatic departure from the chronic agricultural surpluses and low farm prices of the 50's and 60's. In this setting, the "Agriculture and Consumer Protection Act of 1973," PL93-86, was passed into law on August 10.

This combination of circumstances—a currently favorable farm price situation and new farm legislation—prompts the question, "What does this mean for Minnesota agriculture?"

In this issue of *Minnesota Agricultural Economist,* nine members of the Department of Agricultural and Applied Economics discuss the highlights of the bill and its possible economic implications for Minnesota agriculture.

The Bill in perspective

SHIFTS IN PHILOSOPHY

The Agriculture and Consumer Protection Act of 1973 in part represents an important shift in philosophy, in part represents a continuation of recent shifts in philosophy, and in part represents a continuation of a philosophy that dates back to the 1930's.

The important shift in philosophy in the Act of 1973 involves: (a) the discard of the parity price principle; (b) the substitution of target prices for parity prices as the concept of a fair price of farmers; and (c) the making of deficiency payments to farmers whenever the average price received by farmers falls below the target price. The fair price, or target price, is to be determined in the political marketplace of the nation, namely, the Congress. And income support to farmers is to be provided by outright cash payments to farmers.

The continuation of recent changes in philosophy involves: (a) the use of the set-aside principle in the management of supplies, wherein the production decision area of farmers is widened; but (b) the size of payments which an individual producer may receive is further limited—limited to $20,000 per person. The commercial farmer is thus provided with considerable flexibility in his production planning, but the extent of his income protection is reduced.

It is argued that the Act of 1973 takes another long step toward a market-oriented agriculture; and this is true so long as loan rates are set near world market levels. The increased emphasis on deficiency payments and the set-aside makes the argument true. But it is wrong to conclude that this Act gets government out of agriculture. Should the average market price of wheat, corn, or cotton fall below its respective target price, then the government will be in the business of making deficiency payments to farmers; should the average market price of wheat, corn, or cotton fall below its respective loan rate, then the government is back in the old and familiar business of making nonrecourse loans to farmers. And should either of the above-mentioned developments occur, then the Secretary of Agriculture would almost certainly reimpose the acreage set-aside device to manage supplies. Moreover, he has the authority to reimpose production control over individual commodities. The Act of 1973 authorizes the use of supply management devices that have been with us in some form since the 1930's as a means of dealing with surplus production, and it contains some new price and payment techniques of its own.

TARGET PRICES AND RELATED CONCEPTS

Target prices have been established for wheat, corn, and cotton for the four years 1974-77. The target price for wheat for the crop years 1974 and 1975 is $2.05 per bushel; the target price for corn, $1.38 per bushel; the target price for cotton, 38 cents per pound. These prices are to be adjusted for the 1976 and 1977 crop years in accordance with changes in the cost of production. Basically, these target prices are what the Congress has defined as being "fair" prices to farm producers.

Whenever the average market price for one of the above commodities falls below the defined target price, farmers participating in the program will receive a payment equal to the difference between the target price

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and the higher of the market price or loan rate on his farm allotment times the established yield for his farm. The national acreage allotment for each of these crops is determined by the Secretary of Agriculture to be equal to those total acres, given the average yield, which will produce the quantity which he has estimated will be utilized domestically and for export during the marketing year of that crop. The individual farmer receives his share of the national allotment based on his history of the production of the crop. The individual farm allotment is used, however, only to compute the farmer's deficiency payment. The farmer needs not plant his acreage allotment for the crop in question to be eligible to receive payment. To be eligible to receive payment, the farmer must only comply with the set-aside for his farm when the set-aside is in force. (It is not in force for the 1974 crop year.) The participating farmer thus receives a deficiency payment whenever the average market price falls below the target price based upon his *computed* allotment for the year involved; his planted acreage for the year in question may be more or less than his *computed* allotment.

Under the Act of 1973, the target price and related deficiency payment represent the first line of economic defense for the participating farmer. But he has a second line of economic defense. It is the loan rate and the related nonrecourse loan feature. Should the average market price for one of the three commodities in question fall to the loan rate, the participating farmer is eligible to take out a nonrecourse loan on all of his production. Under the nonrecourse loan feature, the farmer has the option of turning his product over to the government and not repaying the loan. The loan rate thus becomes, under the Act of 1973 as in previous legislation, the effective price floor to producers.

For the crop year 1974, it seems likely that the market prices of wheat, corn, and probably cotton will average above their respective target prices. Hence, no deficiency payment action would be triggered. But in periods of surplus, such as was experienced in the United States almost continuously from 1952 to 1972, the average market price should fluctuate in the range between the target price and the loan rate, with deficiency payments being made almost continuously.

To reduce the magnitude of deficiency payments to be made under the Act of 1973 in surplus situations as well as the magnitude of commodity takeover through nonrecourse loans, the Secretary of Agriculture has the authority under the Act of 1973 to invoke production controls. He may reimpose the set-aside feature. Then to be eligible to receive deficiency payments and/or make nonrecourse loans, the farmer must set aside from production a specified percentage of his cropland. Or if the Secretary feels that it is necessary, he may limit the planted acreage of a producer of wheat, corn, or cotton to some percentage of his computed allotment for that crop. Thus, the tools remain in the Act of 1973 to control production when and if the Secretary determines that such action is necessary.

Some provisions of PL 93-86 of significance to Minnesota agriculture

—Extends cotton, wheat, feed grain, dairy, Food for Peace, and food stamp programs for crop years 1974 through 1977.
—Establishes a new "target price" payment system under which the government would pay farmers the difference, if any, between the market price received and a higher target price written into the bill.
—Provides for an increase in the target price which began in 1966, to reflect increases in the cost of production.
—Sets the target price for 1974 and 1975 at $2.05 per bushel for wheat and $1.38 per bushel for corn.
—Sets price support loan rates at $1.37 per bushel for wheat and $1.10 for corn.
—Provides payment of one-third of the target price to a farmer who was prevented from planting or who harvests less than two-thirds of a normal crop.
—Extends the wool price support program for 4 years without change.
—Suspends wheat certificate collection from processors.
—Increases the price support for milk to 80 percent of parity from 75 percent of parity.
—Orders the Secretary of Agriculture to make a comprehensive study of dairy imports and present his findings by January 1, 1975.
—Sets a subsidy ceiling on payments under the bill to $20,000 a year for each farmer.
—Excludes resource adjustment payments from consideration as payments under the $20,000 ceiling.
—Permits the sale or lease of acreage allotments to farms which had no base acreage.
—Extends the current Food for Peace program (PL 480) for four years, with the requirement that the President take steps to assure that commercial supplies are available to meet demands developed through it.
—Provides for an emergency reserve of up to 75 million bushels of wheat, feed grains, and soybeans.
—Authorizes the Secretary of Agriculture to enter into long term land use contracts with farmers and landowners to deal with conservation and pollution problems.
—Authorizes the Secretary of Agriculture to make payments to farmers and landowners for implementation of land use contracts.
—Provides for creation of an advisory board in each state, appointed by the Secretary of Agriculture, which would make recommendations about the types of land use contracts to be negotiated in that state.
—Authorizes a forestry incentive program under which farmers and landowners would be encouraged to increase timber production and protect privately held forest lands.
—Authorizes up to $1 million to be appropriated in any fiscal year for the purpose of research to develop wheat and feed grain varieties more susceptible to complete fertilizer utilization and which have greater resistance to disease.

Economic impact on Minnesota commercial agriculture

IMPLICATIONS FOR MINNESOTA COMMODITIES

Implications for wheat

For both wheat and feed grains, the new farm bill continues the trend toward more market-oriented farm programs that were begun in 1965 and extended to 1970. Price support loan rates are at levels low enough so they will probably not result in U.S. prices being held above world levels. The principal mechanism of supporting farm income is direct income payments rather than price support loans.

The basis of making income payments to wheat growers has been shifted under the new bill from wheat certificates, which have been eliminated, to target prices. The target price for wheat is established at $2.05 for 1974 and 1975. If the average market price during the first 5 months of the marketing year (July through November) falls below $2.05 per bushel, participating farmers will receive the difference between the target price and the average market price on the farm allotment times the established farm yield. If the average market price is above the target price, there will be no payments. Target prices can be raised for the 1976 and 1977 crop years if production costs increase more than farm productivity.

In 1974, the price support loan rate to participating producers is $1.37 per bushel. This rate may be increased at the discretion of the Secretary of Agriculture in future years. There will be no acreage set-aside requirements for 1974 and no conserving base requirements for the 4-year life of the Bill.

Participating farmers are not required to plant wheat to receive program benefits. The Bill also broadens the range of crops that may be substituted for wheat and still preserve allotment history.

Implications for feedgrains

The new Agricultural Act of 1973, as it applies to feed grains, has some new and some not-so-new features. The major not-so-new or familiar aspects include: (1) a national feed grain acreage base (or allotment) reflecting domestic and export requirements and apportioned to states, counties, and individuals on the basis of past production; (2) familiar nonrecourse loans available to producers at an average $1.10 per bushel for corn; (3) standby provisions for the Secretary of Agriculture to invoke the "set-aside" land diversion program of the 1970 Agricultural Act and/or commodity-by-commodity acreage controls if necessary. So if market prices for feed grains in Minnesota should tumble to the levels experienced in the late 1960's and early 1970's, we can expect the government to be back in the supply management and price support business on almost the same footing as before.

The new provisions of the 1973 Act do change the way income support is provided to Minnesota's corn and other feed grain growers. For example, if the farm level market price for corn is above the "target" price of $1.38 per bushel in 1974 and 1975, then no support payments will be forthcoming. (The target prices in 1976 and 1977 will be adjusted for changes in corn production costs.) No production restraints are envisioned for the 1974 crop. If market prices continue above target levels as the 1975 and later crop years approach, it is unlikely that acreage controls will be invoked.

But if corn prices drift below the $1.38 target, "deficiency" payments will be made to growers. These payments will be the difference between the target price and the national average price received by farmers for the first 5 months of the marketing year (or the loan rate, whichever is higher) times the individual projected farm yield times the farmer's share of the national allotment. Thus, if the nationwide market price for corn dipped to $1.25 per bushel, Minnesota's corn growers would receive about $60 million in deficiency payments. This is based on the state's announced 1974 allotment of 5.4 million acres and an 85 bushel per acre average yield. For each 1-cent difference between target and market prices for corn, approximately $4.6 million would flow to Minnesota's corn producers as deficiency payments. Should corn prices fall to the $1.10 loan rate, deficiency payments could go to approximately $128 million in Minnesota. Compare this to the $140 million actually paid out under the 1972 feed grain program to Minnesota corn growers. It is possible, however, that the feed grain allotment would be decreased by the Secretary in the face of falling prices. This would shrink the government's total liability for deficiency payments. Acreage set-aside or diversion could then be reinvoked.

Grain sorghum is included in the 1973 Act on the same basis as corn with appropriate modification in prices. The sorghum target price is $1.31 per bushel, and the loan rate is $1.05. Barley is included in each year's feed grain program at the discretion of the Secretary of Agriculture. In 1974, barley is in the programs with a target price of $1.13 per bushel and a loan rate of $.96. No specific provisions concerning soybeans are contained in the 1973 act except that they can be planted on allotment acreage for feed grains and wheat without putting the farmer's allotment history in jeopardy. Overall, the feed grain portion of the 1973 Act is designed to encourage output expansion at today's high prices, but backup programs and controls are available if the current boom is short-lived.

The new Farm Bill has important marketing implications for farmers. Price support loan rates and government-owned grain stocks are no longer dominant market factors. Government stocks are now at their lowest level since World War II. They will not rise again unless market prices fall below price support loan rates. Market prices now have considerable room to fluctuate in response to variations in world supply and demand. In wheat, for example, the current farm price is over $4 per bushel, but the loan rate is $1.37. For corn, the current farm price is about $2.20 per bushel compared to the $1.10 loan rate.

Since more price variability can be expected under the new farm program, grain marketing decisions such as when to sell and when to store become more important. Farmers will find futures markets important marketing tools in forward pricing and storage operations. Cash-futures price relationships can be reliable decisionmaking guides for farmers who understand them. This situation represents a marked change from earlier years when farmers had few marketing decisions to make outside of the regulations and operations of the price support mechanism.

Implications for dairy products

For the most part, the dairy provisions in the new farm law are modifications and extensions of dairy legislation which has been on the books for some time.

Dairy price provisions of the new farm act

The two price provisions of the law are as follows: First, the new law requires the price support level for manufacturing milk to be between 80 and 90 percent of parity. After March 31, 1975, the support level will revert back to the old level of 75 to 90 percent of parity. The increase in the minimum support level has not had a significant effort so far because of strong prices reflecting supply and demand conditions in the market.

The second price provision is the price support level for butterfat. The 1970 farm law temporarily suspended the separate price support requirement for butterfat which was provided for under earlier dairy legislation. The new law permanently removed that requirement. The earlier suspension and present removal of the separate price support requirement for butterfat have given the Commodity Credit Corporation much greater flexibility in setting the buying price for butter to make it more competitive with butter substitutes.

Changes affecting federal milk market orders

The new law extends the authorization for Class I base plans under federal milk orders. These plans were first authorized under the 1965 law. At present, only two markets in the U. S. use Class I base plans. Base plans designed to level out milk production seasonally are also provided for by the new law.

Another amendment requires the Secretary of Agriculture to hold a hearing on a proposed change in a federal milk marketing order if one-third or more of the producers in the market apply in writing for such a hearing. This amendment provides producers with an avenue to gain a hearing in addition to operating through a cooperative association.

Still another amendment requires the Secretary of Agriculture, when setting minimum prices under a federal milk marketing order, to consider the level of farm income needed to maintain sufficient producer capacity to meet anticipated future needs. A similar requirement is also imposed upon the Secretary when he sets the level of price support for manufacturing milk. Although the matter of adequate productive capacity to meet future needs is probably inherent in most price setting decisions, these amendments now make this a specific requirement.

Other provisions

The new law requires the Secretary of Agriculture to conduct two dairy studies which might serve as a basis for future policy decisions. The first is to determine the effect of increased dairy imports on U. S. producers, handlers, processors, and consumers. This report, along with the Secretary's recommendation, is to be submitted to Congress by January 1, 1975.

The second is a cost of production study and is to be conducted in cooperation with the land grant universities, commodity organizations, farm organizations, and individual farmers. This study is to be updated each year.

The authority of the CCC to transfer dairy products, acquired under the price support program, to the Military and Veterans Administration is continued under the new law. In addition, the dairy indemnity program is continued. Under this program, farmers and dairy processing and manufacturing plants are indemnified when, through no fault of their own, losses are incurred because of the presence of pesticide residues in milk or dairy products. Payments under this program, which was begun in 1964, have not been large.

IMPLICATIONS FOR FARM MANAGEMENT

The nature of the 1973 Farm Bill and the trend toward more specialized farming operations suggest that the overall management implications of the Bill can best be discussed separately from the perspective of crop-oriented and livestock-oriented producers.

Implications for managers of crop-oriented farms

For the next 4 years, target prices of $2.05 for wheat and $1.38 for corn have been established. These prices are to be adjusted for the 1976 and 1977 crops in accordance with changes in the index of prices paid by farmers and modified for changes in yield per acre. Current price conditions (well above these target prices) suggest that the implications for crop farmers should be evaluated under price conditions above and below the target prices.

If market prices stay above target levels

If market prices were to stay above the target price levels, then target prices would become little more than a security blanket for the manager and his creditor. Both would know that if the manager complies with program requirements, he will be guaranteed a floor price for his product. Compliance under these price conditions relates primarily to the use of the acreage allotment as described under grains earlier. The new disaster provision, however, adds a dimension to this security blanket. The producer should be familiar with this provision should he have difficulty in planting or harvesting a normal crop.

Two managerial problems remain, however. One is related to the Bill, the other is external to it. The Bill-related problem is that, under conditions of inflation, devaluation, energy shortages, and unrealistic farm price expectations, the manager might find himself in a cost-price squeeze above the target levels. Remember, the escalation feature is only partial and is suspended altogether until the 1976 crop.

The external problem is greater price instability. This will force the manager to exert more effort in carrying out his marketing decisions. It will also affect the relative competitive position among farmers. Those with better managerial capacities and in a stronger financial position will likely fare better under uncertainty.

If market prices fall below target levels

Should market prices fall below target levels, the deficiency payment scheme becomes effective. Payments are limited to $20,000 per person, as defined by the Secretary of Agriculture.

If market price is below target, the Secretary is authorized, but not obligated, to establish acreage set-asides. If a set-aside is in effect, producers *must* set aside and devote to approved conservation uses an acreage of cropland equal to the specified percentage of their allotments to be eligible for loans, purchases, or payments. Cost-sharing for the control of erosion, insects, weeds, and rodents or for the establishment of wildlife food plots or habitat on set-asides is also authorized.

Thus, should market prices drop below target prices, the producer will have to weigh the costs and benefits of program compliance as he has done so often the past 20 years. The new disaster provision will further complicate his decisionmaking.

Projecting longer term price impacts

Many of the decisions a producer must make involve longer term investments such as land, improvement, machinery, and equipment. Thus, projecting long term prices for crops affected by the Farm Bill seems in order. The following are 5-year price projections of the Extension Farm Management staff (see Farm Prices Planning Guide, FM-25, for further detail): Corn—$1.35 to $1.50; Oats —70 to 75 cents; Barley—$1.10 to $1.20; Wheat—$1.90 to $2.10; and Soybeans—$3.60 to $4.00. These projections reflect the price floor that the present Bill provides while taking note of the influence of a likely strong export demand but with production expected to more adequately supply this demand after the 1974 crop.

The present surge in land values probably has been influenced to some extent by the substantially higher price floors provided by the Bill. However, it is likely that the more basic cause was optimism because of recent dramatic price rises and attempts to provide "employment" for machinery purchases which were partially spurred by tax considerations.

Implications for managers of livestockoriented businesses

Dairymen and sheep producers were the only livestock producers mentioned specifically in the Bill. The discussion will focus on three groups of livestock producers, namely, dairy and sheep producers, other livestock producers, and livestock producers in general.

Dairymen and sheep producers

For dairymen, the new Bill increases the minimum price support on manufactured milk to 80% of parity. It will revert to 75% in 1975. This provision will have little immediate impact. Milk shortages will likely keep prices well above this level into 1975.

Of more immediate concern and possible longrun benefit for dairymen is the provision requiring the Secretary to make a comprehensive study of the dairy import situation and to report to Congress by January 1, 1975. This is largely in response to the Flanigan Report which fostered the idea that overall U.S. exports could be increased sharply if freer trade were permitted. However, this plan would involve a large increase in dairy imports.

For sheep producers, the law extends the wool program for 4 years at existing support levels (72 cents/lb.) and authorizes a promotion program for wool.

Other livestock producers

For livestock producers, the new Bill will likely result in higher feed costs (as discussed later). However, it does open up for poultry, hog, and cattle producers a possibility that was not available previously. The old program applied only to storable commodities. The new deficiency payment scheme can be applied to any commodity. Therefore when livestock producers get into price problems, they could demand the same kind of price assurance as those who produce wheat and feed grains. The problem would be that of developing a plan which would be both acceptable to producers and workable administratively.

All livestock producers—feed and other costs and projected prices

Federal budget considerations will likely keep deficiency payments as low as possible. To do this, the government may take steps to keep market prices for crops above or as close to the target prices as possible. Thus, market conditions and the new Farm Bill both point toward higher feed costs than those of the past few years. Also, Market-oriented prices will likely result in more variable feed costs, Inflation, energy crises, etc. will tend to increase other operating, capital, and labor costs of livestock.

Rising and more variable input costs will make livestock pricing decisions and feed ration decisions more crucial to management success. With higher costs and more price variability, livestock producers will need higher prices or greater gross margins. Recent 5-year price projections made by the Extension Farm Management staff are as follows: Hog—$28 to $30 per cwt; Feeder pigs—$23 to $25 per head; Milk—$6.50 to $7.50 per cwt; Gross margins for finishing beef: Calves—$28 to $31 per cwt. gain; Yearlings—$32 to $35 per cwt. gain.

Implications for foreign trade

The Agricultural Act of 1973 continues to stress the importance of export markets to U.S. agriculture and, consequently, the importance of U.S. farm products being competitive in world markets. As with the two previous Agricultural Acts, the intent is to keep domestic market prices of the major commodities at or near world market prices, utilizing payments to farmers rather than high price supports as the major vehicle for supporting farm income.

The Act has also extended Public Law 480—The Food for Peace program. This extension permits the United States to continue to use its agricultural products to help meet the food import needs of developing countries on terms they can afford, to promote the economic development in the developing countries, and to develop commercial markets for U.S. farm products.

In addition, the Act provides for the Department of Agriculture to provide technical assistance to both exporters and importers of U.S. agricultural products. This technical assistance includes information about sources of supply, marketing practices, and trade regulations for U.S. farm products. The intent of this program of technical assistance is "to expand and expedite United States agricultural exports by private trading interests."

Finally, the Act requires that exporters report to the Secretary of Agriculture weekly on information related to export sales of wheat and wheat flour, feed grains, oil seeds, cotton, and any other products which the Secretary might designate. This provision is designed to prevent the reoccurrence of large sales of major agricultural commodities without the Department of Agriculture knowing about the magnitude of these sales such as occurred during the now much publicized sales of grains and soybeans to the Soviet Union in 1972. There are two provisions of the new Act which deal with agricultural imports. The Act authorizes and directs the Secretary of Agriculture to conduct a comprehensive study of the effects of increases in dairy imports on domestic dairy producers, handlers, processors and consumers. The study is to be completed by January 1, 1975. The new law also permits growing of crops which are not covered by price support programs and for which the U.S. is a net importer on set-aside acreage.

Of considerable importance to U.S. agricultural trade is the proposed Trade Reform Act of 1973 which is currently being discussed in the Congress. This proposed legislation would grant the President authority to conduct negotiations of U.S. trade policies in the context of the next round of multinational trade negotiations carried out under the auspices of the General Agreement on Tariffs and Trade (GATT). The proposed legislation would also give the President authority to take certain kinds of unilateral action to protect U.S. domestic economic and trade interests.

Congressional action on the proposed "Trade Reform Act of 1973" is at too early a stage to permit meaningful comment on the final content of this legislation. However, agriculture looms large in the U.S. trade picture and will be an important factor in any international trade negotiation. Therefore, those concerned with the importance of agricultural trade should follow closely the development of this legislation.

Implication for food prices

A central objective of the 1973 Act is to encourage rapid expansion in U.S. farm output. Additional quantities of food and fiber are being sought to meet export requirements, to replenish depleted commercial inventories, and to help check the rapid rise in food prices which has angered consumers all over the nation. During the 1960's and up until early 1973, food price increases at the consumer level approximated or even lagged behind price increases for all items in the Consumer Price Index. In early 1973, however, the Food Price Index began to take off, led by substantial price increases in meat. By August 1973, food prices were increasing at a rate equivalent to 20 percent per year while meat prices were increasing at a rate of about 40 percent.

The 1973 Agricultural Act will benefit consumers to the extent that the elimination of acreage controls and the production incentives implied by the target price concept are successful in stimulating more farm production in 1974-77. The current high level of open market prices for almost all farm products will insure some production response in coming years. Furthermore, the farm price and income protection features of the 1973 bill may have longer run output-increasing consequences by helping provide an attractive climate for agricultural investment and expansion. More production will clearly help to ease upward price pressures for food, but it probably will not directly result in many actual drops in food prices. In particular, if the 1973 Act helps increase the output of feed grains and wheat, then some easing of upward pressures on meat and bread products can be expected. However, the 1973 Act has no direct implications for prices and costs in the food processing and marketing sector.

The 1973 Act continues the trend begun in the early 1960's which increasingly divorces government farm income support from the level of open market prices. Price support payments under the voluntary acreage diversion and set-aside programs of the 1965 and 1970 farm bills were a step in this direction. The deficiency payment mechanism is a further step. For the U.S. citizen, this means that agricultural support, when needed, will come more from his income tax payment than from his food bill. Generally speaking, this shifts the relative burden of agricultural support away from low-income people and toward middle- and higher-income groups.

At the moment, approximately 1 to 2 percent of the federal budget can be attributed to agricultural support programs. This proportion has been falling for some time as federal budgets have grown and the level of agricultural support has remained relatively static. Unless the deficiency payment mechanism is given a severe test by rapidly plunging prices, the 1973 Act should be rather inexpensive for taxpayers since most price and income support payments under the old legislation are discontinued in this period of high prices.

The new law requires that exporters of wheat, feed grains, oilseeds, cotton, and some other products make weekly reports to the Secretary of Agriculture on export sales. (This move was prompted by the controversial Russian purchase of grain in 1973.) Consumers will benefit to the extent that such reporting promotes more orderly marketing and thereby reduces the risk of severe shortrun shortages and market uncertainty.

Rural conservation and environmental improvement

One of the difficulties of attaining conservation and environmental goals is that, for some practices, the benefits of the action accrue to the public at large while the costs are incident on a specific individual. For example under conditions of rising farm prices, a farmer has an economic incentive to drain marshes and wetlands in order to produce more crops.

The *benefits* of maintaining the wetlands as wildlife habitat are realized by the public at large. The *costs* of maintaining wetlands are borne by the farmer in terms of foregone income—the income he could realize if he drained the wetlands and increased his production. When this situation occurs, there is rationale for the public to compensate the landowner for maintaining wetlands. By this mechanism, both the landowner and the public can be "better off."

Title X of PL 93-86 provides for several means of providing compensation to farmers and landowners for practices which might not otherwise be carried out. The law provides for the establishment of long term contracts (for 3, 5, 10, or 25 years) for the Waterbank Program and for the Rural Environmental Conservation Program (RECP). Under the Waterbank Program, the landowner is compensated for keeping wetlands in their natural state. Under RECP, the landowner is given assistance in carrying out practices such as diking feedlots, terracing, and small flood control structures.

The new law also provides for the purchase by the federal government of perpetual easements for floodplain management, shorelands, and aquatic areas.

Provision is made in the law for multiyear set-aside contracts for establishing wildlife habitat. These contracts are restricted as a part of the program for wheat and feed grains for the years 1974-78, and contracts may not extend beyond the 1977 crop. Under these contracts, producers would be required to maintain a vegetative cover on the land, and grazing on these lands would be prohibited. Cost sharing for establishing the cover crop is to be provided.

Another provision under Title X is a forestry incentives program. Its purpose is to improve forest productivity of cutover and other understocked or nonstocked forest lands. This is basically a program of cost-sharing to tree planting for nonindustrial, private forest lands. Other productivity-increasing practices, such as thinning, are included.

To carry out the provisions of Title X, provision is made for the establishment of a state and national advisory board to be appointed by the Secretary of Agriculture.

Although the provisions of Title X may supplement the income of Minnesota farmers, it is important that this not be construed as the major economic effect or rationale of Title X. The important point is that it is designed to provide the farmer with economic incentives to carry out practices for which he may otherwise have little or no economic incentive.

Under conditions of high farm prices, there is reduced farmer incentive for many publicly desirable practices such as wetland preservation. If these practices are to be carried out, it is important that the public recognize that cost-sharing payments to farmers for such practices are incentives rather than income supplements. This is implicitly recognized in the law that payments for conservation and environmental practices are not included in the $20,000 payment limitation.

Another major environmentally related provision of PL 93-86 is under miscellaneous provision of Title VIII. Up to $1 million in each fiscal year is authorized for research to develop new wheat and feed grain varieties which are susceptible to more complete fertilization, which have improved resistance to disease, and which have enhanced conservation and environmental qualities. The intent is to increase production with less dependency on high rates of fertilizer and pesticides usage.

The new Farm Bill and the changing scene in agriculture

The changing setting in which U.S. agriculture operates has two important scenarios. The first is a short term one of perhaps 3 years duration which commenced during 1972 with the shift to a tighter supply-demand balance and higher prices for food and feed grains, soybeans, and meat and other livestock products. The second scenario is a longer term one during which the structural changes occuring within agriculture and between agriculture and other sectors of our economy are of overriding importance—on both the political and the economic front. The implications of the new farm bill could be quite different for each of these two scenarios.

The short term scenario commenced during the summer of 1972 and will probably have played out its major role by the end of the 1975 crop year. At least three major forces are of importance in this short term scenario. These include: (1) the curtailment, due to bad weather and a poor fish catch, in production of food and feed grains and of high protein fish meal. This resulted in major increases in the U.S. exports of grains and soybeans including major grain sales to the Soviet Union. (2) a major increase in demand for food products with high income elasticity (particularly in the United States, western Europe, and Japan) as affluent consumers increased their purchases of meat, cheese, and other livestock products with their high embodiment of feed grains and protein feeds; and (3) devaluations of the U.S. dollar which made U.S. grown food grains, feed grains, and soybeans a real bargain in Europe and Japan. As a consequence of these major developments in the short run scenario, the prices of wheat, feed grains, and soybeans soared to dizzy heights. So did the price of cattle and hogs, but these lasted for a shorter time. For the time period extending into 1975, market prices for most farm commodities will probably be well above the target prices set in the 1973 Farm Bill. This is probable even though U.S. farmers will be producing at top capacity, subject only to the possible shortages of some farm inputs including fertilizer and fuel. Thus in the short term scenario, the major provisions of the 1973 farm bill can be expected to be largely nonoperative.

A much different scenario can be depicted, however, further in the future. Over this longer period, the secular forces in agriculture can be expected to override the unusual events of 1972-75. Unleashing the agricultural production capacity, not only of the U.S. but of other major agricultural producing nations as well, probably will result in the rebuilding of inventory levels of farm commodities and a drifting to lower prices in response to larger commodity supplies and stocks. Only the occurrence of a prolonged energy shortage is likely to deter the eventual rebuilding of commodity stocks.

If commodity prices drift below target prices, the 1973 Farm Act will, of course, take on much greater significance. At the same time that an eventual decline from current commodity price levels is expected, the continuance of inflationary pressures and selective shortages of some key farm inputs can be expected to result in a cost-price squeeze for many U.S. farmers. This squeeze is expected even though farmers will likely continue to realize higher commodity prices than those prevailing during the 1960's and early 1970's. Higher prices for energy supplies promise to boost prices of fuel and nitrogen fertilizers to much higher levels than those of the early 1970's. In addition, it appears likely that land prices in Minnesota will follow their 13 percent increase of 1972 with an even higher increase in 1973. These developments, coupled with higher wage rates and higher prices for farm machinery and equipment, constitute an inflation-fed cost push of major proportions which promises to push the capital and cost structure for agriculture to much higher levels than those which prevailed before 1972. This could well evolve into a situation where farmers will regard the 1973 Farm Act as not adequately protective of farm income. A push for higher target prices coupled with a larger volume of production could result in attendent increases in farm program costs.

Relative to the longer term scenario, passage of the 1973 Farm Act is indicative of a continued capacity to effectively mount the political power to pass legislation desired by agricultural interests. At the same time, tighter constraints on large program payments reflect increased pressure from nonfarm Congressmen and their constituents to limit the size of income transfer payments to large farmers. The 1973 Farm Act provides another indication of a shifting political base from producer to consumer interests. This is the increased authorization for government financed domestic food assistance programs, including the food stamp program. To a great extent, the magnitude of this latter shift will be determined by the size of annual Congressional appropriations to finance such food assistance programs. It is apparent, however, that the proportion of the federal budget going to agricultural producers in the form of support payments will continue its decline through implementation of the 1973 Farm Act. At the same time, the proportion of expenditures going directly to consumers or consumer interests will increase under the authorizations of the 1973 Farm Act.

Thus, it is increasingly important that the general public becomes aware of the extent to which nonfarmers as well as farmers are the beneficiaries of 1973 Farm Act provisions.

This issue of *Minnesota Agricultural Economist* has nine authors representing several different areas of expertise. Several have appointments with the Agricultural Extension Service, University of Minnesota, and all are on the faculty of the Department of Agricultural and Applied Economics, University of Minnesota. W. W. Cochrane wrote the section "The Bill in perspective." In the section "Economic impact on Minnesota commercial agriculture," subsection "Implications for Minnesota commodities," R. P. Dahl wrote "Implications for wheat;" J. P. Houck wrote "Implications for feedgrains;" and M. K. Christiansen wrote "Implications for dairy products." K. H. Thomas and R. O. Hawkins wrote the subsection "Implications for foreign trade." The section "Implications for food prices" was written by J. P. Houck, and the section "Rural conservation and environmental improvement" was written by J. J. Waelti. W. B. Sundquist wrote the section "The new Farm Bill and the changing scene in agriculture."

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