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Food and Agricultural Policy In 1981: A Legislative Year

Willard W. Cochrane takes a broad look at U.S. food and agricultural developments and presents his views on policy measures needed in the years ahead in the April Minnesota Agricultural Economist. Over some 35 years Cochrane has been a student of United States and International Agriculture. He has also served in administrative positions in the U.S. Government as well as at the University of Minnesota. He has served as consultant and advisor to a number of national and international groups. Recently he was named Phi Kappa Phi Scholar of the Year of the University of Minnesota.

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The key provisions of the Food and Agricultural Act of 1977 expire in 1981. This makes passage of new food and agricultural policy legislation a political must in 1981. But, as we all know, 1980 is an election year. A new Administration could take office in 1981, there will be a new Congress with some new members, and should the Carter Administration be returned to office it will have a new political mandate. It might, therefore, be argued that these political changes will bring with them some sweeping changes in food and agricultural policy.

But this is not the way the policy changes occur. First, it is becoming exceedingly difficult to distinguish a Republican from a Democrat with respect to their voting positions on commodity farm programs and various food and nutrition programs; hence a change in administrations or in the political control of the Congress does not necessarily lead to a change in food and agricultural policies. Second, any administration that finds itself in office in 1981 will, to an important degree, be locked into the then current policy position. It cannot take overt actions to raise farm product prices, and ultimately food prices, without making consumers angry—and in terms of voters there are a lot of urban consumers. And it cannot let farm prices and incomes slide or it will incur the wrath of an important economic interest group. Each Administration, Democrat or Republican, employs all the political and economic skill that it can muster to keep farm incomes on a stable, upward path without "rocking the food price boat." This is not easily accomplished, but it is what present-day farm and food politics is all about.

But farm and food programs do change over time. They change, usually incrementally, as economic and technological relationships in the food and agricultural sector change. Economic and technological events and development largely determine food and agricultural policy and its program content. This article explores some of the important events and developments that have occurred in the food and agricultural sector in the 1970s and give promise of continuing into the 1980s, and then discusses the implications of those events and developments for the legislative process in 1981.

International Developments

Without question, the most important event impinging upon Americans in the 1970s has been the energy, or more specifically the petroleum, crisis. For America this has meant a growing dependence on foreign oil, a significant increase in the real price of crude oil since the mid-1970s, and physical shortages of gasoline. And there are no indications, as of 1980, that the petroleum crisis is being resolved in a satisfactory manner; with respect to oil supplies, the 1980s appear more perilous for Americans than the 1970s.

The worldwide petroleum crisis has several specific implications for American agriculture. First, it is causing the prices of nonfarm-produced inputs to rise at a rapid rate. Second, it is creating balance-of-payment problems for many countries, which will, in turn, give rise to pressures for food self-sufficiency within those countries. Third, this development, taken

Table 1. Pattern of world grain trade, annual averages for selected periods 1954-75, and annual data for 1976 and 1978 (net exports [+], net imports [-] in million metric tons)

Region	1954-56[a]	1968-70[b]	1972-73[b]	1976[b]	1978
U.S.A.	13	34	71	76	89
Canada	9	11	16	17	17
Western Europe	-21	-22	-20	-31	-15
Australia and New Zealand	3	9	7	12	9
Eastern Europe	-4	-6	-6	-12	-11
U.S.S.R.	2	6	-13	-7	-13
Africa	0	-7	-5	-8	-11
People's Republic of China	1	-4	-7	-4	-11
Japan	-4	-14	-19	-21	-24
Other Asia	-2	-9	-18	-19	-22
Latin America	2	5	-3	3	-2
Total exports of countries and regions listed above[c]	30	65	94	108	115
Total world exports	49[b]	100	129	146	161

Source: (Adapted from) U.S. Department of Agriculture

[a]Calendar year.

[b]Year beginning July 1 except 1960-62 and 1968-70 for Argentina, Brazil, Australia, and New Zealand for which year begins the following December or January.

[c]Total imports and total exports do not balance because of variations in reporting periods.

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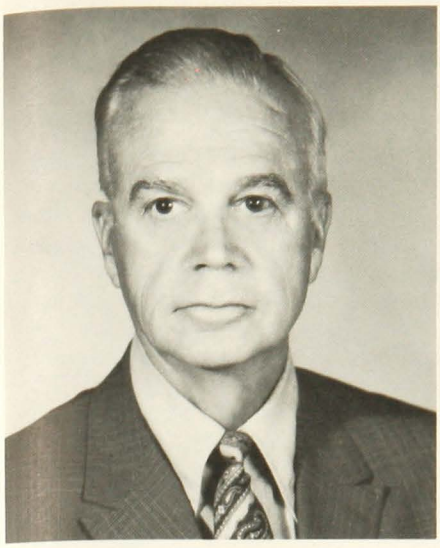

Willard W. Cochrane

with the possibility of the petroleum crisis inducing a worldwide depression, would reduce significantly the export demand for the grains and feed concentrates from the United States and cause the domestic price of grains to sag and come to rest on the level of price support. Fourth, the physical interruption of oil imports into the United States would play havoc with current production practices in agriculture, with the transport of agricultural products, and ultimately with the location of agricultural production.

The most important international development related specifically to American agriculture has been the growth of grain exports both absolutely and relatively. This great growth in grain exports from the mid-1950s to 1978 is apparent in table 1. The United States has become the dominant supplier of grain to the world market. In fact, without too much exaggeration, it can be said that the United States with Canada is the supply side of the world market.

The averages and regional aggregations in table 1 do, however, hide one important aspect of the international grain market, namely, the year-to-year variations in the import demand of individual countries, hence the fluctuations in the export demand of the United States. The variations in the grain import demands of individual countries are the result of two different kinds of phenomena, both unpredictable. The first is variations in the weather, hence in crop growing conditions. The second is changes in country trading and exchange rate policies. These shifts in the import demand for the grains by important importing countries influence the free supplies available to satisfy the remaining world demand, and given the extreme price inelasticity of the world demand for grain, those variations in free world supplies give rise to dramatic price responses in the world grain market. And since the United States is integrated so completely with the world grain market, those shifts in the import demand for grain by important importers give rise to wide, sharp, and unpredictable swings in the prices of the grains in the United States.

Domestic Developments

Farm input prices rose dramatically in the 1970s. And they give promise of continuing an upward surge in the 1980s. This dramatic increase in farm input prices occurred as a part of the general price inflation that is plaguing the United States and the world. This worldwide price inflation has many causes: large government deficits, rapid monetary expansion, the monopolistic practices of big business and big labor, a slowdown in resource productivity, and lastly, an inflation psychosis on the part of consumers and investors. Remedies taken in the United States and most other countries around the world to deal with this pernicious price inflation have been either inappropriate, or ineffectual, or both.

For much of the 1970s, the upsurging input prices have pressed against farm product prices and caught farmers in a price-cost squeeze. This has hurt all farmers, but it has caused many of the less efficient, financially weaker ones to fail and drop out of farming. The future would seem to pose more of the same: a wild race between input prices and product prices with the outcome uncertain, but a race in which the weaker, less able farmers are likely to fall by the wayside.

In the late 1960s and throughout most of the 1970s, there has been a slowdown in the rate of increase in crop yields, although crop yields took a significant upward jump in 1978 and 1979. Further, resource productivity has behaved erratically. Resource productivity held almost constant from 1965 to 1970,took a sharp upward jump between 1970 and 1971, declined somewhat between 1971 and 1974, took another substantial upward jump between 1974 and 1975, and then held constant again between 1975 and 1978. In short, farm technological advance and the resulting resource productivity has sputtered since 1965. In this uncertain situation, farmers generally and the more efficient farmers particularly, have not been able to depend on a sustained increase in productivity, hence a reduction in unit costs of production, to offset rising input prices. Consequently, the cost-price squeeze has had a more adverse effect on farmers in the 1970s than in earlier years.

The long term trend in the decline in the number of farms continued in the 1970s, and the concentration of productive resources in the hands of fewer and fewer and larger and larger farmers has continued. Thus, in 1978 some 7 percent of the farmers (or 187,000 farmers) grossing $100,000 or more per farm produced and marketed more than 56 percent of the total product of American agriculture; and some 21 percent of the farmers (or 577,000 farmers) grossing $40,000 or more per farm produced and marketed over 81 percent of the total product of American agriculture. Although the decline in numbers of farmers has slackened off in the 1970s, the concentration of productive resources in the hands of fewer farmers and larger farms continues at a rapid pace. Where this trend will end no one is willing to predict. But should it continue at the same pace throughout the next two decades, we might expect all the wheat farmers to meet in convention in Las Vegas and all the dairy farmers to meet in Miami in the year 2000, and there to agree upon and to adopt monopolistic practices limiting entry, fixing prices, and managing supplies. This would be a dark day for urban consumers if and when it occurs.

Concurrent with these other adverse developments, the transportation system for hauling heavy, bulky freight into and out of farming areas has deteriorated badly. The mainline railroad systems are, for the most part, in a state of financial crisis and the feeder lines are literally falling apart. And with the soaring prices of petroleum, the cost of truck transportation has risen significantly, causing truck transport to become an increasingly inefficient means for long-haul, heavy, bulky freight.

The farming sector is confronted with rapidly rising transportation costs, the increasing probability of costly delays in moving and handling farm products at harvest time and the possibility that the physical transport system in certain farming regions will collapse in some not too distant period. The magnificent transport system that once existed in the United States for handling long-haul, heavy, bulky freight is now in a state of disarray.

One other important domestic development needs to be recognized. It is the increased provision of, and purchase of, processed foods; the increased provision of, and purchase of, services built into food (including the ultimate, dining out);

and the increased provision of, and purchase of, junk foods. Whether this development is good or bad is debatable and the issue will not be resolved here. But this domestic development has several implications which should be explicitly noted. First, the increased purchase of processed foods and services incorporated into food does not represent an increased demand for farm products: it represents an increased demand for labor and capital employed in processing and marketing. Second, the nutritional status of American consumers has not improved with the increased consumption of processed foods –if anything, it has deteriorated. Third, the food processing and marketing part of the food and agricultural sector has grown in a value-added sense to the point where it is about six times the size of the farming sector; the food processing and marketing activity now dwarfs the farming activity.

Policy and Program Responses to International Developments

It is unlikely that the Food and Agricultural Act of 1981 will attempt to deal with energy shortages in any comprehensive manner. The energy issue transcends food and agriculture. But the Act could well set forth some principles for the Department of Energy's guidance in making fuel allocations to the food and agricultural sector. Certainly the question of fuel allocations to the agricultural sector in periods of scarcity will be on the minds of those responsible for formulating and enacting food and agricultural policy legislation in 1981.

But it seems highly likely that the food and agricultural legislation that is passed in 1981 will contain some specific provisions dealing with the production of alcohol for fuel. Those provisions could include: (1) various kinds of tax exemptions, (2) funds for making loans to farmers who wish to produce alcohol for fuel, and (3) a technical assistance program to help farmers get into alcohol production.

The larger issues of gasoline rationing, price controls on fuels of all kinds and the management of oil imports will be resolved in more comprehensive energy legislation only after the body politic pulls its collective head out of the sand and confronts those issues headon.

Whether the Congress moves to strengthen the grain reserve program in 1981 may well depend on events in 1980. If the world should experience a poor crop year for the grains in 1980–the second in a row–grain prices in world markets, and that means the United States market too, could shoot skyward as in 1972-1973. In that event Congress would probably enact legislation expanding and making more effective the existing grain reserve program. But, in such an event, 1981, and probably 1982 as well, would be the wrong time to seek to expand the existing program.

But, if 1980 turns out to be a good to exceptional crop year for the grains around the world, and grain prices begin to slide, then we might see Congress authorizing a program with greater stock capacity in an effort to bolster domestic grain prices. In such an event, the timing would be propitious.

But if the world crop is about average, then Congress, without strong leadership from the Administration, might elect to do nothing about the grain reserve issue. That would be unfortunate because in the unstable and uncertain world in which we live it is only a question of time until we (the world with the United States at the center of it) run into a serious grain surplus, or a grain shortage, with the inevitable dramatic price response. The year in which a world grain surplus, or shortage, will occur is unpredictable, but that one or the other or both of those conditions will occur in the next 10 years is predictable with a high degree of probability.

If we as a people are interested in maintaining a reasonable degree of grain price stability, hence food price stability, in our domestic market and at the same time remain a dependable, reliable supplier of grain to our regular foreign customers, we should take action now, or in the 1981 legislation, to render the existing grain reserve program more effective and thus enable us to achieve these objectives. This means taking three important policy steps in the 1981 legislation: (1) increasing the size of the grain reserve program program to give it the capacity to stabilize *world grain prices*–that is, doubling it in size, (2) gaining greater government control over stocks released from the reserve at the release and call prices to insure that those released stocks will not be used for speculative purposes, and (3) defining more clearly the range over which the United States seeks to stabilize world grain prices.

Such a program may seem overly ambitious, and certainly it would involve a substantial increase in government costs, but it is the only way that the United States can maintain an acceptable degree of price stability in its domestic market and a completely open link to the world market.

Policy and Program Responses to Domestic Developments

The upward push in farm input prices will in all likelihood, be translated into political pressure in 1981 to develop a formula for increasing loan rates and target prices more rapidly in the 1980s than was the case in the late 1970s. Loan rates should, if they are to be effective where resource productivity is lagging or constant, increase with the increase in farm input prices. But loan rates should not lead input prices, or the farm commodity programs will contribute to the general price inflation. And loan rates must stay close to the longrun world equilibrium prices for the export commodities or the United States will experience difficulty in moving export commodities into foreign markets.

The Administration will need to exhibit skilled but resolute leadership in working with Congress to develop a formula for setting commodity loan rates. If that leadership is not forthcoming Congress in its solicitude for farmers could raise commodity loan rates to levels that would fuel inflation and restrict exports. Such a development must be guarded against. But at the same time loan rates should provide a reasonable level of price support for a highly unstable industry. The task is not an easy one.

The issue of where to set target prices, and hence the magnitude of deficiency payments to crop farmers, will be much debated in 1981. Strong political pressures are sure to develop in Congress to raise the level of target prices and increase the size of the deficiency payments as means of helping farmers cope with rising input prices. But such a course of action can, and has, produced some unintended results. Deficiency payments are made to farmers on the basis of volume of production. Consequently the bulk of the deficiency payments has gone to the large, efficient farmers. This has contributed to the cash flow of the large, efficient farmers and thereby helped them acquire the productive assets of their less-efficient, laggard neighbors. In the name of helping the small- to medium-sized farmers, government payment programs have really helped the larger, aggressive, efficient farmers cannibalize their less able neighbors. Further, these payments have made some contribution to the upward spiral of farmland prices as they were used by their recipients to bid for nearby pieces of land to further enlarge their productive units.

Based on these arguments, and because total government payments to farmers run

close to $3 billion a year, we suggest that the concept of target prices and deficiency payments be eliminated in the food and agricultural regulation of 1981. Such a policy action would do two important things. First, it would reduce the federal budgetary deficit by a significant amount. Second, it would put an end to providing income assistance to the larger, efficient, aggressive farmers who have used that income assistance to put an end to their less-efficient, less-able neighbors.

Growing out of this discussion the question may be asked—is Congress likely to take any positive steps in 1981 to slow down or stop the concentration of productive resources in the hands of fewer farmers and the larger farmers? It might if Secretary Bergland can build a big enough bonfire under Congress in 1980 on this issue. But if the past is any guide to the future, the Congress is more likely to provide help for the larger, efficient, and vocal farmers and forget about the small- to medium-sized farmers who are at home struggling to stay in the business of farming.

There are numerous things that Congress could do to help the small- to medium-sized farmers if it were so inclined. It could eliminate numerous provisions in the federal tax code that provide an incentive for the big to become bigger (this action would, of course, not occur in agricultural legislation, but it could and should take place in revenue raising legislation). It could make, to small- to medium-sized farmers, deficiency or some other type payments, that were phased out when the gross returns of the recipient farmers reached $40,000 per year. It could greatly expand its loan and technical assistance to established farmers grossing less than $40,000 per year who lack access to capital, technical knowledge, and management skills. And it could initiate a program to help 1,000 young farm families get started in farming each year. Such a program would be concerned with selecting the young families with the requisite education and training, with helping them actually get started in farming by providing the necessary loans, or loan guarantees, and with providing them technical assistance for 5 to 10 years. All this would not come cheaply, but it need not cost any more than the existing deficiency payment programs, the latter of which by political design, provides income assistance primarily to the larger farmers who are on their way to becoming even larger.

The decline in resource productivity in the nonfarm economy has been the cause of much concern with respect to the future of real incomes in the United States, and the step-like pattern of increases in resource productivity—plateaus, quantum jumps, and then plateaus again—in agriculture has been the cause of much speculation about the future of the real cost of food in the United States and the world. Is the technological revolution in agriculture coming to an end? Or are we in some kind of technological transition? Or what really is happening?

One thing that we do know is that the amount of resources devoted to research and development in the agricultural production sciences has declined relatively in recent years, and possibly even absolutely. This is due in part to the fact that expenditures on research and development have not kept pace with inflation. But it is due more importantly to the fact that research and development resources have been stretched thin over a growing number of important problems: environmental problems, marketing and processing problems, international trade problems, and domestic economic problems. If Congress and the Administration are interested in stepping up the rate of technological advance in farming in the shortrun and sustaining that rate in the longrun, they must increase significantly the financial support for research and development in agriculture—and particularly in the agricultural production sciences. There is still a high degree of innovativeness and competitiveness in the agricultural research establishment, and, given the necessary resources, it has the capacity to turn out a steady stream of new and improved technologies. But it must have the resources: currently it is being starved of those resources. So, a high priority in the Food and Agricultural Act of 1981 must be a significant increase in the funding support for agricultural research and development—particularly in the production sciences.

Transportation has not received much attention in agricultural legislation since the turn of the century. But the continued deterioration in this system for hauling nonfarm produced inputs into farming areas and hauling heavy, bulky, and sometimes perishable farm products from surplus-producing areas to deficit-consuming areas has returned the subject of roads, railroads, and transport to the forefront of agricultural problems. Food and agricultural legislation in 1981 must concern itself with the heavy, bulky freight transport problem. But what to do?

We suggest that farm groups, agribusiness groups, and any other groups interested in the efficient movement of heavy bulky freight meet and agree to sponsor legislation in 1981 to rebuild and revitalize the railroad system of the United States and to fully integrate that system with the internal water transport and ocean-going transport systems. This could mean: (1) nationalizing of the main railroad lines, (2) planning and designing of an efficient national railroad system, (3) undertaking a major public works program comparable to the building of the interstate freeway system to build, rebuild, and maintain the mainline railroad roadbeds, (4) leasing of those mainline roadbeds to private companies to operate for profit, but in accord with desired performance standards, and (5) turning over feeder lines for ownership and operation to local agencies—private, cooperative, or governmental.

There may be better directions in which to move, but two points need to be made in this connection. First, the problem is not likely to be solved through private business initiative: the problem is too large and the costs are too great. The solution will require the best efforts of the federal government. Second, the further subsidization of truck transportation is not a solution. Such a course of action can only lead to a high-cost, inefficient transportation system for long-haul, heavy, bulky freight.

So once again farmers must take the initiative in dealing with a national transportation problem. But once again, because of the huge size of the problem, farmers will be required to work with and through the federal government.

Most Americans are well fed in terms of calories: hunger is not a real problem in the United States. But malnutrition is a problem among the rich as well as the poor. The increased purchase of processed food and the increased purchase of services incorporated into food has not operated to reduce the malnutrition problem, and the increased consumption of junk food, especially among children and young people, has exacerbated the problem. The plain fact is that most Americans, rich and poor, do not know what constitutes good nutrition.

The scientific basis of good human nutrition is thin, with great blank spaces in that knowledge base. The working knowledge of consumers is also thin, compounded by much erroneous information. And the food processing industry, which could make an important contribution to improved nutrition very often fails to exploit the opportunities to improve the nutrition of American consumers, young and old, rich and poor, in the interest of a fast buck.

There will be pressure from consumer groups and nutritionists in 1981 to increase the funding support for research on human nutrition and for nutrition education. Where the food processing and service industry will come down on such legislation is not clear. It will probably give half-hearted support to increased funding for nutrition research, be wary of efforts to improve nutrition education, and fight any efforts to regulate food advertising directed toward children. In this context, we may see some increased funding support for human nutrition research in 1981, but little else unless the consumer lobby has more clout in 1981 than it has had in the past. Most Americans seem content to remain in a state of nutritional ignorance, as long as their stomachs are filled with "Coke," "Twinkies," and an occasional hamburger.

Some Concluding Thoughts

Past economic and technological developments and current events will influence importantly the shape and direction of food and agricultural policy legislation in 1981. But developments and events do not influence legislation in a political vacuum. They influence legislation by generating interest groups which in turn pressure legislators to take political action in support of the objectives of the concerned interest groups. Specific policies and programs then emerge in the form of legislation out of the interactions, conflicts, and compromises of concerned interest groups operating through their elected representatives.

In these political struggles, the arena of which at the federal level is usually Congress, political leadership plays an important role. The emergence of a policy leader with political skills and a good working knowledge of the issue, or problem area, is often able to harness the diverse interest groups involved and to effect compromises among the conflicting interest groups involved in ways that facilitate the formation of policies that can effectively resolve an issue or solve a problem. In the United States, this leadership is usually provided, if it is in fact provided, by the President and close lieutenants. Where this leadership is not forthcoming on the American scene, the policy formulation process bogs down in bickering and strife and new, needed policy initiatives are not taken.

To summarize, some important developments have been taking place in the food and agricultural sector in the past decade. And unpredictable events, such as the Soviet grain embargo, will continue to occur. The interest groups are in place and operating; they are already preparing for the 1981 legislative year. The policy jungle is alive with these varied and diverse interest groups. Given this context, if some new, improved, and effective policy initiatives are to be forged in 1981, the Administration that takes office in 1981 will have to provide some wise, skilled, and resolute leadership in the broad area of food and agriculture. Without that strong leadership the policy steps taken in 1981 with respect to food and agriculture will be halting and hesitant, and the policy gains will be incremental to infinitesimal.

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