ISSUES RAISED BY THE 1973 FARM BILL

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MAJOR FEATURES OF THE BILL

The 1973 farm bill has these major features:

THE TARGET PRICE PRINCIPLE. For the next four years, the following prices are established as objectives: wheat, $2.05 per bushel; corn, $1.38 per bushel; and cotton, $0.38 per pound. These prices are to be adjusted for the 1976 and 1977 crops in accordance with changes in the index of prices paid by farmers, modified for changes in yield per acre.

DEFICIENCY PAYMENTS. National average prices received by farmers for these crops for the first five months of the marketing year will be determined. If these prices fall short of the target price, the difference will be paid by the government, based on normal yields on allotment acreages. If the market price is above the target price, no payment will be made.

LOAN LEVELS. Loans will be available to all farmers who cooperate in the program at the following minimum national average levels: wheat, $1.37 per bushel; corn, $1.10 per bushel; and cotton, $0.25 per pound. Loans can be higher under specified conditions, at the discretion of the Secretary, and cotton can be lower if the world price for American cotton is below 25 cents next August 1.

PRODUCTION ADJUSTMENT. At the option of the Secretary of Agriculture, farmers who wish to receive the benefits of the program may be required to set aside a certain acreage. Thus resource adjustment is retained, on a discretionary basis. The Secretary has already stated that for the 1974 crops of wheat, feed grains, and cotton there will be no planting limitations.

PAYMENT LIMITATIONS. Payments under this program will be limited to $20,000 per person.

There are other important features in the legislation, but these are the major ones.

ISSUES RESOLVED BY THE BILL

Before dealing with issues *raised* by the new legislation, I wish to comment on issues that appear to have been *resolved,* or at least suspended, by the new farm law.

MARKET ORIENTATION. The bill moves us farther toward full competitiveness in world markets for these major export corps. This move began in 1965, was extended in 1970, and now reaches almost full effectiveness. Our long practice of holding U.S. prices above competitive world levels, and shrinking our production to do so, appears to be suspended. We now have adopted the policy of being competitive in world markets for these commodities, using our productive capacity to export these crops and to earn the foreign exchange necessary to purchase needed imports and to strengthen the dollar.

ABANDONMENT OF PARITY. Price targets in this legislation are specific dollar figures. Parity is no longer a goal. Friends and foes of parity have allowed the concept to expire in silence, the former out of grief and the latter out of charity.

PAYMENT LIMITS. Beginning with the adoption of the payment principle in 1965, it became clear that the major benefits of the commodity programs were going to the operators of the larger farms, whose incomes were already above average levels for both farm and nonfarm people. Limitation of these payments has been an issue for many years. In 1970, a payment limitation was first imposed, at $55,000 per crop. In the new legislation the limitation is set at $20,000 per person. The principle of a limitation on income supplements is now clearly established.

ISSUES RAISED BY THE BILL

I shall treat the issues raised by the 1973 farm bill in two categories: (1) those that will arise if market prices fall below the target levels and (2) those that will arise if market prices stay above target levels.

All people, including the Congressmen who wrote the farm bill, have been astounded at the price strength of recent months. Economists were not able to anticipate this strength. Usually hindsight is 20-20, but not in this case. Even in looking back, economists were not able to explain the upsurge. One view is that there is a desire to upgrade diets in the developed countries, and that the less-developed countries, beset with increasing populations, face a new Malthusian threat.

But farmers recall hearing similar comments during the "Fifth Plate" days of the early postwar period, and also "New Era" talk during the world food scare of the mid-sixties. In each case, the strong prices proved temporary, and fell thereafter. So there is some doubt whether the recent past is the new normal. We consider, therefore, what issues might arise from the new legislation if high prices prove to be temporary.

Issues That Will Arise If Market Prices Fall Below Target Levels

1. NOW THAT WE HAVE A TECHNIQUE (DEFICIENCY PAYMENTS) THAT CAN BE USED FOR ANY PRODUCT, NOT JUST STORABLE PRODUCTS, WILL PRICE GUARANTEES BE EXTENDED TO MEAT ANIMALS, POULTRY, FRUIT, VEGETABLES, AND OTHER PRODUCTS HITHERTO NOT INVOLVED IN COMMODITY PROGRAMS?

So long as the major technique for commodity programs was price support through nonrecourse loans and storage programs, no real help could be given to the perishable products, which bring in more than half the farm income. But the payment principle can be adapted to everything. When producers of hogs or potatoes get into price problems, will they demand the same kind of price assurance now enjoyed by those who produce feed grains, wheat, and cotton? The historic position has been to recognize these claims on the basis of equity but to deny assistance because the available tools could not be adapted to their situation. The demand for government assistance, long limited to producers of storable commodities, could now be extended across the board. How these demands will be handled is a major unresolved issue.

2. MIGHT COSTS BECOME EXCESSIVE?

The Department of Agriculture, in response to a request from the Congress, estimated that an early version of the farm bill might, under what were considered reasonable assumptions, cost about twice as much as present programs. The bill was modified to make it less costly. But a price guarantee running four years into the future might turn out to be expensive. If it does, would an urban-minded Congress continue to vote farm commodity programs? Time alone will reveal whether this will become an issue.

3. HOW COULD WE MEET THE ARGUMENT IN INTERNATIONAL TRADE NEGOTIATIONS THAT WE ARE SUBSIDIZING EXPORTS?

Deficiency payments, or whatever they are called, are an incentive to production. As the bill reads, payments apply both to the exported and the domestically consumed part of the crop. This is different from the 1970 bill, which limited payments to the domestically consumed portion.

One of our chief complaints about other countries is that they subsidize their agriculture, overstimulate the farm plant, and then push the excess supply into world markets on a subsidized basis. If farm prices drop and if deficiency payments become large, we ourselves will be charged with this offense. This could be an embarrassing charge in international trade negotiations that are soon to start and will no doubt extend over a period of years.

Issues That Will Arise If Prices Stay High

So much for the issues that may arise in the event that farm prices would fall below target levels.

What would happen if they do not? Suppose that some combination of events—the new affluence, the spectre of Malthusianism, poor crops, inflation, devaluation, scarce supplies of fuel and fertilizer—should hold market prices above the target levels specified in the bill. This seems likely at least for the 1974 crop. Futures markets now quote prices for the 1974 crops of wheat, corn, and cotton. These prices as quoted September 13, 1973, are all above the targets:

	Target Price	Future Price
Wheat, per bushel	$2.05	$4.08 (July 1974)
Corn, per bushel	1.38	2.13 (December 1974)
Cotton, per pound	0.38	0.54 (December 1974)

One might surmise that if market prices would stay above the target price, goals would be reached, problems would dissolve, and issues would disappear. Farm programs would experience an unintended self-imposed painless euthanasia.

But on reflection, such might not be the case.

1. WHAT MIGHT BE DONE TO ENCOURAGE PRICE STABILITY?

As a result of worldwide inflation and devaluation of the dollar, the whole level of prices might move up, prices paid by farmers as well as prices received by them. Prices of wheat and corn and cotton might be above target levels, but farm costs might also have risen sharply. The escalation feature is only partial, and is suspended altogether until the 1976 crop. The point is that before the four-year term of the farm law has expired, farmers might be in trouble at prices above the target levels.

The argument goes this way: With the passage of time farmers buy a larger and larger share of their inputs. Presently they buy 62 percent. There is very little cushion; farmers cannot ride out a squeeze by paying themselves a lower wage and deferring upkeep to the degree that was once possible. Thus they are very vulnerable to price fluctuation.

And price fluctuations, in a competitive market, seem likely to be larger than previously. In the developed countries food takes a smaller and smaller share of the consumer's budget. All the evidence is that a given change in supply is accompanied by a larger change in price than hitherto.

If inflation should carry us above the target price levels, we would be virtually without a program. What should we do then? Reconcile ourselves to the absence of a program? Increase the loan rate, as authorized by law, and pick up grain and cotton in Commodity Credit Corporation inventory? Call for a set aside and go back to production controls? This would become an issue.

2. WHAT WOULD WE DO FOR STOCKS?

I use the word "stocks" deliberately because it has a neutral connotation. The commendatory word is "reserves"; the derogatory word is "surplus."

The new legislation provides that stocks of the specified commodities, in token amounts only, may be built up *by the price-support operation.*

There has been endless controversy about government stocks. The arguments against them are familiar: They are costly to carry, they depress the market, and they make production controls necessary. But the arguments for them are also well known: They were good to have when the 1972 world crop was short. They were good to have in the mid-sixties, when there was a disastrous drought on the Asian subcontinent. Had stocks been available, the price of wheat would not have doubled between July 10 and August 13 of this year, and then dropped 15 percent in three days, fluctuations that did little good for anyone. It might be good to have some stocks in the years ahead, particularly as we become more deeply committed to serving the needs of our overseas buyers. You do not do well in business if you have to tell your customer you are fresh out.

Six times in the last forty-five years we have built up government stocks. All of these stocks were accumulated under programs of price support through storage—a technique we are now de-emphasizing. Six times we have liquidated these stocks. They were liquidated hurtfully once, in the depth of the depression, but five times helpfully, during: the droughts of the thirties, the needs of World War II, the Korean War, the food crisis in India, and most recently the 1972 shortfall in world food production.

If events should develop, under the act of 1973, so that we do not accumulate government stocks, does it follow that the private trade would carry sufficient supplies? Or that importing countries would build reserves?

If we do not have government stocks, how shall we operate Public Law 480? Or should it be abandoned? This law was written almost twenty years ago to move surplus stocks. It has become used as an arm of our foreign policy, as a means of assisting friendly countries for diplomatic reasons. Would it be good for this undertaking to lapse?

In the past government acquired stocks unintentionally through the price-support operation; we worried about them and sighed in relief when they moved out. Under the new farm bill if prices are above loan levels, we might not acquire stocks. We would then have to decide, through the public processes, whether it would be good to have some stocks. If so, how much? How acquired? How managed? How released? This will be an issue. In the debate on the 1973 farm bill the Congress rejected the idea of government stocks of grain in anything more than a token amount. But the idea is not dead.

The new farm legislation shelves certain issues and raises others. At least it changes the farm policy agenda, and after forty years that is probably a good thing. Those of us who work in the farm policy field will find that some of the old issues are irrelevant and that new ones have arisen.

My counsel to the professor who teaches a farm policy course is that he throw away his old notes and start out anew. That is a good idea in most cases anyway, and this year is an especially good one for making the change.

PART V

New Policy Perspectives and Dimensions