TOWARD A MORE MARKET-ORIENTED AGRICULTURE

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Upon acceptance of the invitation to speak on this subject, I reread one of Galbraith's famous caricatures, "Economic Preconceptions and the Farm Policy," together with his 1956 review of Benedict's book.[1] At that time he referred to our professional role as one of "neglected scolds" and called agricultural economists "a nullity as far as agricultural policy is concerned." Our profession has somehow survived Galbraith's caricature, even if we have not quite lived it down.

The consistency with which Galbraith has exorcised the competitive model, together with the persistence of farm programs not unlike those under siege a dozen years ago, suggests that his gooseberry be reconsidered if only for its purgative powers. Galbraith cited the "remarkable divergence between the weight of scholarly recommendation and the course of political action" in farm policy, and was able to adduce from the Farm Foundation's famous study of 1952, *Turning the Searchlight on Farm Policy,* and other landmarks considerable evidence of this divergence. Subsequent studies have underlined this divergence. The question then is not whether agricultural economists have been continuously critical of the programs —they have been—but whether this has been due to their "predilections for a cause," as Galbraith asserted.

The question merits serious consideration. Agricultural economists have been reciting essentially the same obloquy of farm programs as were then being offered, and the Food and Fiber Commission report is reminiscent of the case then against the policy of the day. Have we acquired new and better evidence favoring a market orientation? Have the programs altered significantly in that direction? Has the the situation itself changed sufficiently to warrant different policies, or to strengthen or weaken the case for market orientation? We shall not, I fear, find hard and fast answers to such questions; but perhaps we may find some clues in a brief review of

[1]J. K. Galbraith, "Economic Preconceptions and the Farm Policy," *American Economic Review,* Vol. XLV, No. 1, March 1954; Review of Murray R. Benedict, *Can We Solve the Farm Problem?* in *Journal of Farm Economics,* Vol. XXXVII, No. 3, August 1956.

the 1954 statement (and criticism) of the case against the policies.

ALLOCATIVE EFFICIENCY

The first stricture pertains to allocative efficiency, within agriculture and between agriculture and the rest of the economy. Galbraith rightly stressed the seeming perversity of labor's response to relative rewards in agricultural and nonagricultural pursuits. This has more recently been cited by Tweeten[2] as a reason for widespread demurral from program dismantling, although he seemed surprised to encounter some evidence that migration from the farm had been as great or greater under the existing programs as under simulated free markets.[3] One line of evidence which has been successfully pursued since 1954 deals with the *distribution* of program benefits. With the increasing tendency toward and recognition of the existence of two agricultures (commercial and noncommercial) have come two major modifications in the argument then presented. First, the labor supply response seems not as perverse when the heavy migration of nonbeneficiaries of programs is recognized; and second, much emphasis is being placed upon the perverse welfare effects, within agriculture, of the programs themselves—a criticism which was not prominent enough at the time to receive mention.

But the major amendment which now has to be made to Galbraith's rebuttal of the allocative criticism stems from our accumulated experience with the commodity programs. Whereas he relied upon his observation of a "broad tendency for support prices to be effective (only) during times of low aggregate demand or depression," we now know that prices have rested upon supports during periods of high prosperity, and we cannot be content (if ever we could) with his summary dismissal of Schultz's argument regarding allocative efficiency.

LONG-RUN EFFECTS

The orthodox viewpoint was also sharply criticized for its failure to take into account price expectations in production response, citing such evidence as we at Minnesota had developed for potatoes and that developed at Kentucky for tobacco. Clearly the firmness of price expectations has prompted some desirable shifts in resource use, both functionally and geographically. The flow of capital into agriculture

[2] Luther G. Tweeten, "Commodity Programs for Agriculture," in *Agricultural Policy: A Review of Programs and Needs,* National Advisory Commission on Food and Fiber, Technical Papers, Vol. V, August 1967.

[3] F. H. Tyner and Luther G. Tweeten, "Simulation as a Method of Appraising Farm Programs," *American Journal of Agricultural Economics,* Vol. 50, No. 1, February 1968.

and the attendant spectacular increases in productivity have undoubtedly been stimulated in some degree by considerations similar to those which hastened the relocation and restructuring of potato production.

In the circumstances, however, this has been a very mixed blessing. It might suffice, if merely meeting the defense were involved, to cite subsequent developments in potatoes and tobacco—the only two studies cited by Galbraith. The tobacco program, which has been continued, has become a textbook example of institutionalized unearned increment. Instead of taxing it away, as Henry George advocated, the reverse is accomplished by the program in artificially enhancing the site value of lands endowed with tobacco allotments. The potato program, in contrast, was abandoned for lack of votes, and the industry has developed several of its own stabilizing devices.

Land for crop production generally is not a scarce resource, yet it has been enhanced in value and reduced in availability by commodity programs. A corollary has been that too much of the scarce resources, capital and labor, has been attracted to or trapped in crop production. The so-called long-run benefits of short-run monopolization might well have materialized had the monopolization been short run, but we have tended to let go of only the bears' tails that could not be held politically, which means that we still have hold of most of them. Paradoxically, the validity of the 1954 defense of the policies was largely contingent upon their curtailment—had they been phased out then we might have been able to conclude that they had induced salutary production response by reducing uncertainty. Unfortunately, in today's perspective such results appear serendipitous.

TRADE POLICY

The remaining major grounds for criticism of the policies—their inconsistency with a liberal trade program—met the feeblest retort, and it is this area in which events have treated Galbraith most harshly. He ignored such commodities as wool, dairy products, and sugar, while vindicating the commodity programs for feed grains and wheat on the grounds that they did not significantly restrict *imports* of feed grains and wheat. That they would significantly restrict *exports* of these items, which has since become apparent, seemingly did not occur to him. And he was silent regarding the umbrella effects of our two major price-support operations, for cotton and wheat. Galbraith ignored the cost to American consumers of import restrictions against the commodities that we produce inefficiently, and missed the point completely regarding the commodities that we produce efficiently.

When we ratified the International Grains Agreement recently, we again chose artificial markets at home in preference to real markets abroad. The basic incompatibility between our trade and agricultural policies, although it has been somewhat diminished over the years, was never more manifest than in these recent negotiations. The administration position that higher world prices for wheat would be in our wheat growers' interests adumbrated a return to stockpiling and production restrictions, and yet another round of self-fulfilling prophecies.

ADDITIONAL EVIDENCE AND PROGRAM CHANGES

Several studies have undertaken to assess the price and income consequences of varying degrees of program abandonment. They have been admirably summarized by Tweeten in his paper for the National Advisory Commission on Food and Fiber. These studies have rather uniformly suggested that major program removal would be quite costly to agriculture. There are certain limitations and qualifications to this set of studies, however, which mitigate the gloom. Their conclusions are heavily dependent upon major assumptions regarding demand elasticities and, particularly, production responses, in regard to which we are admittedly possessed of empty or partially filled boxes.

That we are likely to err on the side of pessimism if we are wrong in these regards may be implicit in the extent and rapidity of the transformation already witnessed in the food and fiber segment. These studies also tend to be highly aggregative, thus obscuring the highly particularized response that really occurs. Moreover, the focus upon price and income effects to farmers makes these estimates seem more ominous than they really are. There are numerous programs that society could afford to buy its way out of, even at prices which seem high when expressed in terms of the incomes of a few and without loss of income to those few. Unfortunately and unintentionally, the estimates of which I speak tend once again to polarize the issue: between what we have had in the way of programs and no program at all. This neglects both the concept of phasing out programs and the more important concept of a program of market orientation, to which I shall return.

Without for a moment disparaging the efforts to measure program costs or benefits, I should like to illustrate possible pitfalls which lie in this path by commenting briefly on the recent study by Tyner and Tweeten, in which they applied the simulation method to the 1930-60 period. They first simulated the actual agricultural sector, then simulated it without major government programs, with results which again suggest that farm incomes have been considerably higher than they would have been without the programs.

My serious reservations concerning these results are based upon the following: The estimated gross farm income derived from Simulation I (reflecting "the ability of the model to predict what has already occurred") is a good deal higher than the actual GFI (the model underestimates GFI in eight years and overestimates it in twenty-three years). For the entire period the first simulation overestimates GFI by 8 percent, which is more than the 7 percent difference between Simulation I (of the actual) and Simulation II (of the "free market"). And whereas attention will naturally focus upon the statement that "gross farm income for 1951-60 averaged 13 percent lower (without government programs)," this ignores the fact that the actual gross farm income averaged 17 percent lower than that estimated for the 1930-40 period *with* government programs.

Does this suggest that the simulation model substantially overestimates the influence of government programs? I think that it does, for the reason that this influence is measured by the essentially additive inputs (or pre-inputs) of government payments, government commodity diversions, and acreage diversions.

The relationships among the many other variables are quite complex, and the influence of individual variables may be partially obscured, with the result that the importance of these more straightforward variables is relatively exaggerated. The fact that the seven-year continuous period (1947-53) during which the model underestimated gross farm income was a period of high prices and relatively ineffective and inactive programs, underscores my suspicion that the model overestimates the effects of government programs. Yet again, it was precisely at the end of this period that Galbraith published his excoriation of program critics. If he had to be wrong, he could not have picked a better time to be wrong.

During the past decade or so it is also true that several program adjustments have achieved a closer market orientation than existed under prior programs. Prominent among these have been the PIK program for wheat export subsidization, the present cotton program, the present feed grain program, and the present wheat program. In short, and despite such features as the wheat marketing certificate, the programs for our major crops have a closer market orientation than they had a decade ago.

More recently, the National Food and Fiber Commission, if it did not chart the course, did at least obtain a remarkable unanimity on the desirability of a market orientation for the food and fiber industries.

THE PRESENT SETTING

In addition to those aspects already mentioned—of better evidence, changed conditions, improved programs, and a unanimous commission recommendation—there is much in the larger setting which augurs movement toward a market orientation. Agricultural policy has been the focal point of the policy climate for some four decades, and commodity price supports the cornerstone of agricultural policy; but it has become increasingly clear that this is a wrong focus and a weak cornerstone. Agriculture is but one segment of an increasingly integrated industry. The singling out of this segment for special policy treatment has rapidly lost its economic justification and appears destined to lose its political appeal.

Commodity price supports as a cornerstone of agricultural policy have been rationalized in terms of low farm incomes, yet the incomes which bring the average down are not appreciably affected by these programs. Meanwhile millions of the rural poor, whose plight was not alleviated by these programs, have migrated to the cities, and the white continues to flake off of the sepulcher. Agricultural policy as a focal point of food industry policy loses merit as the industry becomes more integrated, and loses force as farmers dwindle in number. The food industry today is largely an urban industry, just as society is a dominantly urban society.

There are many reasons to doubt whether massive subsidies in the form of commodity programs can long be sustained, not least among which is a reorientation of our thinking about the structure and composition of American society. For example, the Negro population of America is much larger than the farm population. The number of urban poor, by any standard, exceeds the number of rural poor. The number of college students exceeds the number of workers engaged in agriculture. The list could be greatly extended, but it already illustrates some changed dimensions which are bound to impinge upon our view of agricultural programs. Change in agriculture has been breathtaking—man hour productivity has risen faster than in any other industrial segment. Yet the North Central Farm Management Research Committee calculates that equilibrium adjustment in 1980 would require an average farm size of 1,200 acres in that region, compared with 314 acres in 1959. At the same time, less total capital and much less labor will be required to operate these farms efficiently. Policies which impede the inevitable adjustment may not much longer be tolerated in view of changes already apparent in the underlying social, political, and economic structure.

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The major policy criticisms which would be widely agreed upon today are somewhat different from those that were being stressed fifteen years ago. These criticisms do not comprise a complete policy guide by any means, but they provide hints for constructive remodeling.

1. There is general recognition of the highly regressive impact of commodity programs upon farmers' incomes.
2. There is ample evidence of program benefits having been capitalized into land values, and of the corollary accretions to net worth that are not measured in farm income.
3. There are demonstrable instances of products being priced out of markets, encouraging production elsewhere or of substitutes, under doubtful or unknown comparative advantages.
4. There is a vast segment of commercial agriculture, the exact dimensions of which are unspecified, which there is good reason to believe is viable under a market orientation.

None of the foregoing direct or implied condemnations of the policy was mentioned by Galbraith, whereas the criticisms which he catalogued have acquired more force with the passage of time.

Certain implications are clear:

1. The welfare argument for commodity programs has been all but completely eroded. Welfare programs should be geared to *persons,* not to *farmers,* and certainly not to producers of specified *commodities.*
2. Farmland is an overvalued plentiful resource. Any program which contemplates a once-and-for-all compensated deflation of land values is in the public interest.
3. Programs which incorporate the negotiability of allotments or other institutionalized production rights comprise a market-oriented step toward greater efficiency. This approach has been recommended by economists for many years and has been strongly endorsed by the National Food and Fiber Commission.
4. Better information on the key questions of export elasticities and production response is still required.

5. Continuing opportunities exist to obtain good bargains through buying our way out of certain programs, such as in the proposals outlined in Volume VI of the Technical Papers, National Food and Fiber Commission.

The basic reforms which are required, however, are matters of attitude and approach. We still speak of farm policy in the face of a crying need for a food and fiber industry policy. We speak of the farmer's share of the food dollar as though it were a meaningful concept.

We also tend to regard public policy and market orientation as *alternatives*. The market is neither myth nor shrine. It is a man-made form of organizing economic activity, which as such is the outgrowth of deliberate policies. Programs and government action are required if a closer market orientation is to be achieved. We speak of program dismantling or phasing out as though no program at all were required to achieve a market orientation. In this day and age, talk of turning all our problems over to free enterprise is somewhat reminiscent of the statement about "unleashing Chiang Kai-Shek." Our major social problems will not be solved by a mere unleashing of free enterprise to do the job. But they will only be aggravated by *wrong* public policies. In suggesting that a greater market orientation is a right public policy, I would not want to be understood as saying that government programs are unnecessary.

Indeed the major hazard which I see confronting our present opportunity for improved policy lies in the dog-in-the-manger attitude which views positive programs as mere threats to the status quo. We can foresee, with considerable apprehension, the day when the farm bloc will lose an important vote. Many elements of the present situation point toward that inevitability. Who would delight to see the programs then crumble like a house of cards, given the present opportunity for strengthening and rebuilding? Yet this is the real prospect which must be faced. The divergence of which Galbraith wrote has been narrowed, not so much because the orthodox analysis has gained new adherents, but because the political power to sustain the programs has been eroded. It is against this new perspective that positive programs toward a market orientation must be developed.