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**FOOD AND AGRICULTURAL POLICY:  
THE UPCOMING DEBATE**

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**Introduction**

The Food and Agricultural Act of 1977 expires in 1981. The debate on legislation for 1981 is underway and will intensify as we move into the year. Its outcome is unpredictable. Events in the early 1970s caused a broad spectrum of consumer and other groups to intensify their interest in food and agricultural policy. While many of these groups have been dormant in recent years, others have remained active and all can be expected to play a role in the new debate. Farmers and agricultural businesses, while important and powerful, no longer dominate in the food and agricultural policy arena.

But how will attitudes be reflected in the legislative process? Now that the election is over and the administration will change, it might be assumed that there will be redirection in policy thrust. This, however, is not likely to be the case. The Campaign did not indicate that food and agricultural policy is a major partisan issue. Rather, a broad spectrum of often conflicting interests will exert pressure on representatives of both parties to influence legislation. The attitudes that various groups bring to the debate will be influenced both by perceived record of the effectiveness of past programs and emerging economic conditions that affect them directly. Consumer involvement, for example, will be conditioned by rates of food price inflation. Farm groups will respond to existing and expected price conditions, both in commodity and input markets. In any event, Congress will take the lead in formulating new legislation.

**The Economic Environment**

Several important elements in the economic environment will affect the outcome of upcoming legislation. Crucial among these is foreign markets. Worldwide food balances changed dramatically during the past decade and change continues. During the 1950s and

1960s, the United States and many other industrial countries were plagued with farm surpluses. In the early 1970s, sharply reduced production in many parts of the world resulted in a relative worldwide shortage of basic commodities and rapid increases in prices. In our preoccupation with the short-term effects of a poor crop and the weather-induced shortage, an underlying phenomenon was occurring that went unnoticed. A shift in the rates of growth of demand and supply for agricultural products was underway. Demand growth was particularly important in Communist and middle-income developing countries. The backlog of technology that had supported rapid increases in production in industrial countries was being used up, and rates of production growth slowed. In addition, there had been no expansion in crop acreage in Russia, East European Communist countries, or any of the overseas industrial countries of the world. Some expansion had occurred in developing countries but this was not sufficient to cope with the underlying needs due to population and income growth.

These changes stimulated tremendous growth in U.S. agricultural exports from \$8.0 billion in 1971 to an estimated \$37 billion during 1979. About half of this value change was due to price increase, but quantities more than doubled from 70 million metric tons to an estimated 160 million metric tons per year during the same period. Foreign markets became basic to economic health on the farm and to future growth in U.S. agriculture.

As a result of this growth, U.S. agricultural markets are increasingly sensitive to economic and political variables around the world over which we have no control--as well as weather. This has brought a great deal of instability and uncertainty with respect to rate of growth and year-to-year variation in agricultural markets and farm prices. Further, this export trade has been capitalized into the farm production system, mostly in land prices.

But what can be expected in the 1980s? Clearly, uncertainties exist, particularly those associated with increasing energy costs. Much higher oil prices will affect growth rates and the balance of payments in many countries and can potentially dampen demand

for imported food products. Another uncertainty is the effect of general economic conditions on the value of the U.S. dollar in international exchange. Depreciation of the U.S. dollar played a role in increasing U.S. agricultural exports during the mid-1970s.

Despite these uncertainties, the outlook for expansion of U.S. agricultural exports is strong. Assessments in USDA and international organizations foresee growth that may tax the capacity of U.S. agricultural resources and its transportation system. Forecasts included in this report indicate a steadily growing foreign demand that will result in declining inventories and tighter supplies.

A second dimension of the changing environment within which policy must be formulated are those domestic economic forces and government actions that impinge directly on the food system and individuals in the system. Central to this is inflation. Based on 1967, the index of retail food prices reached 259 in August 1980. Prices on some other consumer items, particularly energy and housing, have increased at even faster rates and have resulted in increasing pressures on household budgets. Growth in real income has slowed perceptibly.

Farm input prices increased rapidly in the 1970s, particularly during the last half of the decade. These increases, combined with variable commodity prices, have generated unprecedented instability in net farm income.

Net Farm Income (Billions of Dollars)		
<u>Year</u>	<u>Current Prices</u>	<u>1967 Prices*</u>
1970	14.2	12.2
1971	14.6	12.1
1972	18.7	14.9
1973	33.3	25.1
1974	26.1	17.7
1975	24.5	15.2
1976	18.7	10.9
1977	17.8	9.8
1978	26.1	13.4
1979	31.0	14.3

\*Deflated by consumer price index for all items, 1967 = 100.

Inflation has led to uncertainty that has implications for farm planning, both for short-term production decisions and for long-term investment decisions. Farmers have had selected good years but also moved through a period of declining real incomes in 1975-77. While commodity prices have improved since 1977, much of this gain has been offset by input price inflation.

Another uncertainty that has affected farm planning is greatly increased instability in capital markets resulting from economic policies to control inflation. Interest rates increased steadily during the 1970s and turned sharply upward in late 1979. While some decline has since occurred, relatively high rates can be expected in the future; and unless government policy reverts to stabilizing interest rates rather than the supply of money, considerable variability can be expected.

The causes of inflation are numerous, including increased energy costs, government deficit financing, and expansionary monetary policies. Resource shortages and a decline in productivity growth, along with monopolistic practices both by big business and labor, have also played a part. Inflation appears to have become ingrained in perceptions of the future that influence both private and public decision making. Inflation, in consequence, at double-digit or near double-digit levels, will be difficult to overcome and can be expected to be a part of the economic environment for the foreseeable future.

Policy makers will also need to take account of changes that have occurred within the agricultural and food system. In common with the economy in general, increases in productivity in the food marketing system have been low or stagnant. Specific problems such as deterioration of the rail transportation system have emerged. In agriculture itself, productivity increases have declined and the backlog of available technology has largely disappeared. Faced with rapidly increasing input prices, farmers no longer can overcome a cost price squeeze with rapid increases in productivity.

A second element of the change in agriculture is the increased concentration of production on fewer and larger farms. In 1978, 2.4 percent of the largest U.S. farms

(those with cash receipts of \$200,000 or more) accounted for 39 percent of farm cash receipts while 44 percent (those with cash receipts from \$2,500 to \$39,000) produce about 18 percent. The trend toward increased concentration can be expected to continue in the 1980s and will lead to further specialization and greater vulnerability to shifting commodity prices and inflating input prices. Combined with sharply higher land prices, structural changes have led to a greater debt ratio for American farmers. Large farmers, on the average, operate with a greater proportion of debt than smaller farmers.

This, then, is the economic framework within which legislation that will become a basic policy charter for the first half of the 1980s will be considered. A strong international linkage with considerable market uncertainty and expansion can be expected. Unsettled and inflationary conditions in the U.S. economy with increasing energy costs, higher consumer and input prices, and basic problems in increasing productivity and real income levels also will persist. Policy, furthermore, must be imposed on a highly diverse and changing farm structure and an agricultural system with less potential to respond to adverse price and cost conditions through increased productivity than has been the case during much of the post-World War II era.

### **Policy and Program Issues**

Price and income support programs will continue to be key issues. Current legislation provides target prices and deficiency payments, price support loans, and provisions for production controls. Adjustments in target prices are based on USDA estimates of changes in national average per unit production costs for major crops. Production costs reflect changes in variable costs, machinery ownership costs, and general farm overhead. Land costs are not included. Dairy prices are adjusted through the parity index and are supported at 80 percent of parity. With already existing high land prices and rapidly increasing input prices, strong pressures likely will be exerted to increase support levels and to adjust prices for inflation more rapidly for most commodities than

has occurred under the existing formula. On the other hand, consumers will be sensitive to increasing food prices and will resist price support programs that result in excessive accumulation of government stocks or require instituting supply controls, both of which reflect price maintenance above market equilibrium levels. This will result in pressures to reduce the level or slow the rate of increase in support prices for dairy products.

Instability and the role of food reserves will also be a key issue in formulating new legislation. The farmer-owned reserve established in the Agricultural Act of 1977 seems to have worked reasonably well. It is designed to provide a braking effect on prices, both on the low side and on the high side. Price bands are wide enough to maintain a degree of market flexibility and permit farmers and traders to make judgments concerning the storage or sale of grain. The existence of this reserve has provided a degree of order and stability in grain markets that had been lost when surplus stocks disappeared in the early 1970s. These reserves have also served to provide increased supply credibility and the basis for export market expansion.

Establishing appropriate price levels and size of reserves will be politically difficult. From the viewpoint of farmers, increases in input prices and cost inflation have resulted in a call for higher minimum prices. Consumers, on the other hand, are increasingly weary of inflation and will not view excessively high release prices as beneficial. Internationally, the management of the reserve system, both in size and price ranges, can have an impact on the development of competing production from a wide range of countries.

This reserve was established on the hypothesis that world grain markets would remain approximately in balance and that the crucial issue of management is to assure supplies and to retain prices within an acceptable band for U.S. producers and consumers. Another situation, however, may emerge that needs to be given some thought before it arrives. Just as we have moved from a period of surpluses into a period of relative balance, it is clearly possible that relative shortages and upward pressure on real prices can occur in the future.

Should this occur, a number of important questions will arise. The shortages of the early 1970s created major market adjustment problems, most of which were absorbed by the United States. Because many other nations insulated themselves from the market through export controls, U.S. grain prices moved up sharply and commodity prices shifted to the detriment of livestock producers. Farm income rose and optimism among farmers caused land prices to skyrocket. Changes in the early 1970s, along with subsequent inflation, have had the longer-term consequence of making entry into agriculture difficult, if not impossible, for many aspiring farmers due to the large investment required to start on a commercial basis. There was an apparent acceleration in the restructuring of agriculture into fewer and larger farms. These conditions all would likely be intensified with a return to relative shortages and highly variable prices.

This suggests another element that has emerged as a major policy concern--farm structure. Most of the factors that have brought on recent trends toward concentration will continue into the 1980s. These include a continuous infusion of large-scale technology, high land prices, ability of large farms to acquire inputs at lower cost and achieve market advantages, the allocation of farm program benefits on the basis of volume of production, and the ability of larger farms to take advantage of tax laws, some of which have extended special treatment to farmers.

Over the past two years, Secretary Bergland has used the vehicle of structural change as a basis for a broad assessment of conditions in U.S. agriculture. A project was launched with four aims: "(1) to learn what the public believes should be the goals for a national food and agricultural policy, (2) to conduct a broad program of research to develop new and much more comprehensive information about agriculture and what influences it, (3) to give government policy--past and present--a close, hard look--to find out where it's succeeded, where it's failed, where it has gone against its stated goals, and how it has affected, deliberately or inadvertently, the current structure of American agriculture, and (4) to draw upon it to write the 1981 farm bill, for change in the tax code,

and for actions with regard to present and future farm programs." This is a broad mandate. It reflects a concern with the longer-term, more fundamental effects of policies, most of which were designed to provide a direct price or cost advantage to farmers. It also reflects a concern with the merits of the family farm, the importance of ownership and control of agricultural resources--especially land--and the impact of changing farm structure on rural communities. While structural issues as such probably will not be dealt with in 1981 food and agricultural legislation, they will underlie consideration of issues which influence the distribution of government program benefits.

Nutrition, food quality, and food assistance also present a set of issues that will be part of the 1981 debate. None of these are new issues. The stated intent of the Food Stamp Act of 1964 was "to safeguard the health and well being of the nation's population and raise the levels of nutrition among low income families." Additional food distribution occurs through the food program for women, infants, and children (WIC) and through the national school lunch program. Food distribution programs in aggregate have expanded rapidly throughout the 1970s and food stamps alone now reach over 17 million individuals. Control of food purchases was eliminated by the 1977 Food and Agricultural Act when purchase requirements were dropped. Policy issues surrounding food distribution programs include elements of program administration such as eligibility, etc., but more important is the question of whether the programs fulfill their stated objective of improving nutrition or are they primarily an additional component of our national welfare system. The question is whether a comprehensive cash grant welfare program would be as cost effective as targeted food programs in providing necessary assistance including nutritional improvement to low-income individuals. This issue has not been resolved.

Questions on food safety and quality center around what controls should be placed on the use of additives in food processing, what tolerance limits are acceptable on hazardous food additives, and what labeling information should be required on food products. These questions, in some cases, have been dealt with through restrictive

legislation. An accumulation of regulations designed to assure that the public receives foods that are safe, wholesome, nutritious, and appropriately labeled has been spawned. These regulations have been developed on a piecemeal basis without benefit of overall policy guidelines. Whether such guidelines can be agreed upon and established is itself open to question. However, it is clear that whether this occurs or not, consumer interests will continue to be an important component of overall food and agricultural policy. Increasingly, these interests will extend beyond nutrition and food safety and quality into concern with food assistance programs and programs aimed at reasonable and stable food prices.

The above discussion centers on policy issues that will be the core of concern in formulating the 1981 legislation. They are not comprehensive. Legislation will also deal with such important areas as the U.S. role in providing international food assistance, agricultural research and education, crop production protection policies, and other items encompassed in the 1977 Act. It would not be surprising to see two new elements brought into the debate. These are (1) the energy problem insofar as it involves production of fuel from farm-produced biomass, and (2) transportation of agricultural products. If current estimates are correct, U.S. agricultural production and exports will increase significantly during the 1980s. Devising policies to provide adequate transport facilities in an already strained system, if not dealt with in 1981, will require increasing attention as the decade wears on.

Other areas that will increasingly emerge in the 1980s include issues related to agricultural resources, particularly conservation of land, policies such as taxes that directly influence farm structure, and trade policies, both restrictive import restraints on industrial goods that influence farm costs and U.S. export policy, especially the role of bilateral arrangements. Technology, research, and issues related to development of America's capacity to produce will also take on greater importance. Clearly, the agenda will be full and decision making, both legislative and administrative, will be a continuing requirement.

### **Will Change Occur?**

The days of dominant administration leadership in formulating food and agricultural policy have passed. Congress increasingly formulates policy in direct response to private interests. As indicated above, food and agricultural policy formulation is basically non-partisan. Individual Congressmen take positions that reflect constituency rather than party; nonetheless sufficient change will occur in the next Congress to have some implication for future policy. The fact that the House of Representatives is under Democratic control with the Senate under Republican control will make compromise more difficult. Some change in philosophy from "liberalism" to "conservatism" has occurred in both bodies. Further, there will be a stronger drive to reduce government expenditures and balance the budget and to reduce government involvement in the private sector than in any recent time.

These motivations may have an impact on consumer programs. Food stamp and other food distribution programs may be reduced. Concern with government regulation may cause a reassessment of some programs aimed at food labeling, tolerance limits on food additives, and the like. Although it should not be expected that these programs will change drastically, there will be pressures toward contraction rather than expansion.

Programs to reduce government expenditures and regulation probably will have less effect on price support and market stabilization programs. A fine line exists between price and income legislation that will be viewed by consumer interests as inflationary or by farm interests as inadequate protection. One of the more crucial questions is whether adequate steps will be taken to deal with price stabilization in farm commodity markets. The most important innovation in the 1977 Act was establishment of the farmer-held reserve. Additionally, during the past four years, an unsuccessful effort was made to negotiate an international wheat reserve for stabilization purposes. It is doubtful that any new initiatives to expand reserves will be undertaken by the next administration or by Congress. Important farm and agribusiness groups view this kind of government involvement as detrimental to their interests.

If adequate reserves are not maintained or if U.S. markets are not insulated from potential international market extremes, then we could repeat the disruptive events of 1973-75. The gyrations of the livestock sector following grain price increases could occur again. The livestock sector could go through a severe contraction and agribusiness firms supplying inputs or processing outputs would be drawn into the contraction.

At present, no orderly process exists for dealing with extreme price fluctuations. U.S. export policy is exclusively aimed at market expansion and no guidelines exist to deal with allocation of available supplies or for unlinking U.S. prices and world prices in a shortage situation. The developing new market equilibrium in world agricultural markets, however, suggests that price instability will increase and that relatively small reductions in supply on a worldwide basis can create a crisis . Neither price controls nor export embargoes proved to be satisfactory policies for the U.S. in the early 1970s and are not likely to be in the future. Yet they may inadvertently become important though unwanted components of food and agricultural policy unless Congress acts to provide other mechanisms.