ILLINOIS AGRICULTURAL ECONOMICS STAFF PAPER

AGRICULTURAL AND FOOD POLICY:

PAST TRENDS AND FUTURE OPTIONS

by

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November, 1984

84 E-304

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Introduction and Role of Economics

New public policy decisions must be made for the agricultural and sector of this nation in the next twelve months simply because the statutory authority in the 1981 Agriculture and Food Act for existing policy expires on September 30, 1985. Our society has repeatedly chosen to have a periodic reexamination of this policy, while public policy for many other sectors of the economy has no terminal date. Some observers see the urgent need for new policy by citing failures of past policy, while others find that need in deteriorating economic conditions in agriculture. However, there is little disagreement that some public policy for agriculture and food will continue and that the decisions in 1985 will be important. They will affect the economic welfare of farmers, domestic consumers, and agri-businesses as well as agricultural exporting and importing countries around the world.

Among the factors determining the 1985 agricultural and food policy will be: the experiences of past policy, especially recent; the economic conditions of agriculture, especially current; the values of the general citizenry, especially those expressed through the upcoming elections; and the existing body of knowledge about policy alternatives, especially that relevent to the evolutionary path of ongoing policy. Economics can help with this knowledge base, but let us be clear about just what it can contribute. It can help us understand what the economic conditions are, what the policies have been, and what some of the alternative future policy choices could be. But in our highly pluralistic, representative society the questions of what is the best policy, and where we should go in the future, are decided by that society through the protracted, often cumbersome but broadly shared public policy development process.

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Presented on September 5, 1984 to an Illinois Agricultural Policy Conference, Peoria, Illinois. Partial funding for this work was provided by the University of Illinois Agricultural Experiment Station.

Economics -- and economists -- can provide reliable useful knowledge which should assist individuals, interest groups, and policymakers to make better choices toward achieving their goals. With such knowledge the options -- even new and quite different ones -- and the likely consequences of each should become clearer. Yet in our public policy making system, the choices rest with the cititzens and their elected or appointed representatives, not primarily with economists, nor with any one individual or particular interest group. It is not that economists may not frequently pronounce -- and even promote -- their own preferences and goals. They have and are now promoting their policy recommendations. And theirs arise the same way as with anyone else from their own particular background, their economic circumstances, their value orientation, and even the school they attended or their preferred political party. But that hardly qualifies economists to determine, or even be the best source of, the policy which will best respond to the needs of our highly diverse, specialized, and complex society. Yet, to understand the limitations of economics in public policy development is not to diminish its role in that process, but rather to preserve its unique contribution and its creditability.

Within that framework let us try to answer the following questions: (1) Where have we been in U.S. agricultural and food policy? (2) What changes are occurring in the policy development process? (3) Where could we go in future policy?

Where Have We Been in Policy

Policy Problems and Policy Evolution

Agricultural public policy has existed as long as has this nation for well over a century this policy was preoccupied initially with distributing public lands during the late 1700s and early 1800s, then the creation of a public agricultural research and education system from 1862 to 1917, and eventually the design of a publicly fostered comprehensive cooperative farm credit system. These agricultural developmental policies have contributed to an internationally recognized efficient and ever-changing family farming systems. However, for the past half century, commencing in 1929, this path of policy has also encompassed farm and food prices and supplies, farmer and rural incomes, trade, and food distribution.

Problems confronting society about this nation's agricultural and food sector have precipitated these policy developments. In this political public policy making system, different from others that dominate most of the world, elected and appointed policymakers do not agonize over policy because there is nothing else to do nor because only a few people have concerns. Public policy emerges from problems -- ones that are serious, pervasive, and widely felt. The problems vary over time, such as a frontier to settle, an expanding population to feed, a visionary family farming system to realize, a dispersed self-employed economic sector needing education and technology, a banking system not yet attuned to commercial agriculture, highly instable prices in addition to uncertain nature, severe periodically depressed farmer and rural incomes, and hungry malnourished people in a land of plenty. Not that everyone agreed that any particular problem was serious enough to warrant policy -- or even existed -- but nevertheless problems were hurting enough to support public action.

Furthermore, this agricultural policy over the two centuries exhibits a slowly changing, evolving set of programs. Out of the confusing, often contradictory decisions, a thread of continuity and consistency still prevails. Before relatively satisfactory policies were achieved, society struggled with its public land policy for seventy-five years, with its agricultural research and educational policy for fifty years, and its cooperative credit system for twenty years. Yet, even now, policies in all of these problem areas are still evolving. Needless to say, the more recent area of price and income policies is also still changing and evolving around a core of programs.

To recognize that agricultural policy is problem-rooted and evolutionary is not to predict its future direction. But it can help one understand that the development of 1985 policy is likely to start with existing policy. It may also help one evaluate current allegations that existing policies may be outmoded simply because they were launched in the distant past. Remember that the Homestead and Land Grant College Acts are now over a century old, and while the various credit and price policies are of more recent vintage, they are still over a half century old. Perhaps the relevant question before the public for 1985 is not how long ago certain programs appeared but which ones now are best serving the public's needs by responding to serious current problems affecting the nation's future welfare.

Trends in Past Policies and Programs

Just as there have been many kinds of problems in the agricultural and food sector, so have there been many distinct policies and programs. One of these bundles of problems and policies is commonly referred to as price and income policy, of which the 1985 policy will be an example. This type of policy commenced with the ill-fated Federal Farm Board experience of 1929, following the collapse of the U.S. export market after World War I and the gradually deteriorating farm product price and income situation in the midst of a more prosperous nonfarm economy. Parallels between that turbulent period for agriculture and the present seem to be overlooked.

The next half century revealed a flow of price and income policies evolving from that 1929 legislation through the AAAs of the 1930s, the post World War II transitional programs, the redirections of the 1960s and 1970s, and on to the 1981 Agricultural and Food Act. The problems were as varied as were the programs. They concerned instability, periodic severely declining farm product prices and incomes, rises and falls of agricultural trade, imbalances between production and demand, food security scares, and inadequacies in food consumption for the poor at home and abroad. The 1981 Act was carved out of this diverse set of concerns and interests of society. Its termination next year will likely set off similar policy considerations. Let us trace four particular trends in the commodities' programs of these past price and income policies.

Price and Income Supports. Practically every conceivable kind of price and income program has appeared during the evolution of policy. Even now quite different approaches are used for the grains and cotton, soybeans, tobacco, dairy, wool, and peanuts. There is not a "monolithic" program for all products as sometimes alleged. A discernible trend can be seen in these support techniques through these years. The intervention has gradually shifted from exclusively price supporting in the market place, often at relatively high levels, to a combination of price supporting at near average market levels and deficiency payments geared to a target price level. The Food and Agricultural Act of 1965 signalled this redirection and the 1981 Act exemplifies it. It is also a shift in the source of farmer income enhancement from only the consumer to transfers from both consumers and the Treasury, the latter burden being a major current concern. It seems to recognize the economic reality that prices substantially above average market levels not only burden consumers but also interfere with exports.

Production Control. A trend is apparent in techniques of production control. After the first short-lived abortive attempt by the Federal Farm Board at price enhancement with no offsetting production control, such control has been a feature for most commodity programs commencing in 1933. However, there was an important shift from attempts at compulsory acreage control quotas (used from the 1930s through the 1950s) toward voluntary production control, first with the Soil Bank, again with the Emergency Feed Grain Program of 1961 and then in all subsequent Acts. This trend represents an aversion for compelling participation of all producers, but yet a continued public commitment to assist farmers in balancing their production with demand growth, which is difficult for producers in any competitive segment of the economy.

Difficulties with compulsory controls were evident in the 1950s as allotted quotas repeatedly yielded production in excess of effective demand at the price support level. Only tobacco remains under strict mandatory controls. Yet, along with this trend toward voluntary production control has come increasing slippage and rising Treasury costs for the inducements. In addition, effective voluntary production control necessitates compliance among large as well as small produers, resulting in increasingly large proportions of all Treasury payments going to a decreasing proportion of producers as production continues to become more concentrated.

Measures for Setting Support Levels. Another policy trend is evident in the "measures for a desired price" chosen in price and income policies. If policy is to intervene in market prices, then some standard must be chosen to set the price support or target price levels. Commencing with parity price as the dominant standard, the trend has been toward other measures, cost of production being frequently considered.

Perhaps this is understandable in an economy where costs of production and the cost of living index are common rationale for setting retail prices of durable goods, bidding on defense contracts, negotiating wages, and fixing professional fees and salaries. Other means include the moving averages of past prices, adjusted according to supply conditions, and the ad hoc setting by compromise of fixed prices or a series of escalated prices as used for target prices in the 1981 Act. The latter were compromised at about a 6% increase per year which seemed more acceptable than with the inflation rate of over 10% than they do now. This is one of the disadvantages of any fixed intervention price compared to some changeable "measure of well-being".

However, any measure for setting intervention prices can be comfounded by macro-forces, such as the recent dramatic rise in the foreign exchange value of the dollar. Thus, even if no price escalation had been embodied in the 1981 Act, commodity prices would have had to drop about 30% during the past two years to remain at approximate average world prices, due not to new competitive efficiencies abroad or inefficiencies of domestic farmers, but simply due to rises in value of the dollar. Such rapid deterioration of price levels, if permitted by policy, could hardly be viewed as consistent with any public commitment to support or stabilize producer prices and incomes.

Inducements for Program Participation. Finally, trends have occurred in the kind of inducements offered to producers to participate in voluntary production balancing programs. If policy involves voluntary production control, then economic inducements become critical. Initially, only annual price support loans were offered to encourage compliance with acreage allotments. Other inducements have followed: acreage and conservation reserve payments, land retirement payments, target price deficiency payments, disaster payments, partial advance payments, entry into multi-year price supports contracts of the grains reserve, and most recently, the payment-in-kind (PIK) program.

The trend has been toward offering multiple benefits. Any one or a combination of inducements are appropriate, if it is deemed publicly desirable to have production control, if the production control approach is voluntary, and if the benefits are considered commensurate with the costs. However, the method with least cost effectiveness would seem to be the pay-in-kind approach, which permits excessive production without adequate production control inducements, and then in turn, uses these same products with all of their embodied variables as well as fixed costs to attract program participation. Surely the Treasury burden is less to induce farmers to withhold excessive production by covering their fixed costs only.

What Are Trends in the Policy Development Process

Three trends are evident in the policy development process, which in turn will be the policy environment for 1985. First, the evolution of price and income policies, leading up to the 1981 Act, has expanded to encompass issues far beyond the inital commodities of grains and cotton. It also addresses issues of food distribution at home and abroad through domestic food stamp and foreign P.L. 480 programs, of a national grains reserve for internal as well as export food security, of a wide range of crops and some other commodities such as dairy and wool, of export expansion and embargo protection, emergency farm credit, disaster assistance, floriculture, and even aspects of agricultural research and education. The implication for 1985 policy development is a likely combination of food distribution, commodity and resource programs.

A second trend is the rising importance of the international, macro-dimension of the policy environment. With 25-30% of all U.S. farm production finding a market abroad and with rising budget deficits, with record exchange values of the dollar, and with increasing international tension about trade barriers, the 1985 policy can not be forged successfully with only an inward-looking, exclusively domestic perspective. Yet, this international orientation is hardly new. The first serious attempts at price and income policy in the 1920s focused on various export schemes, and further, the movement away from the high price supports of the 1950s was partially in response to their adverse impact on exports. However, even though in the competitive world market model an increasing reliance on exports gradually changes the total demand elasticity for this nation's products, in the present world of extensive trade controls by most foreign governments the contentions of some current observers that the total demand has indeed dramatically shifted from inelastic to an elastic status could turn out to be a painful hoax on the agricultural community. The sobering truth is that aggregate U.S. farm output increased during the decade of the 70s at an annual compound rate of slightly over 2%. With population and income growth providing only a dependable approximate .8% increase in the total demand, foreign markets absorbed the remaining 1.2% increase in production. This translated to finding a new net real exports of over $1.5 billion each year, a prospect not very promising in the foreseeable years ahead.

Third, the arena of interest and participation in agricultural and food policy has gradually expanded to include not only farmers and USDA, but also input and marketing agribusinesses, consumers, general interest organizations, religious groups, labor unions, trading firms, other economic sectors facing stiff international competition, and many agencies of government. Again, irrespective of the belated attention of some observers, this broadening of participants is not new. A review of policy development over several decades confirms the presence of these groups and their lobbyists. For 1985, the implication is that record numbers of interests will be involved and must be accommodated in the eventual compromises.

Where Could We Go In Future Policy

The future direction of 1985 agricultural and food policy will be determined by the trends discussed above, by the varied experiences of the past half century, the provisions of the current 1981 Act, the changing policy making environment, and most importantly, the current economic conditions leading up to early 1985. The options are as numerous as are the creative imaginations of policy makers, professional policy workers, and organization leaders. Four quite distinct possible future directions will now be briefly examined, not because of their merit nor appeal, but rather to provide a balanced sample of the many possibilities.

Continue Present Policy With Minor Modifications

Although discussed little in current policy forums, this alternative, as essentially a modified extension of the difficult compromise of 1981, is one possibility. Program candidates for the marginal changes are those provisions most troublesome over the past four years, which would yield results similar to recent decades without the worst policy fiascos. These could include: (1) Linking the non-recourse loan and target price levels to some variable factor sensitive to changing economic conditions, such as 3-5 year moving market prices or nonland costs of production, so as to avoid pricing products out of the export market and escalating Treasury payments beyond acceptable levels; (2) Placing a maximum cap on grains reserve to go along with the current minimum cap in order to preserve viability of the program for food security, and yet prevent its being used as a costly price supporting measure as in 1981-82 leading to the budget-shattering PIK program; (3) Extending the major thrust of the present temporary dairy program, utilizing a combination of voluntary production control and payments instead of reliance only on price supports; (4) Instituting cross-compliance between price and income benefits and minimal conservation measures on erodible land to better achieve the objectives of reduced erosion and sediment stream pollution; (5) Extending existing payment limitations to kind as well as monetary transfers to avoid some of the large controversial payments associated with the PIK experience; and (6) Specifying a minimal funding for export credit assistance, given certain adverse world market conditions, in order to insure access to that market often affected by interventions of other nations.

Reduce Market Intervention and Treasury Support

A second option is to significantly reduce intervention policies while still retaining minimal "safety net" assistance programs. These could include: lowering price supports to annual average market-clearing levels, perhaps using a recourse in place of the non-recourse loan; reducing target price levels, such as some proportion of nonland costs of production, e.g., 75%; reducing the likely size of the grains reserve by making the present minimum cap its maximum; limiting production control to long-term land retirement based on the lowest bid; reducing substantially food stamp and P.L. 480 distribution; limiting export credit assistance to minimal interest assistance only and gradually reducing existing agricultural import controls; relying on a subsidized expanded crop and disaster insurance program to help cover natural risks unique to farming; dismantling most existing farm product marketing orders; facilitating private farmer collective bargaining through appropriate enabling legislation; and pursuing vigorously international negotiations to reduce all agricultural trade barriers.

The general consequences of such a policy option for 1985 would be: less Treasury program costs; marginally lower consumer prices, unless farmer collective bargaining became significant, but less food assistance for low income groups; likely increased structural change in farm ownership, operation, and marketing; increased instability and economic uncertainty with greater risk-bearing shifted to producers, leaving them more exposed to both windfall gains and losses and with marginally lower factor returns unless collective bargaining became significant; and similar economic consequences to agribusiness and rural communities.

Movement Toward Mandatory Production Controls and International Commodity Agreements

A third policy option for 1985 is a further extension of public intervention into the national and international market essentially to assist farmers do what their numbers and structure do not permit, namely, collectively to balance their production and marketing so as to achieve a higher market return. Such an approach could involve compulsory marketing quotas upon favorable farmer referenda for those commodities and in those conditions where serious economic instability and well-being were developing in the existing market. An extension of this approach into international trade could lead to vigorous pursuit of international agreements for the same commodities, negotiated to establish bands of quotas and prices among exporters and importers.

This approach characterized the early policy for wheat, cotton, peanuts, and rice, and to some extent still prevails for dairy and tobacco. It would likely involve publicly chartered quasi-governmental boards, such as the Canadian Wheat Board, to assess needs, hold referenda, and establish the production, marketing, exporting, and pricing provisions, with limits being specified in enabling legislation.

The general consequences of such a policy would likely be: elimination of all Treasury costs except for substantial administration; restricted entry into farming and related businesses; slower adjustment of resources to market changes; improved and more stable returns to factors of production in the agricultural sector, particularly owners of relatively fixed factors; higher consumer costs of goods emanating from farm commodities, particularly felt by lower income groups; and even greater involvement of foreign governments in agricultural trade.

Unique Experimental Policy Directions

In contrast to the above options which modify to varying degrees policies experienced of the past half century, other options could offer quite different, unique approaches. The degree of viability they offer, or even their technical feasibility, is less certain and might indeed need to await pilot experimentation. Similarly, their likely consequences are unknown. However, adequate future policy depends upon innovation of idea and open discussion of a full range of alternatives. Two such innovations can be briefly characterized.

First, the 1981 Act mandated a task force study of farmer-income insurance as a possible replacement to all or part of existing price and income policy. A report has been issued and additional relevant research is underway. In general, it could provide for publicly subsidized insurance against both yield and price risks, available for farmers to voluntarily select levels of protection and associated premiums.

A second unique option is public minimum support for income from farm sources at a relatively modest level. Here, production and marketing would be left to private decisions, but producers with given minimum labor and land resources could apply for public payments sufficient to bring their total net farm incomes to some specified level. Beyond that, larger and higher income producers would rely entirely on market forces free of public intervention.

In Summary

Agricultural and food policy development in 1985 will be important to farmers, agricultural businesses, consumers, and to the economy in general throughout the remainder of this decade. It will succeed the 1981 Act which has evolved from a half century of price and income policy. This policy evolution responding to problems in the agricultural and food sector, reveals important trends leading away from the use of price supports, compulsory production control, parity, and a single inducement for program participation. The policy process also reveals changes including more attention to issues beyond mere farm commodities, concerns about macro-international dimensions, and broader participation of interest groups. Among the many alternative directions of this future policy, four are identified as options being currently discussed: minor modification of existing policy, reduction in public intervention and support, movement toward mandatory production control and international commodity agreements, and innovative policies such as income insurance and minimum income maintenance.