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AGRICULTURE AT THE CROSSROADS: AGRICULTURAL POLICY ISSUES BEYOND THE EIGHTIES

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Agriculture is indeed at the crossroads, as stated in the title to this paper. Again. As in 1933. And 1946. And the 1950s.

I wonder if agriculture can avoid finding itself once more at a juncture point in, say, 1988 or 1990.

The idea of a crossroads, reputedly the favorite metaphor of speakers at high school commencement exercises, is old, trite. It nevertheless carries a punchy meaning. It says that whoever is at a crossroads faces options, alternate courses of action. It implies some sense of urgency, an importuning to make a choice from among the options. But the image also suggests indecision, even an uncertain confidence in ability to decide.

All these nuances associated with the figure of speech fit agriculture today. Moreover, farm leaders will out-shout economists in vouching for their authenticity. Key element is the PIK experience. Leaders know the debacle of PIK will force a new attention to the direction farm policy is to take--the crossroads idea. Worse, they fear the public's bad taste of PIK will cloud rather than clarify the choices. Maybe we should say agriculture finds itself at a crossroads in a fog.

To those of us who have been on the spot with agriculture at its earlier crossroads, the question that comes to mind asks about the depth of commitment and comprehensiveness of concern. Are we truly ready to reconsider and redefine our long run goals for a policy for agriculture--for all agriculture, and not individual portions? Just now (October 1983) it is fashionable to say, yes, we are. If PIK proves to have frightened the agricultural establishment including its universities into statesmanlike inquiry into agricultural policy, it will almost have been worth its cost.

Unfortunately, we veterans of the farm scene tend to be crusty. We remember times in the past when similar promises were made. Usually they are forgotten as interest groups fill the arena with their competitive rivalries. All that results is temporizing patchwork.

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Unfelicitous Setting

I of course hope very much that agricultural policy will be given the thoughtful review it needs. In paragraphs below I outline some of the issues that should be delved into. But I feel obliged to explain a little further why I am not optimistic. My reasons go beyond past experience when we pledged much and performed little.

First of all, the atmosphere is not propitious. We do not yet have enough of a crisis to force commitment. Even the outrageous cost of PIK will be forgotten fast. Among other reasons, why get apoplectic about $15 billion for PIK when the federal budget is allowed to run $200 billion in the red without anything more than gestures of regret? (The worst harm of a huge macro deficit is that it invites micro-irresponsibility in budgeting.)

Moreover, Americans in the early 1980s are reveling in an orgy of disengagement. What President Reagan promised our voters was not problem-solving but problem-denying. He states his case in middle-class aphorisms, and a great many citizens empathize. We have government by epigram. Irrespective of whether this stance is appropriate to the time, it does not lend itself to profound inquiries into what a national policy for agriculture ought to be the rest of this century.

To make matters worse, when citizens believe the federal government is disengaging, and buy the line that problems are resolved by declaring them nonexistent, they are being deceived. Among the several ways our era will be viewed historically, it will be called one of contradictions. It is tempting to enumerate the many respects in which the Reagan Administration has violated the long-standing tenets of the Republican Party. PIK, for example, hardly constitutes getting the government out of agriculture. But my favorite example of a virtually deceptive contradiction in national economic policy lies in tax policy. In my judgment the federal government influences the conduct of private business more incisively now than ever before, and it does so principally by two instruments that are as sharp as the sword Excalibur, namely, monetary policy and income tax policy. Income tax policy is the more noxious of the two because it is so specific as to both beneficiary and victim, and because it is undercover, furtive, hidden.

It may be impolitic to deplore income tax policy before an audience of attorneys, for whom it is a shower of gold beyond anyone's dreams. For the moment I am commenting not on the soundness of tax policy but on its surreptitious character. Furthermore, how is it possible to enlist citizens in policy making in the national interest--policy of any kind--when a big pay-off awaits any clever or powerful interest group?

Interest-group rivalries in the tax arena are analogous to commodity-group contests in agriculture, and the similarity leads to my final comment about why I doubt much progress will be made soon in framing a new farm policy. Some of us veterans are beginning to wonder if "agriculture" is any longer a meaningful entity. We know that commodity specialization in farming has proceeded apace. That alone is internally divisive. Although we enact omnibus farm bills each four years, they are to large extent compendia of dispensations commodity by commodity. If the cotton sector's principal interest is in getting some goodie that wheat doesn't--or vice versa--it is hard to conceive of coherent dialog about idealized goals for agriculture as a whole. Agriculture is now too fractionated for easy agreement on agriculture-wide policies.

A Conceptual Framework

It is perhaps poor strategy to begin by explaining why I doubt that a sound long run policy will be reformulated in time for the 1985 farm bill. If, however, I am proved wrong, I hope the framework for thinking and legislating about a new policy will follow the lines I now sketch. At the annual meeting of the American Agricultural Economics Association held at Purdue University in August, I reviewed principles underlying the New Deal farm legislation that persist to this day. I named several pairings but insisted that "the most fundamental issue in design of farm programs . . . is whether commodity action is still only farm relief or constitutes what has come to be called supply management for an industry."[1] In the 1930s popular support for revolutionary farm programs sprang from sympathy with impoverished farmers who had lost their farms or were about to do so. The easiest relief was to dispense Treasury payments, some of which were in fact made under the label of parity payments. But economists were quick to point out the leverage obtainable by paying farmers not to produce. Harvest of a hundred million bushels of corn could be forestalled by reimbursing land-idling at scarcely more than rental value, while denying that hundred million to the market would have a disproportionate price effect owing to inelasticity of demand. So farmers were paid not to produce in 1933. They were again paid not to produce in 1983--paid lavishly, some would say. (What difference does a half century make?)

The difference between concepts of farm relief and commodity (supply) management is deep seated and is at the heart of farm policy debates. During each interlude of strong markets and high prices supply management is disavowed, only to be revived when markets turn sour.

I think the choice is a discrete one. Supply management is indeed a powerful idea, for it amounts to categorizing agriculture--or at least the commodity involved--as a single monolithic entity. Built into policy, it commits the federal government to continuous monitoring and management of supply and stocks, and of price within specified boundaries.

It is always tempting to disavow an irreversible commitment, and instead to opt for "playing by ear," dipping in and out of supply management activity extemporaneously. I warn of the hazard, the danger in trying to manage wheat, corn, or cotton on a "sometime" basis. A Secretary of Agriculture who does not keep himself geared into the management machinery will find himself surprised occasionally--surprised by his unpreparedness. This is precisely what happened the last couple of years, and why PIK came about.

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[1]Harold F. Breimyer, "Conceptualization and Climate for New Deal Farm Laws of the 1930s," American Journal of Agricultural Economics, December 1983, pp.

It is easy to recite all the reasons why we ought to find an escape route from the obligations and costs of commodity supply management. I am not happy with the idea. I am especially apprehensive that commodity interests will be so politically powerful as to convert a program into a monopolizing cartel. But I try not to let my druthers interfere with my judgment, and I believe supply management is here to stay.

I believe further that the impetus will come from the export sector. This too I do not like. I wish feed grain policy, for example, were designed more to accommodate our own livestock and poultry sector than the vagaries of export trade. But the foreign traders have the bit in their teeth, as we used to say. The convincing illustration is all the fanfare surrounding the negotiation of a new grain trade agreement with the Soviet Union. We rejoice and wave banners; but who guarantees the availability of grain, year in and year out? Not Continental Grain Company. The United States Government guarantees it. Both the Soviet and the Peoples Republic agreements, newly signed in 1983, come close to being state trading.

The Bedlam in International Trade

On no aspect of farm policy has the air been filled with more irresponsible demagoguery than the terms of international trade. We are reeling around, not knowing what to do except make empty promises of heroics. Again, the problem begins with conceptualization. For instance, one hears the complaint, "The United States is only a residual supplier." What really is meant is not that we fill only the last or overrun demand for grain or soybeans, but that our export trade is a stepchild of our domestic support policies. I do not want to overstate my case: keeping loan rates lower than target prices amounts to giving some consideration to competiveness in world trade. But by and large both we and most other countries have put internal farm policy in the driver's seat and let international trade policy be something of a tagalong.

I can be cutting in my remarks yet fail to offer a solution. My hunch, though, is that we will gradually go farther in the direction of state-managed trading. I can foresee an export-CCC separate and apart from the present Commodity Credit Corporation. It would not be a trading corporation so much as a trade-monitoring corporation; and it definitely would be charged with guaranteeing the integrity of all private as well as public commitments in export selling. And it would allow more detachment of the terms of export trading from our internal support activities.

I offer one further comment regarding international trade. It ties back to the plaint that we are residual suppliers. For the grains, soybeans, and some other commodities we are the giants in world trade, not residual participants. We dominate. To large extent we set the pattern, the tone, for the terms of trade. Smaller rivals will aim darts at us, and sometimes we will have to smack one of them down. They seldom can hurt us much. I am not sure we fully appreciate our standing in world trade and demonstrate both the leadership and restraints that go with it.

Supply Management Versus Income Stabilization

I now go back to the policy question of commodity management relative to protecting the incomes of farm people. On this I dare to believe I reflect the stand held by the great majority of the more liberally inclined agricultural economists. I have argued repeatedly for keeping commodity price supports at relatively low levels--and release prices too. In that way commodity management problems will at least be minimized. Direct payments should represent an income supplement, and unless I read the stars very badly that portion of a farm program must take the income status of the recipient into account. The existing payment-limit device is too crude. I have argued for years, futilely of course, that payments should be scaled up and down, by formula. I would be willing to differentiate according to entrepreneurial status of the recipient. I do not believe a $40,000 college professor who tax-farms 50 acres of corn ought to get a big upward scaling of a direct payment, just because the amount is small. But administrative complexity enters in, and I do not press this particular idea.

Voluntary Versus Compulsory Acreage Programs

In my judgment every farm bill should contain a maximum number of choices for control schemes, in order to allow the Secretary of Agriculture to select whatever is appropriate at a given time. If we want effective supply management for a commodity, authority must be available for farmers' voting mandatory allotments into force. In many of my papers on farm programs I have described a stair-step sequence of program types, ranging from the loosest voluntary design, to mandatory quantity marketing quotas. I will not take time to list them here.

A Soil Conservation Component

It's a safe bet that one of the foci of program-design arguments the next couple of years will be whether to build a conservation-practice unit into the price and income support programs. It's almost safe to wager that something will be done to link the two. The idea circulating most widely just now is "cross compliance." It would require a farmer to meet minimum soil-protection criteria in order to be eligible for price support benefits. Presumably, he would get cost-sharing assistance for carrying out any practices that were mandated. This would be a significant departure from past practice.

Economists of my vintage would like an ideal farm program to take a giant stride further. It would be to build land use criteria into a farmer's acreage bases and therefore into program benefits. Corn acreage on erodable hillsides would not qualify as a corn base. Farm programs would not force good land use but would militate toward it. I have no illusions about our being ready for so enlightened a step.

While I am dreaming, let me add my ultimate dream. It is the package approach. Farmers would no longer engage, or not engage, in a number of separate programs. Each would only opt to accept or reject a package. The package would include commodity programs complete with income supplement, cost-sharing payments for the minimum necessary cost-sharing practices, and crop insurance. I am convinced that eventually our farm programs will take suc' a form. The only question in my mind is "when?"

"Who Will Own And Control . . .?"

Anyone familiar with my writings would be astounded if I failed to include a comment on my favorite subject, the so-called organizational structure of agriculture. A decade ago North Central Extension addressed the subject under the rubric, "Who Will Own And Control?"

The interconnection between design of farm programs and organizational structure is self-revealing, especially to lawyer-economists. Also well known is the 50-year record that price and income programs have been dedicated to preserving the traditional family farm but on balance have worked to destroy it. I add instantly, though, that the net effect programs have had is trifling compared with the devastating consequences of income and estate tax policy.

I divide my comments into two parts. The first relates to the exigency of the moment, the financial peril of hundreds of thousands of younger family farmers who are burdened by debt. If our goal for farm policy is, as sometimes expressed, people oriented, and if we want to help good young farmers survive, a selective, preferential credit policy is not only appropriate but essential. There is no chance that commodity price policy can bail out those farmers at a time of deflation and high interest rates.

At this point I find an excuse for a parenthetical catharsis. One hears it said that times such as the present weed out the good farmers from the bad. Utter nonsense. Times such as these separate the well financed from the thinly financed. Operating efficiency is scarcely involved at all.[2] Who are the well financed? They are the sons and daughters of well financed farmers or nonfarmers. And they are the weekend farmers who live on their nonfarm income and use farming for tax write-off.

It is shameful that some leading agricultural economists have been citing the ERS data on costs and returns by size of unit to show that the small farms are inefficient (their net income is low or negative) and therefore ought not survive. More nonsense. On rural-residence small farms the farmer's object is to contrive a loss. Otherwise he gets no tax deduction.

My guess is that we will struggle with debt relief issues for several years, putting the Farmers Home Administration in an extremely difficult bind.

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[2] Of Missouri farmers who kept mail-in records in 1981, those with net losses showed better physical performance (yield per acre, pigs per sow) than those reporting a profit. The difference was in interest payments.

That agency is caught between the pincers of the Administration and Congress but in addition it seems to suffer from marked inconsistency among the states in its own operations.

Now for my second comment. In view of the glum tone of this paper it would be surprising if I ended with a burst of confidence that agricultural programs of the future will be designed in the interest of protecting a moderate-sized, market-oriented proprietary unit. There will not be such a surprise. I do not believe the organizational structure issue can be disregarded entirely as agricultural policy is reconsidered. But there is not enough idealism in the air nowadays to expect much positive action to be taken.

Omissions

I should do penance for omitting from this paper so many aspects of policy and policy-making. I have not touched on Don Paarlberg's thesis of a diverse agenda. Nowadays many interest groups, in the late Jimmy Durante's words, are "gettin' inta da act." Nor have I reviewed policy making as such or the still uncertain effect of the congressional budget process and its "reconciliation" procedure. (PIK seems to have escaped that lasso.) For a review of the budgetary procedure read Infanger, Bailey, and Dyer in the February 1983 American Journal of Agricultural Economics.[3]

Agriculture at the crossroads? Yes, as in 1933. And 1946 and several times since. Is agriculture prepared to make a wise choice? I have expressed my doubts. It is true that a great deal of experience has been gained and the analytical base for choosing a policy is far better than it was when I helped with program design in the 1930s. But successful choice of a path for the future rests on subordination of narrow sectoral interests to a broader general interest. This is, of course, an eternal rule. If enough statesmanship emerges to force reconsideration of an agricultural policy, and not a corn, wheat, and cotton policy, it would be wonderful. And if that should happen, lawyer economists could get double duty, as lawyers and as economic analysts. Both talents are needed.

[3]Craig L. Infanger, William C. Bailey, and David R. Dyer, "Agricultural Policy in Austerity: The Making of the 1981 Farm Bill," American Journal of Agricultural Economics, February 1983, pp. 1-9.