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U.S. FARM POLICY IN A WORLD DIMENSION: THE SETTING IN 1983

Harold F. Breimyer
Professor of Agricultural Economics
and Extension Economist

Years ago (1945) I was privileged under duress to study the principles of naval strategy at the Naval War College in Newport, Rhode Island. I learned there that the first step to be taken in devising a strategy for defeating an enemy at sea is to develop an "estimate of the situation."

Persons studying strategy for farm policy at a College of Agriculture should likewise begin by making an estimate of agriculture's situation.

My assignment is to do that, and it is an awesome one. How indeed can the state of affairs in U.S. agriculture, both internally and in its connections worldwide, be "estimated" in a way that will help toward forming a wise farm policy for the future?

Permit me two opening dogmatic statements. The first is that how the situation is estimated or defined makes a difference. The sea dogs at Newport knew the importance of an initial naval estimate. A mistake in reading the situation could lead to disaster at sea. Likewise, I suggest that our sharpness of insight in defining agriculture's situation today will have much to do with how we can design a policy for the nation's farm and food system.

The second dogmatism is to reject any notion that a governmental role is about to end. Total abandonment of farm price and income supports is simply not a viable option. We should waste no time in even considering it. In my judgment, when Secretary Block's chief economist William Lesher, the Secretary himself, or a few dream-world economists go around the country saying there are three choices of which the third is to stop everything, they are muddying the water. They are confusing the issue, not clarifying it. In reality, choices are numerous but not a single one is to abandon everything.

Why am I so positive? During my 50 years of involvement in agricultural programs I have heard the no-program refrain fifty times, a hundred, maybe five hundred. Yet the legislative process has never come close to total abandonment. I foresee nothing different in the near future.

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A second reason for disavowing the no-program option is that so many parts of our economy now depend on farm programs. A majority of farmers want some degree of price and income protection. Consumers beg for food reserves as safeguard against a 1983-style drouth. But the clinching argument is that farm products now play an instrumental role in our international affairs. Not only do we distribute surplus foodstuffs worldwide as food relief and diplomatic lubricant. Nor is it only that the foreign exchange earned from exports of farm products is so treasured these days. It is also that we are moving toward transnational negotiation of trade relationships, including using government to back up bilateral trade treaties. The recently-negotiated grain agreement with the Soviet Union calls for a major effort to make nine million tons of grain always available. The guarantor is not a private trader but the U.S. Government. The agreement virtually amounts to state trading. It is ludicrous to propose total disinvolvement of government from agriculture when government is committing itself to backstop foreign trading.

1983 as Background

Always, in projecting into the future we start from where we are. In November 1983 we are at the end of a tumultous year. I need not recite the details. Devastating drouth in much of the country; a PIK program so costly as to invite a backlash of resistance to all programs; scene three of act four in the continuing drama of trade relations with the Soviet Union. The setting carries, in a language popular until recently, both good news and bad news. Let's take the bad news first. It is that the adverse circumstances of 1983 could be allowed to dominate our thinking about the future. No mistake has been made more often than to administer programs to fit the conditions of the moment. Apparently it is assumed that the future will be an extension of the present. It never is. The rest of the 1980s will not be a repetition of 1983.

The good news, almost what we used to call Pollyanna good news, is that the anguishing experiences of 1983 may jolt us into taking a responsible, long-run, even generous view of agricultural policy. Maybe agriculture can rise above narrow commodity and regional loyalties. When things are truly tough there's at least a chance that common interests of the whole will supersede selfish aggressions of the constituent parts. We dare to hope that will prove true now.

I offer my "estimate" of agriculture's situation in the expectation that at least for a while we all are going to be statesmen.

Rationale for Farm Programs

It hardly seems necessary, after 50 years of programs, to repeat the basic reasons why the federal government engages in price, income, acreage, and storage programs for farm commodities. I remind of them briefly. The reasons are two. Significantly, only the first is pro-agricultural. That first reason is the vulnerablility of the proprietary farmer to agriculture's inherent instability, itself explained as variable weather leads to variable crop harvests, which in turn interact with highly inelastic demand for farm products. In the absence of farm programs, variations in supply convert to sharp ups and downs in farmers' prices and to major fluctuations in income also. In addition, demand for farm products is far from stable. Export demand is notoriously undependable but in the last five years domestic demand has not been a bastion of strength either. All this mercurial behavior is a disturbing fact of life for farm business units whose financial reserves are modest at best.

I stress agriculture's instability as cause for programs more than I do the average level of farmers' returns. It is hard to show that in recent years agriculture as a whole has fared notably worse than other parts of the economy. The income picture in agriculture is now characterized less by disparity with other sectors than by sharp differences within agriculture itself. This feature of today's agriculture complicates the making of agricultural policy. Moreover, events of recent years have accentuated the internal income differences. (Inflation followed by deflation, for example, has widened the spread among individual farmers and related it closely to their age.) I will comment on income issues again later.

I said above that in principle farm programs are designed with the proprietary farmer in mind. For 50 years farm policy has been intended to succor the traditional unit in agriculture, a unit with limited shock-absorbing capacity. Something close to the family farm has been envisaged. Forget the hypocrisy and limited applicability of the programs themselves; it remains true that if agriculture were to become exclusively the tax-write-off plaything of urban investors, or a mere division of conglomerate corporations, today's farm policies would vanish into thin air. Even now, it is often said that farming is made up, on the one hand, of small farmers who are only rural residents and not helped by commodity programs, and on the other hand, of very large farm units that do not need program aid. So why have programs? The question is asked.

What I am saying is that issues revolving around what we economists call the organizational structure of agriculture are intrinsically a part of national farm policy. No one should beguile himself into believing otherwise.

I said above that there is a second origin of support for farm programs. Two nonfarm groups have an interest in the stability and dependability of the supply of farm products and food. One is the consuming public. The second is everyone concerned for export trade, even the federal government in its eagerness to earn foreign exchange.

Farmers are not alone in their interest in farm programs, nor do they have an exclusive role in making farm policy.

The First Y in the Policy Road

I am still setting the framework for estimating or describing agriculture's situation today. I suggest the first big decision in making farm policy, the first Y in the road, is whether we design policy to fit the most likely pattern of events in, say, the rest of the 1980s or whether instead we draft a highly flexible, maneuverable policy that can be adapted to changing situations as they evolve. Something is to be said for both. We all wonder whether the prospect is for chronic surpluses. Will export markets revive? Will high interest rates and costly inputs restrain our production capacity? I will offer a few speculations at the end of this paper. Other speakers, including Dr. Tweeten, will present more information.

My preference, though, is to take the right hand fork. I think the most certain statement to be made about the remaining years of the 1980s is that they will be uncertain. They will almost surely be variable, with ups and downs. Therefore we ought not design a program for a hypothetical situation but stay loose, flexible, ready for whatever may come. One's guess about the rest of the 1980s, though relevant and useful, is not crucial to program design.

Income Support vs Commodity Stabilization in a World Dimension

My choice of a right hand Y calls less for statistical analysis than for philosophy. It particularly opens up the philosophical question I raised earlier, the choice of emphasis between income support versus commodity stabilization.

This has been the nexus of disputes in policy-making from 1933 to this day. The first New Deal farm programs were enacted for one simple reason. Farmers were poor. Many were desperately poor. For a decade farm programs had been campaigned for in the name of farm relief, to give relief from low incomes and even poverty.

Secretary Wallace's men saw the farm problem more broadly. They thought it involved more than handing out money as "relief." I remember how hard they struggled to convert the language from "farm relief" to "agricultural adjustment." The first law, it will be remembered, was called an "Agricultural Adjustment Act." I insist there is deep meaning to the choice among idioms. To this day many farm leaders look on farm programs as only temporary expedients to be drawn on at times of distress. Surely that is Secretary Block's attitude. The opposite concept is sharply different. For it the language has now been updated from agricultural adjustment to "supply management."

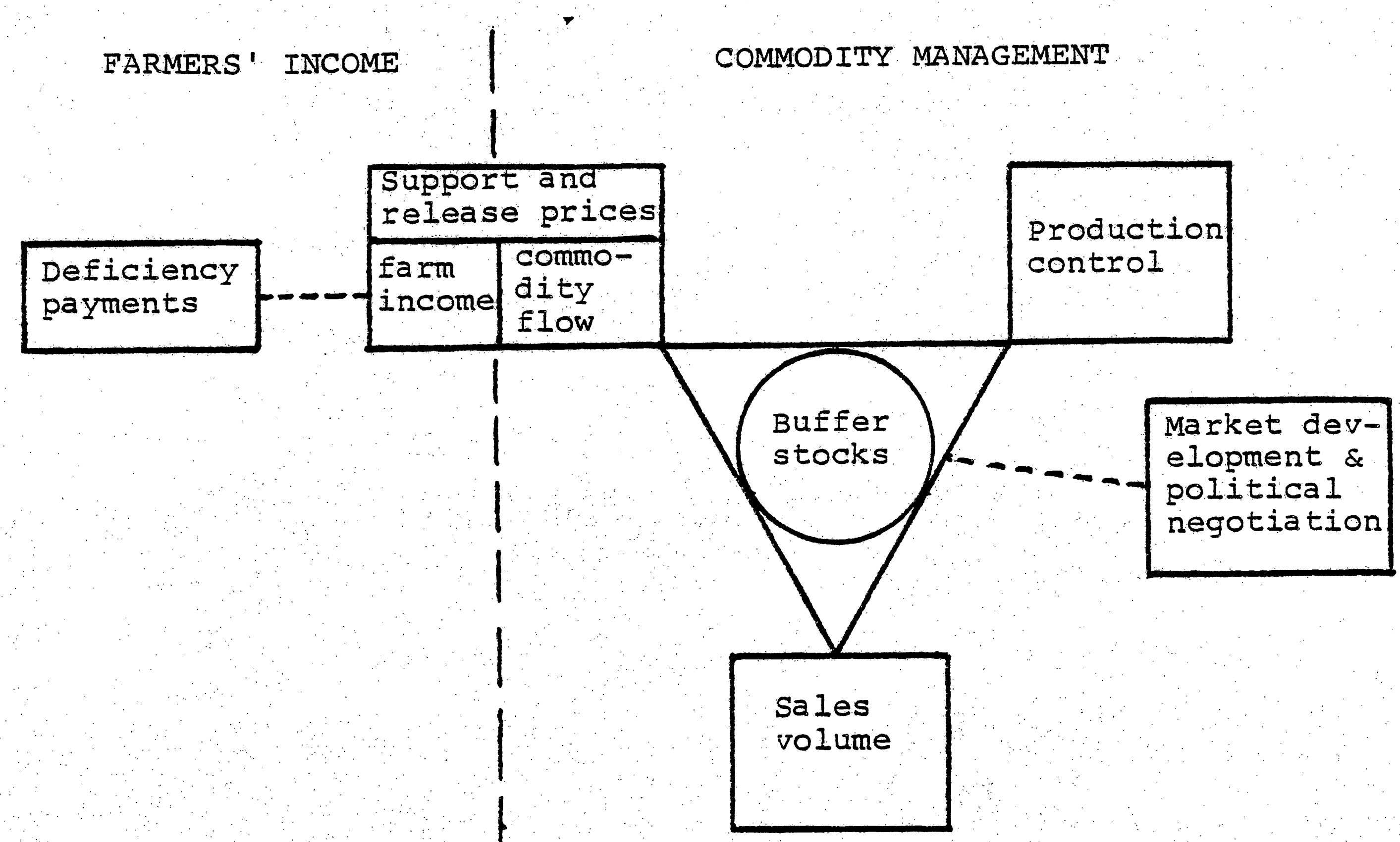
The idea underlying supply management is to reconcile the conflict between the variability and unpredictability that go with unmanaged supply of farm products, and the demands of buyers worldwide for a steady, dependable flow into trade and commerce. In a sense the interests of farm producers are subsidiary, not primary. In 1938 I helped my Chief, O.V. Wells, draft the first farm law that provided for a degree of supply management. It was the Agricultural Adjustment Act of 1938, which remains the prototype for much of the law of today.

For 45 years since, we have vacillated between income relief and commodity stabilization via supply management as goals for farm programs. Generally, when times are good we are willing to bail out a few unfortunate farmers but want no part of supply management. When times turn tough we beg for it. My next moralism can be anticipated. Supply management cannot be an in and out affair. Either we decide to make the federal government a gyrostabilizer for grains, cotton, and tobacco, or we do not. And we stay with the decision.

Lest I be misunderstood, I do not say that income objectives are omitted when supply management is carried out for purpose of commodity stabilization. I do say that (a) stabilization can itself be a goal separate and apart from income level; (b) that other goals enter in such as having reserve stocks on hand and developing foreign markets; and further that (c) the division of emphasis between income objective and stabilization as such is a major and difficult consideration in the design and administration of farm programs.

Most of the remarks that follow build around this theme. As an aid in understanding them I call attention to the chart below. Clearly, a commodity management program interlinks price policy and production control with sales volume. Buffer stocks are in an intermediate position. Worth noting in the chart is that price policy bears on both commodity management and farmers' incomes. Incidentally, I extended the income effect out to deficiency payments, which are the makeweight in fulfilling the income objectives of programs.

COMPONENTS OF COMMODITY PROGRAMS



Also a feature of the chart is the satellite position of market development. Secretary Block, like some of his predecessors, has believed we can merchandise our farm products abroad so successfully that the need for production control is minimized. That was his thinking prior to the 1982 program. The Secretary can't do it, nor can anyone else, and we should promise ourselves never to smoke that opium pipe again. Oh, surely, there is a place for market development, including making sure our grain is clean, but it is not a magic instrument, a panacea.

Price Policy and Export Trade

One of the most difficult, tricky parts of the whole farm policy issue is the relation between price policy for our commodities and our export trading. I add fast that for the feedstuffs -- corn and sorghums -- we ought also to consider the effect on our own livestock and poultry producers. Their interests have virtually been scorned in recent years. But I confine these remarks to price policy for export trade.

I also confess that I am as confused as anyone. I am sure that a couple of ideas or images which circulate freely are not correct. World trade in wheat or soybeans is not a "market" in the sense of an oriental bazaar or board of trade. I'm not sure we should even use the term, "world market," for there really isn't any such thing. Least of all are trading relationships such that if we just reduce our price 25 cents we will be able to sell all we want to. Heavens, if we reduce ours a quarter France will go down 30 cents. When the world is surfeited with surplus there is no meaningful equilibrium price.

World trade is dominated nowadays by state trading, marketing boards, bilateral agreements; and it is shaped by countless variable levies, selective exchange rates, and so on ad infinitum.

We hear it said that the United States is a poor old weak residual supplier in world trade. Hokum! World trade is not an empty barrel to be filled in some pecking order. Trade is a continuous flow, and no one contributes to it residually. There is no such thing as a residual supplier.

Furthermore, the United States, far from being a timid pusillanimous Mr. Milquetoast in world trade, is the dominant supplier of grains and soybeans. We set the tone. To be sure, when trade is slow it's painful to play that role. By the same token, when trade picks up no one profits as much as the giant in the picture, namely, the USA. I ask anyone, which of the world's grain exporters reaped the biggest bonanza in 1973-74?

Thus, we face several problems, it seems to me. Our style of conducting export trade does not mesh with the state trading done in much of the world. We are groping for a solution. As another problem, how ought a giant in world trade behave? How can we gracefully accept the burdens of that status even as we reap the benefits?

But the biggest question is how we interconnect our price support policy and whatever may be our goals in export trade. Obviously, price support policy has a bearing on what we are able to do in our export trading. Many critics say we have not been very sensitive to that relationship. Some declare that price supports have been the dog and exports only a tail that is wagged.

Let me put it another way, reintroducing the word, "residual." Our grain and cotton farmers create pressure to base price support policy mainly on income goals. They want support levels to be high enough to provide the income they think they should have. Insofar as their wishes are met, foreign trade consequences become a residual. In a sense, there is no trade policy at all. Yet just about everyone says we need a trade policy, including a price policy for foreign trade.

The most extreme position would be to choose price support levels primarily so as to accommodate our goals in foreign trade. Export trade would be the dog, and price supports the tail.

Another course of action is clearly different. It would be a sharp break with our past. It is to set up a separate export trading corporation. The corporation would manage foreign trade independently of domestic programs. As of now, not many people want to go that route. But the idea will stay alive.

Price Policy, Supply Management, and Farmers' Income

Although foreign trade partisans would like price support policy to be slanted strongly in their direction, in reality support levels will be established as a blend among several considerations and objectives. It is always that way in policy-making. Individual groups want policy to be made solely for their benefit. Invariably, policy must be a compromise and not single-purpose.

At this point I call attention once more to the Program Components chart and especially the box for support and release prices. Price policy bears separately on income goals and on the several components of commodity management. The level of prices affects commodity flow, including flow into and out of stocks, and sales volume. But price policy also interacts with production control. If price supports are relatively high, production control must have a bite to it -- it must be effective. If supports are lower, control can be looser.

Even so, I stress most the actual or potential conflict between income objectives of programs and the particulars of commodity management. That conflict is troublesome but it absolutely must be dealt with. As I said above, many farmers want price supports to be high enough to give them a satisfactory income. Most program administrators, including Secretaries of Agriculture, argue for more modest specifications of programs, so as to make their commodity management task easier.

Economists point one way out. It is to keep support and release prices fairly low and use Treasury payments to make up any shortfall below income objectives. We have in fact done that for 20 years. The chart illustrates. Farmers have never been entirely happy with the arrangement. They prefer to get their returns from commodities rather than Secretary Regan's checkbook. Moreover, they are afraid David Stockman will succeed one of these days in taking away the farm program checkbook. That is to say, the income supplement device is at the mercy of annual appropriations as engineered by the Executive Office of the President and by Congress.

The income-commodity management connection has yet another angle to it. As soon as we talk about income objectives for farm programs we shift the focus from commodities to people. Commodities do not get income; people do. When income from programs is mentioned questions are asked about who gets it and how much. So another shouting contest begins. Critics scream that if commodity price supports are pushed high enough to provide a good income for moderate sized farmers, not only will supply management be jeopardized but the biggest farmers will be enriched so much as to invite public disapproval.

But that's not all of it. If deficiency payments are relied on heavily as income supplement, their size also is on public display and leads to even greater public objection. Hence, for reasons of political expediency if not equity, deficiency payments cannot be made proportional to volume of a farmer's sales. The technique used to date has been to put a size limit on payments. I have preferred instead to scale payments by formula. I have won few converts. To repeat, what all this amounts to is that the innocent box on the chart in which support and release prices subdivide into farm income and commodity flow is the focal point of very difficult problems in design and execution of farm programs. And the deficiency payments that compensate for inadequacy of commodity price present complications of their own.

Production Control Methods

Methods for controlling production are a separate topic. On other occasions I have set forth a stair step sequence of control methods from the loosest voluntary devices to the tightest. At the time a farm law is written it is impossible to foresee what control method might be needed. Therefore I have long advocated giving the Secretary of Agriculture a range of methods, a repertory or shopping list. Some tools of control must be sharp. They must include authority for cross compliance, not excepting cotton, and for mandatory acreage allotments and marketing quotas. We all hope the harshest methods will rarely be needed but there is no point in calling for supply management unless the Secretary is equipped for the task.

The State of Affairs, 1983

I now sketch briefly a few relevant data on farm production, income, and foreign trade.

Farm Income

To the consternation of farmers who had virtually no income in 1983, the U.S. Department of Agriculture reports net farm income for the year as appreciably better than that of 1982. Specifically, the 1983 figure has been estimated as a range between $25 and $29 billion, up from $22 billion in 1982. Data follow:

Net Farm Income[1]

(billions)

	Current Dollars	1972 Dollars
1979	32.3	19.7
1980	21.5	12.0
1981	30.1	15.4
1982	22.1	10.6
1983 Forecast	25-29	11-13

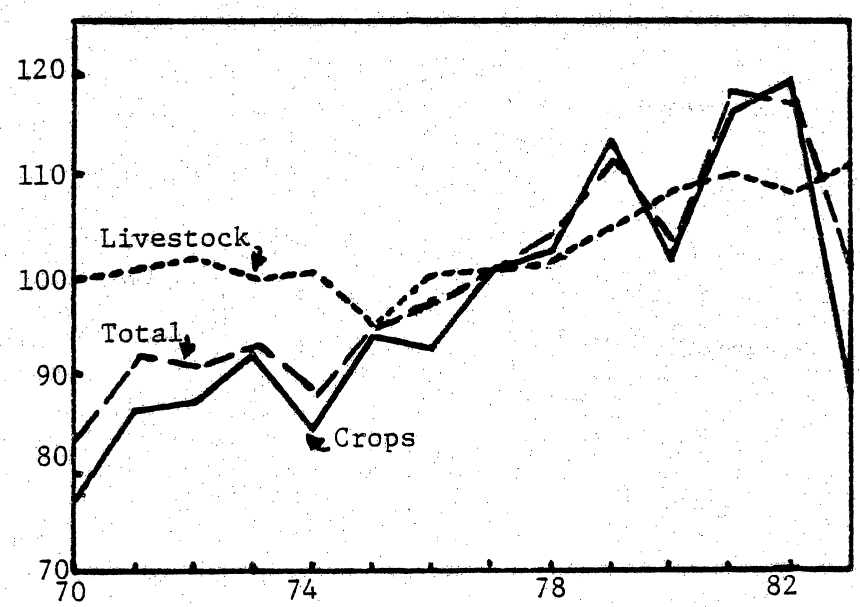
Income in 1983 will quite possibly vary more widely among individual farmers than in any other recent year. Drouth always is viciously inequitable, as crop failure in drouth areas boosts prices and enriches farmers who are fortunate in harvesting a crop. In 1983, though, PIK added a new dimension. It amplified the effect of drouth while creating a new beneficiary of the higher prices, namely, the recipients of PIK grain and cotton. So incomes of individual farmers are extremely uneven in 1983.

Farm Output

The chart below on annual gross farm output is presented for information. The reduction of 15 percent in 1983 -- 26 percent for crops -- is shown clearly. Perhaps the principal observation is that output advanced rather slowly in the early years of the 1970s. But the late 1970s saw a surge in farm output, culminating in the bountiful harvests of 1982. The only observation I offer is that the erratic pattern shown should make us cautious in projecting what lies ahead.

U. S. FARM OUTPUT

Index, 1977=100



The Domestic Economy

I turn now to a gloomy chart that reveals what has happened in the U.S. economy the last 10 years or so. In our preoccupation with export trade the last few years we have forgotten that three-fourths of the products of our agriculture go to our own consumers. Only one-fourth is exported. We may also have failed to remember that the state of employment and income influences demand for our farm products, particularly demand for the high value livestock products. Surely beef cattle producers have seen their markets shrink the last five years.

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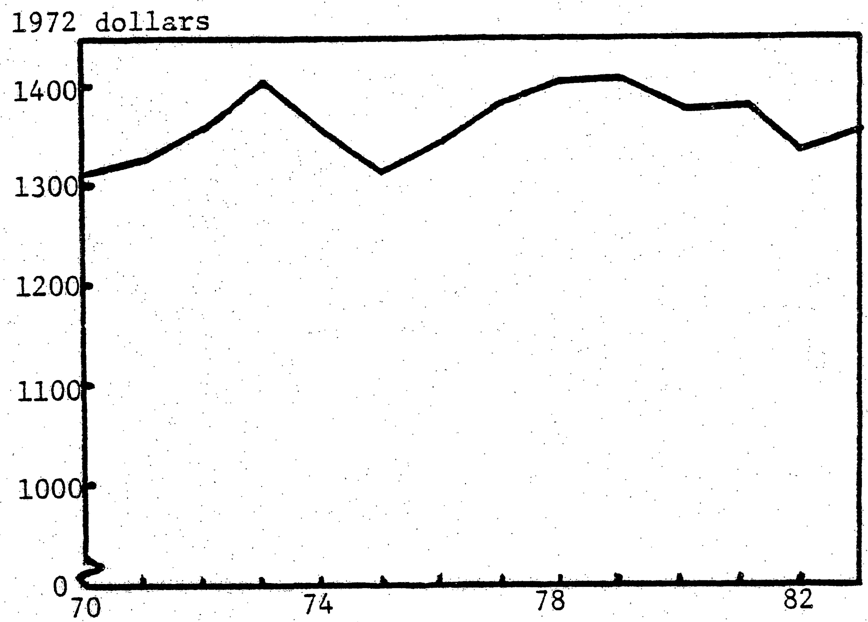
[1]Data are from Agricultural Outlook, Aug. 1983, Economic Research Service, USDA, p. 12.

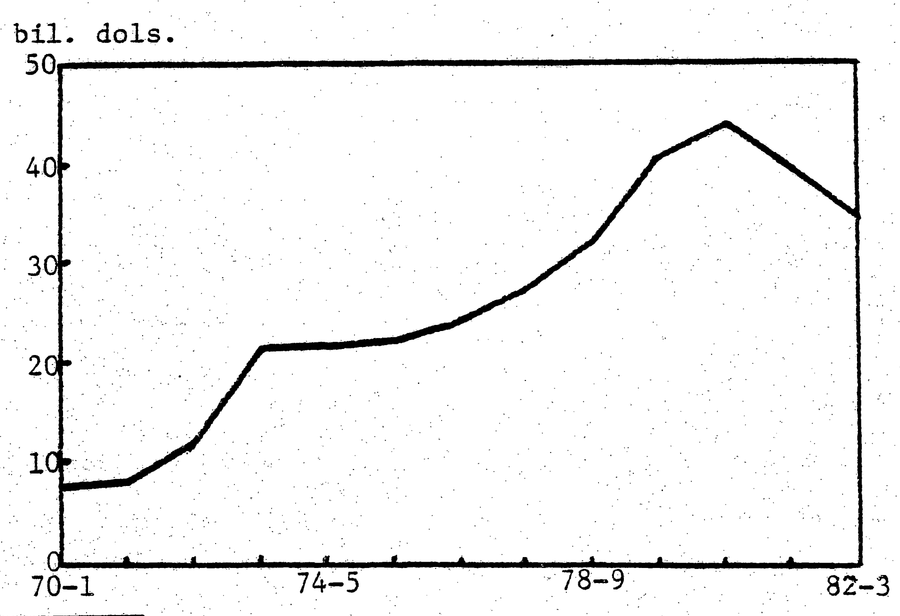
DEFLATED GROSS NATIONAL PRODUCT PER PERSON OF CIVILIAN LABOR FORCE



The chart presents data since 1970 on deflated gross national product per person in the civilian labor force. Twice in the period a cyclical improvement failed to be sustained. Little gain is to be seen for the period as a whole. In a nation accustomed to steady economic growth, the absence of growth the last decade is shocking.

Furthermore, if an increasing proportion of consumers' incomes is precommitted (as often alleged), consumers' discretionary incomes have been progressively reduced. Food buying comes out of the discretionary part of consumers' income.[2]

VALUE OF U. S. AGRICULTURAL EXPORTS



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[2]GNP per person of the population would show a somewhat brighter picture. In many respects, though, production relative to the number of persons in the labor force is a more significant datum.

Farm Product Exports

The last chart shows data for value of exports of farm products, 1970-71 to date. The high mark was the $43.8 billion in 1980-81. Preliminary estimates are that sales this past year (year ending September 1983) were only $34.5 billion.

Where next? I forbear from predicting.

Three years ago, at this same seminar, Dr. Womack and I were prophets of continued export boom. He demonstrated conclusively that the world's food needs were growing steadily and we in the United States were best positioned of all exporters to supply those needs. Our forecasts went awry.

Explanations for the downturn in exports are legion. Embargoes of past years are the most popular scapegoat. For my part, I put first emphasis on worldwide economic recession and the overvalued U.S. dollar. Professors Bredahl and Green, writing in the October Economic and Marketing Information letter, point out that the most rapidly developing nations contributed much to our export boom in the 1970s and have also cut back most in the 1980s.[3] A slowdown in their economies, complicated by stringency in international credit, accounts for their reduced buying. Prospects for early turnaround are not bright.

I remain convinced that in the longer future the export capability of our nation will be drawn on heavily. Somehow, in some way, we are going to supply large quantities of foodstuffs to the world's peoples that need them. But how is that "longer future" to be dated? As of what years? I do not know.

Summary

Probably the only summary remark to be made is so obvious as to be redundant. Without being morbid about what the future holds, there are no grounds for assuming that sudden bursts of new demand at home and abroad, or worldwide crop failures, will relieve us in the United States from considering once again the desired role of government relative to the financial stability of its agriculture. To us veterans it's all a re-run from earlier years. It is not an attractive re-run. But as the man said, "Who promised a rose garden?"

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[3] Maury Bredahl and Leonardo Green, Economic and Marketing Information for Missouri Agriculture, October 1983.