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U.S. AGRICULTURAL POLICY AND DISCONTINUITY

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Ever since Adam Smith stole Europe's intellectual show from the Physiocrats the agricultural part of western economies has felt snubbed. It senses it is second fiddle culturally and economically. In the countryside the worst experience is to hear platform orators mouth their unctuous tributes to pastoral virtue. Rural audiences are repelled.

Scholars are not free of squabbling. Agricultural economists allege that their "general" brethren draw on agriculture only when needed for an example of perfect competition, which usually is wheat. Textbook chapters on agricultural policy read as though written in a Parisian garret. General economists reply that agricultural economics can only be a sub-discipline.

The swordplay is essentially harmless. It is also pointless. The food and fiber system makes up almost a fourth of the U.S. economy. Products of the farm are a vital raw material. Their supply and prices are not ancillary, but integral, to the overall domestic economy. The agricultural sector is big in international trade relationships, beset as they are with imbalances of payments and trade.

I open in this vein not for forensic byplay but to suggest that agriculture offers examples of discontinuity in economic policy that are significant not only of themselves but as proxy for other sectors or even the total economy. Much of the economic policy in our nation that is now subject to discontinuity dates from the New Deal 1930s. Agriculture was integral to that fertile policy-making period.

Policy for agriculture, then and subsequently, has been marked by declaration of purpose, though often hazy, followed by irresolute, erratic pursuit thereof. That is to say, agriculture has exhibited repeated instances of discontinuity. Moreover, the consequences are significant not only to agriculture but to the economy.

Agriculture was in the middle of the New Deal action. Within the productive first 100 days of the Roosevelt Administration a farm law was enacted that has set the pattern for all subsequent farm programs. The law itself embodied the mixture of romantic idealism and pragmatic accommodation that marked the New Deal enterprise in social direction giving.

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As is true of all climactic episodes, the New Deal had both antecedent and sequel. In agriculture the 1920s were a staging ground for the actions that followed in the 1930s. During the 1920s strains were felt but they were left uncorrected in a barrage of political rhetoric. What changed in the 1930s was not design for programs so much as their acceptability. I suggest that the same sequence was exhibited in economic policy generally. One side effect, not at all incidental, was a change in cast of actors. Like President Roosevelt's retiring of veteran generals and admirals after Pearl Harbor, leading economists of the 1920s were left to die on the scholarly vine and a new gang took over in the 1930s.

Despite the heroic improvisation of the New Deal 1930s the objectives were more sentimental than rational. It took the bloodletting of a second world war to force a more explicit dedication to national objective. A general policy was enunciated in the Employment Act of 1946. A companion law in agriculture came in 1949. It is significant that the farm law of that year has remained in force since. All subsequent laws have been primarily amendments to the 1949 one and to a 1937 law authorizing federal marketing orders.

Promises Not Fulfilled

In the history of farm programs, of which I have been participant or close observer, the most flagrant discontinuities are the broken promises, promises to ourselves that we have failed to keep. They have been disavowals or derelictions in carrying out what we as a nation told ourselves we would do. The failures tend, however, to be episodic. Moreover, each new instance is to a degree unique, both as to what instigated it and the form it takes. Hence the appropriateness of the term, "discontinuities."

For a half century the declared dual objectives in agriculture have been to underpin the incomes of farmers and to mitigate the instability of the notoriously unstable farm sector. The first is a farmer-oriented objective; in fact, it is farmer-specific. The second serves the general interests of farmers and of consumers too, who dislike an unstable food supply. In addition, the stabilization idea has been extended recently to enhancing our export trade in farm products, so as to improve the national balance of payments.

Also a feature of the historical record is that farmers, though promised income aid, were subjected to the Puritanical rule of earning eligibility by participating in acreage-reduction programs. Rarely have they been given open access to the Treasury. The consequence is to link the two objectives in program design: income-support via acreage limits was intended also to contribute to stabilization. It follows as a matter of elementary school arithmetic that unless the terms of programs are chosen and enforced tightly, not only will farmers get more dollar aid than they have earned, but the stabilization goal will be frustrated and, not incidentally, the cost to government will soar.

Still another underlying thesis, essentially an axiom, is that although economic policies have lofty objectives that are intended to be universal and eternal, in reality they are subject to the shock of

surprise. Unanticipated events, which program officials commonly deny at first, can prove obstructive and require a flexible wisdom that may not be forthcoming. Failure to handle surprise is a kind of discontinuity. Agricultural history is replete with instances!

This capsule moralizing is adequate for illustrating three discontinuities. The first relates to income goals, and particularly the failure to make micro implementation fit with lofty macro goals. The second is the 1982-83 mishandling of price and acreage programs, a nonfulfillment of promise. Third will be brief mention of problems in internationalization of agriculture.

Income goals for federal farm programs have usually been expressed in terms of parity income -- an aggregate value. Therein lies a serious flaw in farm program design that is all too representative of much economic planning. It is the overtrust in macro goals. Agriculture does not receive income -- quoted statistics are sums run on an adding machine. Only individual farmers and farm workers receive income. So the question arises of how much each receives.

I am opening up, obviously, the distributional issue. The legislative history of farm laws shows concern for distribution, in the sense that the intent is to sustain the traditional proprietary unit of U.S. agriculture, often called the family farm, which is a modest sized unit. Distributional considerations have been disregarded in farm laws of recent years, with the single exception that a limit of $50,000 is imposed on the size of deficiency payment an individual farmer may receive.

With that single exception the record is essentially one of non-fulfillment. Acreage controls and price supports by their nature are more beneficial to large unit, high-risk, cash-crop monoculture than to other kinds of farming. In government credit programs, TV's Sixty Minutes revealed a couple of years ago that a credit vehicle intended for smaller and less creditworthy farmers was being exploited by those of the opposite category. The resulting furor brought only partial reform.

Former Secretary of Agriculture Bob Bergland begged for attention to how government programs bear on agriculture's "structure." He got little. Secretary John Block, his successor, has not even tried.

Nonetheless, price and acreage programs are not the big malefactor in agriculture's income distribution. The giant evildoer is the astrodome-full collection of income tax laws and rules. In few sectors of the economy does the tax code act so viciously to favor well established individuals and deny opportunity to newcomers. Agriculture is vulnerable to muckraking. A judgment, not statistically provable, is that inequity of wealth and income is as extreme in agriculture as in any sector; and that the skewness is wider now than ever seen before in a lifetime -- 60 years -- of personal observation.

The PIK Program of 1983

A good publicity rule is to use a catchy label only for activities that promise to be well received. The rule was broken in the case of PIK

(payment in kind). By and large, the PIK program for reducing acreage of seven crops in 1983 has had a bad press, notably in urban circles, owing mainly to cost.

The denunciation has not been entirely just. The publicized statistic of farm program cost for the past year, $21 billion, does not apply to PIK. The bill for PIK (probably $12-15 billion) is yet to be paid.

PIK is therefore a symbol for mismanagement of a number of farm programs the last couple of years. Not only have the programs proved exceedingly costly; their results have been bad -- a continued surplus of wheat, and a damaging current (1983-84) scarcity of feed grains and soybeans.

Every since 1938, federal farm law has provided instruments for "supply management," intended to give a degree of stability to the flow of farm products into market channels, and to prices and incomes of farmers. Not at issue here is whether such a commitment is in the public interest. Very much at issue, however, is whether the record of the last couple of years provides a lesson for conduct of public affairs.

In a summary word, Secretary Block and his associates in the Department of Agriculture mismanaged farm programs because they did not believe in them. And because they started out by mismanaging, in an ironic twist they found it necessary later to take far more drastic corrective action than would have been required had they swallowed their ideology and administered prudently from the beginning.

But that is not the all of it. Perhaps the next analogy is Freudian, for when (in 1983) Secretary Block took the aggressive action of a PIK program, he overdid it. He failed to allow for the possibility of a serious drouth. Acreages were reduced too much. When a drouth came, the surplus of feed grains and soybeans was converted to a shortage.

The mismanagement of 1982 that set the sequence in motion was Secretary Block's failure that year to require farmers to reduce crop acreages sharply as precondition for receiving fairly generous price and income benefits. It probably should be added, in his defense, that budget stringencies imposed by David Stockman, Director of the Office of Management and Budget, contributed to Block's discomfiture and weak action. And some (though not all) farm leaders solicitously helped draw Secretary Block into his abyss. Putting all else aside, though, the suspicion will not allay that Block and Company mismanaged in 1982 because their dislike for programs got in the way of their judgment.

Several aphorisms could be composed. For purpose of this review the principal one is that an economic program must be administered in conformity with the specifications of its design. In idiomatic language, it cannot be fudged. Any other course not only violates the program's mission; it also digs a pit for the future. In other words, it creates a discontinuity.

Third and last illustration of discontinuity in agricultural affairs is the so-called internationalization of agriculture.

Ever since the days of the Jamestown colony, food, fiber, and tobacco have moved from our shores to someone else's. Nonetheless, the escalation of farm product exports from less than $8 billion in 1970 to $44 billion in 1981 is of major magnitude, the inflationary component notwithstanding. It constitutes what is called the internationalization of U.S. agriculture.

More is involved, though, than mere enlargement of sales. U.S. agriculture has suddenly found itself immersed in all the complications of export trade, including a political component. So it is that farm leaders and their political spokesmen now worry about the terms of the European Commission's Common Agricultural Policy, and whether Mr. Nakasone's government in Japan is friendly enough to ease barriers against buying our beef and oranges. And will, indeed, the IMF lend enough money to South America to enable countries there to buy our farm products?

Export value has slipped back to $34 billion (in 1983). Thus the international market for farm products has proved more volatile than the market at home. Errors of overanticipation in the late 1970s still cause pain for U.S. farmers.

Agriculture is now sensitized to the effect of monetary policy on the exchange value of the U.S. dollar, so influential in export selling.

U.S. agriculture does not yet know what is meant by being internationalized. It only suspects that the benefits are not as free of offsetting problems as had been supposed. To some critics, our responses to date such as dallying with a trade war (as in subsidizing the sale of flour to Egypt) are dangerously naive, and an illustration of how the unpracticed hand can risk blunders for which "discontinuity" may be a relatively friendly term.

Inattention to income distribution, ideological mismanagement of operating programs, and a clumsy careening in response to sudden internationalization, are instances which in agriculture exhibit discontinuity -- and in doing so may be surrogate for many other parts of the economy in which practice violates purpose.