



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

A GLOBAL PERSPECTIVE ON ISSUES IN FOOD POLICY

by
J. B. Penn
Economic Research Service
U.S. Department of Agriculture

Introduction

It has become almost commonplace to say that a new era has come to world agriculture and food provision. The past few years have brought a massive world consciousness-raising about the importance of food. During 1972-75 the world was again reminded of the precariousness of the long-term food-population balance. The main events are now well known: a decline in world food production in 1972 and a policy decision by the Soviets to import large quantities of grain; a poor U.S. harvest in 1974 and large purchases by the Soviets in 1975 to offset crop shortfalls; and crop shortfalls from weather variations in other countries of the world. These events led to a drawing down of world grain stocks to near "pipeline" levels and resulted in sharp price increases and fluctuation.

These events graphically underscored the growing economic interdependence among countries in the production, consumption, and trade of food. The U.S. economy has become more dependent on other countries as commercial markets for its food output, and other countries have become increasingly dependent upon the United States as a source of supply for food and agricultural products.

Within this interdependent environment, important international considerations for U.S. agriculture and food policy are emerging. This is a

particularly opportune time to discuss this topic as a major decision year in U.S. food policy looms ahead in 1977.

In my remarks today, I will first treat the world food situation and outlook and then relate these considerations to the context of U.S. food policy decisions to be faced in 1977.

THE WORLD FOOD SITUATION AND OUTLOOK¹

Situation

The world food situation is currently characterized by inadequate food supplies in many developing countries, high costs of production, unstable agricultural markets, and marked changes in international economic relations. Large countries such as the USSR have entered the market making substantial grain purchases. Others, such as the oil exporters, have acquired financial strength enabling them to develop their agriculture and increase food imports. The developing countries are demanding the establishment of a new economic order which could have significant repercussions on the world agricultural and food economy.

Prior to the disruptions in the world food supply of 1972-74, world food output had been rising fairly steadily over the past several decades. In fact, production in the developing countries has roughly paralleled that in the developed countries--around 3 percent per year. The widely publicized "Green Revolution" with

introduction of improved grain varieties deserves only partial credit--much of the production gains are due to additional lands being brought under cultivation.

Grain acreage in the less developed countries (LDC's) has expanded at an annual rate of about 1.3 percent. In contrast, developed countries devoted less land area to grain in the 1970's than they did in 1950. However, grain yields in the developed countries posted spectacular increases of over 2.5 percent per year. This contrasts with yield increases of 1.4 percent per year in the developing countries.

The increase in food production has been accompanied by population increases. Population control has not taken significant hold on the LDC's where growth rates average 2.7 percent per year. This is in contrast to average annual rates in developed countries of about 1 percent. About 50 million people are added each year to the population in developing countries, already hard pressed to adequately feed the existing people. This is two-thirds of the world's population increase. To keep pace, food supplies in the LDC's would have to double every 25-30 years.

The divergent growth rates mean the developing and developed countries have not fared equally well from the roughly equal growth in food production. In the developing world, population increases have absorbed nearly all the production increase. In fact, per capita food output in the developing countries has been rising at an annual rate of only 0.4 percent. Last year (1975) the situation was temporarily reversed with developing nations registering a sharp recovery in per capita food output, returning to near the previous high achieved in 1970. In contrast, per

capita food output in the developed countries rose at a somewhat slower rate during 1975 after a 1974 performance which fell below the preceding 3 years.

At current population and food production growth rates, it is apparent the developing countries face growing food import deficits through the remainder of the century. But what is the intermediate term outlook?

Outlook

Developed Countries

In the industrialized market-economy countries, there should be no overriding physical or technical obstacles to the expansion of production. Cultivable land, labor, capital, and technical and managerial capabilities exist in adequate quantities. Relative to production potential, only slight increases in internal demand are expected, owing to the existing high level of nutrition and the slow increase in population.

Changes in price ratios between farm products and inputs will be important. Expanded production presupposes adequate economic returns. A big increase in the cost of input items could lead to short-term reductions in their use. However, in the longer run, necessary adjustments will be made and agricultural production in developed countries could be expected to respond to market signals or state intervention (centrally planned economies).

A key factor is the confirmed close linkage between agriculture, suppliers of its inputs, and users of its products--the food and fiber system--and between that system and the rest of the economy. This linkage is likely to become even stronger making agriculture in industrialized countries still more sensitive to general economic conditions.

Developing Countries

Food requirements are the most critical in developing countries because the average nutritional level is still inadequate and population growth is very high. The production potential is also considerable in some of these countries.

Agricultural development is the first essential to secure expanded production, improved nutrition, and a solid basis for general economic development. However, it has often been the area of slowest progress. This results from low priority accorded to agriculture and the difficulties inherent in the growth of this sector.

During the next decade, several countries will be able to speed up the process of economic development. For many countries, however, notably the most densely populated and least developed, food prospects are alarming. These countries are faced with a choice of either (1) producing as much as fast as possible to meet the needs of a growing urban population by concentrating on the most modern part of their agriculture, or (2) to try raise productivity in subsistence agriculture to benefit the great mass of the rural population.

For the poorest countries, the real solution to the long-run nutrition problems lies in the increase of domestic food production coupled with population control.

World Market Uncertainty

The uncertainties of future import needs to satisfy the world food demands are aggravated by the difficulties of ascertaining the requirements of the Soviet Union and the countries of Eastern Europe.

These countries have the potential for expanding production beyond present levels. A current aim is to secure an increase in consumption of livestock products. But the implementation of these plans may prove costly, forcing choices between investment in agriculture and industrial production, be side-tracked by the vagaries of weather, or be unable to overcome administrative and managerial deficiencies.

Thus reliable estimates of import requirements are difficult to make. The recent U.S.-USSR long-term grain agreement introduces some stability in the market, but it does not exclude substantial annual fluctuations due to harvest (weather) uncertainty. The strategic significance of stock levels and of crop forecasts may well remain a major factor in the unpredictability of the world market.

Role of Technical Innovation

When considering the outlook for the coming years, the increasing importance of technology growth in the agricultural-food complex must be noted. Technical innovation will continue in developed countries to reduce production costs, supplement unreliable sources of supply, or find new uses for agricultural products. Similarly in the planned economy countries, more far reaching technical innovations may be expected. In developing countries, innovation may continue to play only a minor role because of obstacles to large-scale application. With a sustained effort, however, it should assume increasing importance in the next few decades.

Problems

The world markets for the major agricultural products are likely to continue to exhibit instability over the next decade, causing price fluctuations and

erratic trade flows. Natural factors such as the vagaries of climate, biological cycles, etc, will likely be more pronounced because of the growing interdependence of the grain-livestock sectors.

A primary instrument for coping with this instability is improved economic forecasts on domestic and international markets. A more comprehensive knowledge of the structure and functioning of international markets is also needed.

Sale and purchase contracts providing medium-term guarantees to importing and exporting countries alike appear destined to become more common.

An international grain stockpiling policy will also likely be further examined in the coming years. A basic question is whether grain stockpiling can be achieved independent of other arrangements concerning prices, trade, and food aid.

Aid to Developing Countries

The food situation in the developing countries cannot be examined solely from the market viewpoint, which is concerned only with effective demand. In fact, this masks the real problem--the physical need of individuals. The basic question is two-fold: how far these needs can affect the market, being reflected in commercial imports, and to what extent they will or will not be covered by food aid. The answer depends on trends in production, the terms of international trade, and on the general economic development of these countries.

Increasing aid to agricultural development and improving its effectiveness should constitute a major objective for all countries capable of doing so

and also for the international institutions.

Food aid will play an important role in coping with critical situations and contributing to the economic and social development in the developing countries. For the developed countries, it will be advantageous to periodically review their food aid policies to adapt them to changing requirements and markets, and perhaps to link them more closely with general aid, production, stocks, and trade policies.

U.S. FOOD POLICY ISSUES

The debate on U.S. agricultural and food policy will begin in earnest in the next few weeks. Some people have suggested that 1977 could prove to be a "watershed" year in our policy deliberations. One key factor which could make 1977 a year of distinction is the convergence of three major agriculture and food policy areas requiring Congressional attention.

(1) The Agriculture and Consumer Protection Act of 1973, applicable to feed grains, wheat, cotton, wool and dairy products, expires at the end of 1977 crop year. The two-year Rice Production Act of 1975 also expires in 1977. While peanut legislation was not passed in the 94th Congress, modifications in the existing program will almost certainly be proposed again next session.

(2) The authorization for the Agricultural Trade and Development Assistance Act of 1954, popularly known as P.L. 480, expires.

(3) The Funding Authorization (Section 16) for domestic food assistance programs under the Food Stamp Act of 1964 also expires.

Thus, in early 1977 the "agricultural policy" debate will coincide with the "domestic food policy" and "foreign food policy" debates. The ingredients are all present to permit 1977 to be the year when Congress could begin to look at the issues in the context of a national food policy, rather than individually as a "farm policy" and so on. While omnibus national food policy legislation may be developed, there is not much evidence of movement in this direction as preparations for a replacement bill for the 1973 Act move forward.

The change in the economic setting since 1972 now means that the three formerly distinct policy areas have become more closely interrelated. Policy issues from these areas are now intermingled. When new legislation is considered, the traditional concerns of farm prices and incomes will have to be considered jointly with the newly emerged issues.

One of the new issues is price stability. Price stability has emerged since 1972 as an issue affecting all three policy areas. While consumers were concerned about food prices, farm prices were also of concern. Farmers are not exempt from the redistribution of income and are also subjected to differential impacts. The large grain exports of recent years meant higher prices and incomes for grain farmers, but also meant higher input prices and lower net incomes for livestock producers. When higher grain prices lead to a large reduction in the livestock inventory (as happened with the cattle industry in 1975), producers can (and did) suffer large capital losses.

With the grain stocks depleted and the land reserve committed, the lack of flexibility in the system meant that increased exports pitted the domestic

consumer against the foreign consumer. Also, as exports increased and food prices rose, those consumers at the low extreme of the income distribution suffered most. Since a larger fraction of their income is spent on food, they suffer relatively larger losses in purchasing power than do the consumers in upper income groups.

These issues all become intertwined--food prices, farm prices, their level and stability; food aid for the low income consumer; and food aid, trade, and development assistance for foreign consumers. While the redistribution of incomes is a basic economic issue and involves philosophical differences on the most optimal way to handle it, the issues that will be debated when new legislation is considered will likely be much more specific. I will now briefly note the issues in each of the three areas as I see them shaping up.

Agricultural Policy

The underlying issue in agricultural policy will likely pit the "market orientation" proponents versus those favoring substantive government intervention. The issue runs deep, involving philosophical divergences of considerable magnitude as to the most efficient way to allocate the sector's resources and still obtain the desired social goals.

Alternatively stated, the central issue largely determining the direction of policy over the next several years is whether agriculture is to be viewed as a public utility--a guaranteed rate of return to producers (price floors) but with price ceilings--or as a market-oriented sector with only risk protection against losses from severe market downturns.

These polar positions are obviously extremes, overdrawn to frame the issue. The public debate will not likely even

be billed as "free market versus intervention" or even as "agriculture as a public utility," but that will be a major underlying economic issue and will be manifest in the topical issues.

Price Supports. Specific focus will be on the level of price supports. The underlying question in debating the level of supports is their appropriate role. Are they a device for use only to protect producers from infrequent but severe price declines or are they a device to guarantee a return for each producer? Depending upon the level at which loan rates are set, the role of target prices also may be reexamined. With high loan rates, are target prices needed? This is, do we need to continue direct transfer payments to the farm sector, especially the commercial agriculture segment?

Various proposals have been advanced to directly link (index) target prices and/or loan rates to commodity cost of production. It is highly probable that proposals will again be advanced to index these price supports to variable costs or some proportion of total costs.

Price supports eventually connect to the question of grain reserves. If supports are high enough and market prices fall sharply, the government could end up owning large stocks of grain inadvertently.

Reserve Grain Stocks. The present target prices and loan rates provide a price floor, protecting the producer against calamitous downside risk. However, there are no corresponding price ceilings on raw farm product prices and consequently, food costs. Uncertainty is added to the system by the ad hoc use of export embargoes when food prices appear to be rising beyond acceptable levels and possibly fueling inflation.

A grain reserve is widely offered as a means to achieve price stability through moderating the peaks and valleys in price movements, while allowing price to allocate resources within some range.

While consumers would likely favor such stability, producers have traditionally opposed stocks, remembering the price-depressing effects of huge stocks in previous times. However, a weakening of export demand could lead to some softening of this position. Producers might favor withdrawal of supplies from the market to establish some type of nongovernment reserve, and bolster prices in the short run.

The reserves question also relates to our foreign food policy which I will take up subsequently.

Disaster Payments--Crop Insurance. Producers now receive protection from natural disasters primarily from two major programs--Federal Crop Insurance Corporation (FCIC) insurance and the Commodity Credit Corporation Disaster Payment Program authorized by the 1973 Act. Various proposals will likely be made to modify these programs. Modifications could include expanding the FCIC coverage and discontinuing the disaster payments program, Government reinsurance of private insurance company offerings, and forms of producer-Government cost sharing insurance programs. Many producers have benefitted from disaster payments and they will be hesitant to give them up without something as a replacement.

Harmonizing Commodity Programs. Other issues will develop around attempts to incorporate the Rice, Peanut, and ELS Cotton Programs into the same programs' format as that for the major crops. The rice program is essentially in that format now, but in separate legislation.

Little interest is apparent for returning rice to the previous type program.

Dairy Programs

Dairy programs could be a strong issue, especially as to mechanisms for setting the support levels. The whole area of market orders is coming under increased scrutiny and attracts the attention of consumer groups and consumer-oriented Congressmen. Dairy interests are now seen as more prone than ever before to "trade" with the consumer groups and the "hunger lobby" to retain their programs.

Domestic Food Aid Policy

Originally conceived as a means for disposal of surplus agricultural products and assistance to the needy, the domestic food aid programs have grown far from their original designs. In fiscal year 1976, the domestic food aid programs cost \$7.8 billion in total, with the largest, the food stamp program, costing \$5.7 billion. These programs, administered through the Department of Agriculture, comprised about two-thirds of the Department's budget. Over 45 million people received food aid assistance of some kind--17.5 million received food stamps and 25.9 million children received aid through the school lunch program.

A primary issue in this area is simply the cost and effectiveness of the programs. Most everyone agrees with the lofty objective of providing assistance "to those who really need it," but deciding upon the criteria for determining who is really in need is the big problem. When the Department earlier this year announced new regulations tightening the eligibility requirements, suits were brought by various groups and the Federal Courts overturned the new regulations.

A "food stamp reform" bill was considered in the past session of Congress and created considerable controversy, but no action was taken before adjournment.

A possible legislative dilemma shaping up involves tradeoffs among the agricultural and food interest participants. In the past, with the growing urban congress, tradeoffs were alleged--support for desired agricultural legislation was obtained from urban congressmen in return for support for "sweetening" the food aid programs. However, most of the recent thrust has been to reduce the cost and restrict the food aid programs, so little opportunity now exists for "sweetening," and such trades. How agricultural legislation may be affected remains to be seen.

Foreign Food Policy

The expiration of P.L. 480 will provide a forum for discussion centering on our foreign food policy. Three major focal areas are (1) the economic impact of allowing free access to our markets, (2) food aid, and (3) agricultural development assistance.

Allowing free access to our markets raises a number of issues including price stability and domestic and international commodity reserves, export controls (embargoes), trade agreements, trade liberalization negotiations, and others. During the decades that we held large grain stockpiles, we were able to moderate price swings both nationally and internationally. Now that we no longer have the protection of huge reserves, U.S. farm and food prices are directly influenced by the international market.

U.S. food aid programs--specifically P.L. 480--originally resulted from surpluses, especially of grains, which

built up during the 1960's. For many years, P.L. 480 programs were consistent with our commercial objectives for agricultural exports. Through adjusting terms--use of the local currency, credit, and commercial sales--effective prices were tailored to the customer's financial and security status.

However, with strong demand, negligible stocks, and high prices, there is now little incentive to move as much food under P.L. 480. Therefore, political support for food aid has waned somewhat on Capital Hill. Considering the large and growing costs for petroleum imports and that our agricultural exports about offset these costs currently, concessional sales or grants in a U.S. food aid program will probably not provide the volumes to recipients that were provided in the past.

Policy questions to be resolved relate to the future extent of our ongoing aid programs, obtaining a wider sharing of food aid efforts, and the ultimate objectives of food aid.

Because of our size and expertise, there will be a continuing heavy demand on the U.S. agricultural and scientific community to participate in technical assistance programs. While aid to others increase their food production is altruistic, it may lead to conflicts, such as occurred recently with the palm oil imports. Others argue that it is in our own best interest over the long run to provide development assistance. The nature and extent of such assistance is thus an issue for resolution.

SUMMARY

The convergence of the broad policy areas in 1977 relating to agriculture

and food presents the Executive Branch and the Congress a rare opportunity for forging at least the basic framework of a national food policy. Whether this opportunity is seized depends upon further economic developments and the degree of involvement of both the new and traditional participants in the policy process. At present there appears to be little movement in this direction. Even if the areas continue to be treated separately, growing economic interdependence requires more joint consideration than ever before. This suggests that policymakers and the public will require more economic information of greater complexity, increasing the burden on economic analysts, the Extension Service, and other public agencies. It is a formidable challenge that will require our best efforts.

Footnote

- ¹Material in this section draws from The CECD Observer, No. 81, May-June 1976.