



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.

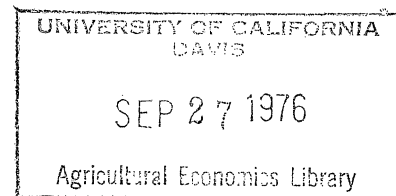
Help ensure our sustainability.

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.*

Agriculture



"POLITICS -- ACCELERANT OR RETARDANT
FOR AGRICULTURE"

by

Clarence D. Palmby

Vice President

L Continental Grain Company

For Presentation

To The

Industry Advisory Committee

American Agricultural Economics Association

Penn State University

State College, Pennsylvania

August 16, 1976

"POLITICS -- ACCELERANT OR RETARDANT FOR AGRICULTURE"

Politics -- "the practice or profession of conducting the affairs of government."

Economics -- the science treating of the production, distribution and consumption of goods and services.

I am pleased to be given the opportunity to address this industry group of agricultural economists. I must also add, however, that I have asked myself several times in recent weeks why I selected such a difficult topic.

Politics -- Accelerant or Retardant for Agriculture is also suggestive of controversy. That is not all bad because government decisions or legislation at any level of government invariably reflect compromise. Successful politicians learn quickly the art of compromise.

Government policies affecting the production, distribution and consumption of goods are likewise the result of compromise,

I fear the word "compromise" in the minds of many smacks of character weakness or of one who lacks conviction. In my opinion this is an erroneous view. The art of decision making or the ability

to accomplish is best served by the technique of attaining (to the extent possible) those features or qualities of most importance.

Whether a specific feature or item is of major importance requires judgment and conviction and a philosophical view which may or may not be shared by a majority. Final attainment via the political process is only successful through the process of compromise.

My thoughts on this matter can best be illustrated by sharing a personal experience.

Years ago I dreamed of serving the executive branch of our federal government in a policy position at a time when the executive and legislative branch would be controlled by the same political party. Because of my political persuasion this never did happen. After being a part of or watching the Washington scene for 25 years, I am now of the opinion there is greater challenge to serve in the executive branch when the legislative branch is in the hands of the opposite political party.

Let me illustrate.

During my latest period of government service, and in the years 1969 and 1970 I spent what seemed at the time to be endless hours working with the House and Senate Committees for Agriculture in writing what became known as The Agricultural Act of 1970.

Some agricultural economists have branded that legislation as pure compromise. Of course, it reflects compromise. That is what the system is all about. That little act of compromise required, on my part, over 100 trips from USDA to the halls of Congress. The meetings were with the Committees, Subcommittees, individual Senators and Congressmen. In addition, several other USDA policy people also participated in a major way.

I particularly wanted to get rid of the wheat and cotton marketing quota authority, and the penalties for overplanting grains and cotton. To attain this we had to choke on some things we did not want. Not the least of the unpalatable features was a continuation of the domestic wheat certificate or bread tax scheme. Still another feature that kept us awake at night was inclusion of the honey bee indemnity authority. Senator Aiken (now retired) best described the merits of the honey bee indemnity program when he said at time of enactment: "A honey bee will never again experience a natural death so long as this legislation remains alive."

This candid example only illustrates how the material welfare of mankind may be retarded or accelerated by politics.

In developing further my thoughts on this subject I shall review several landmark decisions reached through the art of compromise. Together we shall try to determine which ones may have

been arrived at for the purpose of maintaining the power to govern. Conversely, we shall attempt to develop a dialogue that may lead us to agree or disagree on those actions which were more heavily influenced through the application of forward looking economics.

As we list examples of agricultural policy changes, domestic and overseas, we shall discover that most actions do not fall into nice little categories such as political expediency, or sound forward planning. The recognition of the existence of a broad gray area as compared to all nice black or white little squares is what I choose to define as the beginning of wisdom. To recognize such realism has not been personally easy for my mental processes but the existence of four billion people in the world makes necessary the continuity of an open forum for divergent views on agricultural policy.

Now let us list a few developmental milestones, not necessarily in order of economic or political importance, but of significance to the United States and the world.

Policies of the Food and Agriculture
Organization of the United Nations

FAO was established for the purpose of undertaking and promoting agricultural development. The international organization met with some success. Then a lackadaisical attitude developed. Improved cereal varieties seemed to be the answer to all problems to

the extent that an attitude of: "Eureka, I have found it," prevailed, particularly in sub-Asian continent. As late as year end 1971, country delegates to FAO were really only interested in discussing the manner in which the "plenty" of the world should be divided.

Many country representatives at that time vigorously requested United States, Canada and other industrially developed agricultural exporters to adjust farm production downward. The rationale was based on the premise that dollar markets for grain and other farm products should be supplied by production from the developing countries. It was a time for determining how the contents in the "horn of plenty" should be divided.

To this day FAO as an organization has not regained composure and has not reorganized in a manner that would make the United Nations more effective in accomplishing their stated goals.

Was the development of this policy due to political bickering, or was it because of unenlightened forward planning?

The answer: Politics (at the expense of sound economic policies in this case) was a retardant.

Common Agricultural Policy --
European Economic Community

The CAP is a way of life in Europe. I believe our European friends when they state it is non-negotiable.

World tightness of the world's grain supplies since 1973 has tended to shroud the CAP with a degree of respectability which had not been present before. EC officials point out that their high protective price policy through the years attracted investment capital into grain production, which in turn was beneficial to the world.

Obviously, Europe is prepared to live with high price food policy having no relation to world price levels.

The highest profile political feature regarding CAP is the policy of dumping surplus commodities onto the world market. This is damaging to producers in other countries dependent on markets at world price levels.

Is the CAP based entirely upon political expediency or sound economic judgment?

The answer: Political expediency. The CAP as it is now constituted is a perfect example of compromise.

It is an accelerant to agricultural production in member countries and a retardant to consumers and competing nations.

Poland's decision to freeze prices
of some major food items

Late in calendar year 1970, Poland was experiencing considerable labor strife. Workers were dissatisfied with availability, quality and prices of food -- particularly meat, poultry and dairy products. The Polish government took bold action. Prices were frozen and wages were increased. The increase in demand over the five years since that policy announcement has been dramatic. The same dialogue in an identical manner of somewhat lesser degree took place in the USSR, Hungary and other East European countries.

Frankly, these little-followed policy pronouncements did not really attract much attention at the time. Information was not precise. Even many experienced economists and analysts downplayed the significance of the actions. Rational thought dictated that "cheap food policies" behind the curtain were not of earthshaking importance to the United States. After all -- so the argument went -- those countries simply do not have the foreign exchange to become dependent on the west for an increased volume of grain and other feed ingredients.

The decisions made by the governments in that bloc of countries have had greater impact on the supply/demand situation for grain than any other government policies.

Was it a political decision?

The answer: Yes. The decisions have worked as an accelerant for production of grain in the United States -- also as an accelerant for production of livestock in Eastern Europe.

The U.S.-U.S.S.R. Grain Agreement

The all-out agricultural policy debate on who should speak for agriculture took place midway in this century when the U.S. Department of Agriculture faced a major dilemma. The Secretary at that time and his political appointees jointly embarked upon an educational program designed to control production in a straight line manner. Suggested supply management legislation was written for meat animals and other perishable commodities. Meanwhile, some farm organization leaders debated the opposite view.

After furious debate and consideration by the Congress, it was decided to exclude the federal government from controlling production and stabilizing prices of meat and/or animals. Since the

middle of the century and until four years ago, the animal sector -- operating in a free market syndrome -- experienced generally stable and predictable feed prices. As a result, while periodically one or another sector of the animal and poultry complex suffered financial stress, the overall policy issue regarding extent of government direct involvement in meat, poultry and egg markets has been a relative "back burner" subject.

This short background statement involving political action in behalf of meat, poultry and egg producers is necessary before a political or economic conclusion is reached on the U.S.-U.S.S.R. Grain Agreement.

Bluntly stated, the U.S. animal agriculture industry continues to be by far the most important market for U.S. grain and soybean producers.

I also remind you that the 1973 farm program, which expires next year, is entitled: The Agriculture and Consumer Protection Act. The legislation also contains the export sales reporting authority.

I contend that the U.S.-U.S.S.R. Grain Agreement, while not an earthshaking document, is responsive to the best interests of our animal agriculture and is responsive to the intent of the 1973

legislation as noted in the title of the act itself. The document naturally does not in any way directly affect the world supply/demand corn and wheat situation.

Is the agreement an accelerant or retardant for agriculture?

In my opinion, it is both or it is neither. It adds to market intelligence which may result in an acceleration of input application by some agricultural enterprises or by others as retarding expansion.

United States Peanut Program

There are two reasons why I wish to discuss the peanut program, neither of which is for influencing anyone's political attitude on what may now be a higher profile subject.

The two reasons for inclusion of a discussion of the subject in this paper are: first, the peanut program represents a classic example of USDA supply management and second, the peanut program offers an excellent example of a program that is increasingly embarrassing to the United States as discussions take place involving international trade.

As is generally understood, the minimum acreage of peanuts allocated to the three main production areas is fixed by statute. The acreage (about 1½ million) is greatly in excess of domestic requirements. The surplus acquired by Commodity Credit Corporation is disposed of at great cost to CCC. Rather than stress the cost of the peanut program to the U.S. government and to consumers, I wish to emphasize the financial return to farmers holding an acreage allotment or a piece of paper permitting planting of X acreage. Presently the authority to plant is worth from \$60 to \$150 per acre each year to the holder of the allotment which is established on past history. Putting it simply, a holder of an allotment was lucky by tradition or birth to have inherited or attained history of planting.

This is a classic example of supply management because it illustrates the difficulty in which government administrators find themselves in carrying out the mandate of the peanut legislation -- which theoretically is to balance supply against demand.

Ironically, the three geographical areas engaged in peanut production (southwestern United States, southeastern United States and the Virginia/Carolina area) each unite on a policy recommendation as to where the level of price support should be established. The minute the national average price support is determined the three major producing areas square off against one another. Each area wishes the support price to be established on their particular type

of peanuts so as to give them maximum market access on which to build additional history of planting as compared to one or both of the other areas.

The program is particularly embarrassing to trade negotiators because of the heavy subsidies involved in making the commodity or the end products competitive in world markets.

Is the program political?

The answer: Yes. Attempts over the last 20 years have been undertaken to amend the legislation in one of several ways. The attempts have met with failure.

As we look ahead to a new Congress, there are two developments which, in my opinion, deserve watching by all of us who are interested in the economic impact of future proposed or enacted legislation.

First is an area which should have some impact on the Congress and in turn on the development of agricultural and other legislation. I refer to the new congressional budget process and implications for funding.

Historically, it has been customary for members of the legislative branch to introduce and often enact agricultural legislation which, if fully funded, would prove to be excessively expensive. If Congress, under the new budget process proves able to discipline itself, the result should become apparent during the legislative development process. If this should happen, the respective appropriation committees should not be put in a position to restrict the manner in which legislation is applied or administered, as often is the case. The discipline should take place in the legislative development stage.

I hope the new congressional budget process is successful because it should result in more responsible legislation.

Second, all of us must be aware of some of the past proceedings under the auspices of the Senate Subcommittee on Agricultural Production, Marketing and Stabilization of Prices of the Committee on Agriculture and Forestry. A report published by the subcommittee in April 1976 contains papers on Marketing Alternatives for Agriculture, subtitled: Is There A Better Way?

While many of the papers are replays of the past debates involving our marketing system, such open exploration of options is still vitally needed.

I do not wish to infer that our marketing system is perfect, nor do I say that it should not be studied and restudied and possibly be improved. I am simply stating that the investments by the private sector in our marketing system, made as a result of established institutions in the United States, have served our nation well. The system is worth keeping. The defense, however, of free institutions calls for constant vigilance.

It is significant that each of the 12 papers was prepared by an agricultural economist, working alone or with others to develop a thought-provoking set of challenges for policy makers and producers now and in the future.

It is most interesting that the political assessment process began with the valued and valid input of agricultural economists as a leading step toward further consideration of the possible...the attainable.

There can be no better testimonial to the roles, responsibilities and contributions of the agricultural economist in political planning for agriculture.

Thus the doubts which plague some of us concerning political decisions affecting agriculture are tempered somewhat by the belief

that major moves in policy and programming will continue to draw on the best thinking of specialists like yourselves.

That politics must seek a consensus to nurture itself is an established fact.

That politicians will continue to reinforce their actions through the counsel of qualified experts is our one best hope for the future.