Conflicts and Consistencies in the Agricultural Policies
of the United States and Canada

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I

We take up the subject of agricultural policy at a time of great uncertainty as to what the future may hold. For two decades, excess production capacity in agriculture has existed in both the United States and Canada. Programs to support farm prices and incomes and to limit marketings of some farm products have been in operation. Competition for export sales has been keen. As the 1970's began, Canada was struggling with surpluses of grains and dairy products. The United States in 1972 was paying farmers for withholding about 60 million acres from crop production.

The past year, however, has been so dramatic an exception to the usual situation that many observers do not expect chronic surpluses to reappear. Under the impact of poor crops in Russia and some other countries, exceptionally strong demand for meats, poor planting weather in the United States this spring, inflation throughout the world, and still other factors, surpluses have disappeared and prices have soared.

Though several elements of the situation seem temporary, some are in keeping with long-term trends. Demand for meat in the affluent nations of the world is increasing strongly. Accordingly, demand for feedstuffs also is rising. The possibility that Russia may become a large net importer of food and feed is especially significant. Perhaps the green revolution in the less developed countries of the world will be less pervasive than expected a few years ago. In the United States, hopes that Western Europe and Japan can be persuaded to adopt less protectionist farm policies have created great optimism in some circles about potential export markets for the United States and, by extension, for Canada.

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The past year may prove to be a turning point at which one set of circumstances in agriculture gave way to another set having greatly different effects on farm markets and strikingly different implications for agricultural policy. But then again, 1972-73 may prove to be a temporary aberration, as was a brief period two decades ago at the time of the Korean War. Therein lies the uncertainty, an uncertainty that any current planning for future policy must recognize. We return to that uncertainty as part of the setting for future agricultural policy at the close of this paper.

II

The broad agricultural policies of the U.S. and Canada have had much in common during the histories of the two nations. By the late 1920's, both countries had achieved a considerable development of agricultural policy in the field of research and education and at least some development in transportation, marketing, credit, cooperatives, land tenure, and land improvement. The aftermath of World War I created strong pressures for government action in another field, farm price and income support, but in both countries the measures taken in the 1920's were to strengthen cooperatives in their efforts to market farm products at higher prices. Plunging prices and extreme economic distress among farmers during the early 1930's were situations to which the governments of both countries were forced to respond in one way or another. From that time forward, "agricultural policy" usually has been taken to mean farm price and income programs, with limited emphasis on the other components of comprehensive policy.

The response in the U.S. to the great depression of the 1930's was much more sweeping and ambitious than the response in Canada. Price supports, acreage controls, direct payments, marketing orders, and export subsidies were quickly established and came to apply to a wide range of commodities.

North of the border, the response emphasized the establishment of marketing boards to deal with specific commodity situations in particular areas. Government efforts to rescue the wheat pools led to support of wheat prices and later to establishment of the Canadian Wheat Board.

Dealing with the consequences of rapid technological advance has been the principal task of farm price and income programs since World War II. In the U.S., high-level price supports were in force for several leading crops during the 1950's. Export subsidies were used in varying degrees to retain commercial markets abroad. P.L. 480, later called Food for Peace, moved large amounts of wheat and smaller amounts of several other products to less developed countries under highly concessional terms.

By the mid-1960's, the main outlines of present U.S. farm policy had evolved. Price supports for feed grains and cotton had been lowered to levels at which no subsidy was needed for export, and wheat export subsidies were low by past standards. Sufficient acreage was withheld from these crops to prevent overproduction in a normal year. Farmers were not compelled to withhold acreage; instead, they were offered government payments to induce them to do so. Especially for cotton and wheat, the payments were larger than necessary to obtain needed participation in the acreage control programs and thus were important supplements to growers' incomes.

Prices of milk used in manufacturing have been supported in the U.S. at fairly modest levels, but prices of milk for drinking purposes have been substantially higher under government marketing orders. Producers of meat animals, poultry, and eggs have received only sporadic, limited support, through government purchases. Marketing orders for a number of fruits and vegetables probably have improved producers' incomes modestly. Since the mid-1960's, the P.L. 480 program has been less attractive to recipient countries and smaller in scope. Domestic food consumption subsidies, on the other hand, have become important, mainly in the form of more food stamps for the poor -- and almost entirely at the insistence of nonfarmers.

As I read the Canadian agricultural policy of the past 25 years,[11] it has included most of the components already described for the U.S. but has utilized them with considerably different degrees of emphasis and thoroughness. Power to set prices and to control marketing has been given to the marketing boards to a much greater extent than has been accorded to administrators of marketing orders in the U.S. The marketing boards have been confined to provinces or smaller areas, so that their capability to influence commodities produced in several provinces and having national markets has been low. Legislation passed in 1972 created a means of getting coordinated action on a multi-province or national basis.

Quite understandably, wheat has held the limelight in Canadian farm policy. The Wheat Board has control of delivery by farmers, transportation, storage, and sale to an extent not approached by the Commodity Credit Corporation in the U.S. On the other hand, the Board's efforts to support prices and to restrict production during the 1950's and 1960's were far less direct and ambitious than those in the U.S. Faced by low wheat prices, huge stocks, and large acreage at the end of the 1960's, the Canadian government made two important changes in wheat policy. One was a vigorous one-year program to reduce output and stocks. The second was a program of making direct payments to wheat growers to bring their realized prices on a portion of their sales up to a target price. Canada now explicitly supports wheat producers' income when prices are low and has the means of directly controlling output approximately in the U.S. manner.

Barley and oats marketing in the Prairies is entirely controlled by the Wheat Board. Delivery quotas have been imposed at times, with over-quota grain permitted to be sold locally for whatever it might bring. A freight subsidy on feed grains, initiated during World War II, still continues in an effort to equalize feed costs over Canada. Apparently, benefits go to livestock, dairy, and poultry producers in Eastern Canada and British Columbia and perhaps to Prairie grain producers [3]. Dairy production is subsidized heavily and in several ways: government supports prices of manufactured milk products and makes direct payments as well; milk for fresh use is priced at high levels by marketing boards; and dairymen benefit from the feed grain freight subsidy. Occasionally, low-level price supports, sometimes in the form of direct payments, are used for some other farm products. Export subsidies have been in effect for certain manufactured dairy products and are used on occasion for a few other commodities; some marketing boards dispose of products in the export market at lower than domestic prices.

Canada has done more than the U.S. to hold down program benefits going to the largest producers. Direct payments on some commodities, including wheat, have been sharply limited as to the amount going to a single grower, and the Wheat Board's advance payments on grains have likewise been limited. Not until 1971 did the U.S. restrict payments to grain and cotton producers, and then at a very high level. A further reduction will apply in 1974.

Though the agricultural policies of the U.S. and Canada have had much in common, three broad differences can be noted. The first, already suggested, is that most U.S. programs have been more ambitious than their Canadian counterparts -- they have aimed at higher income objectives and have been relatively more costly to government. The dairy programs of recent years may be an exception. The second is that Canadian policy has been more fragmented -- each commodity and each area has more often been treated in isolation from the others. Emphasis on marketing boards has been one aspect of this. The third difference is closely related to the second: U.S. farm legislation of the 1960's and 1970's constituted an effort to deal with the problem of aggregate excess capacity in agriculture more directly than has been attempted in Canada. Though the 1965 and 1970 Acts in the U.S. were written in terms of particular commodities, they provided for massive land retirement on an annual basis in a way that materially influenced acreages of other crops and of total crops; and control of crop production, though clumsy and inexact, was indirectly a restraint on livestock production.

The differences between U.S. and Canadian price and income programs can hardly be attributed to differences in types of problems encountered, for problems have, in fact, been similar. Four hypotheses are suggested in explanation of the policy contrasts already described.

First, the U.S. is the richer nation. The U.S. has, therefore, been willing and able to put more money into its price and income programs for agriculture. The clearest example is so-called voluntary production control by which farmers are paid to reduce acreage sufficiently so that surpluses do not pile up under support prices. Less compulsion has existed in the U.S. to limit payments to large producers. The more integrated character of U.S. farm policy is partly attributable to the nation's ability to provide the money that is the grease that makes the machinery work.

The second hypothesis is that the much greater absolute size of American agriculture has frequently led the U.S. to believe it could act like the big frog in the world agricultural puddle. It once thought that it could support the price of its own cotton and -- since it was by far the largest exporter -- the world price as well. In this it proved to be mistaken. But in feed grains, in which the U.S. has a strong comparative advantage and is very dominant, the nation has been able to support its own and world prices at modest levels without loss of competitive position. Wheat is the principal exception, for Canada has been an equal of the U.S. in commercial export, and, as a following section shows, a duopoly-like situation often has existed.

The two remaining hypotheses probably are less important. One is that the historically weaker position of the federal government in the Canadian political system as contrasted with the American has encouraged the less centralized, less integrated policy represented by marketing boards. The final hypothesis is that geographic features more compellingly divide Canadian agriculture into distinct regions than is true south of the border. The result, again, is a more area-oriented, fragmented approach to farm price and income policy in Canada.

III

What broad conclusions can be drawn about whether the agricultural policies of the U.S. and Canada have or have not served a useful purpose? My appraisal is based principally on the American experience, but I think it applies to Canada as well. The time span is the last forty years, with emphasis on the last twenty.

If the two countries had consciously planned their agricultural development, they might reasonably have pursued two principal objectives. First would be rapid improvement of the productivity of the agricultural sector in the interests of the people at large. Second would be the alleviation of economic distress in that sector, as well as in any other, if external circumstances or rapid technological advance bore harshly upon it. This essentially is what the policies of the two countries have done, though not entirely by design. Public support of agricultural research and education, which has contributed greatly to higher productivity, was undertaken primarily to help farmers. The adverse effects of much technology on farmers, traceable mainly to the need to transfer large amounts of labor out of agriculture, were among the reasons for demands on government to support farm income. Governments in democratic societies cannot ignore such demands. Those of the U.S. and Canada did respond, though they did not necessarily see their actions in the context of this ex post interpretation. The responses were often expedient, based on misconceptions of the basic problems, and inefficient in use of both farm resources and public funds, but they did provide an essential complement to the rapid introduction of new agricultural technology. The price and income programs gave an important amount of income support and stability to farming without materially impairing the adjustments most vital to agricultural efficiency, namely, labor transfer, capital investment, and farm enlargement. That is not to say, of course, that either the efforts to increase agricultural productivity or the price and income programs were without fault in the past or are well suited to the future.

Strictly agricultural policy has not been and cannot be adequate to the economic needs of all farm people and farm communities. Many of the people who left agriculture were poorly prepared by their education or skills to earn a decent living in other occupations and received little aid of any kind in finding employment elsewhere. Many people stayed in agriculture who would have left had other opportunities been more available to them. Educational and other social policies might have alleviated such difficulties and at the same time improved the stiuation of those remaining on farms.

Another set of problems outside the scope of farm policy is the group usually put under the heading of rural development. It seems quite likely that the socially most efficient distribution of population over the land area is now and certainly will be in the future one that puts a larger proportion of the people in some areas currently classified as rural. To the extent that development can proceed at once in such communities, the difficulties of some farm people in making a transition to other occupations will be eased. There is, of course, a much broader social gain to be made by encouraging growth in rural areas where it will prove satisfying and by improving the quality of living in rural communities generally.

The final circumstances in which agricultural policy is insufficient for the economic needs of farm people is poverty not remedial by feasible improvements in farming operations, by nonfarm employment locally, or by migration elsewhere. Some form of minimum income arrangement is needed for poverty-stricken farm people, as for other people in equivalent circumstances. The transformation of commercial agriculture has proceeded to a point where its economic difficulties and rural poverty are clearly different problems with different potential solutions.

IV

What have been the interactions between the farm policies of the U.S. and Canada? Have policies conflicted, supplemented each other, or been neutral?

The most important question bearing on possible conflicts is whether the price and income policies of the U.S. have helped or hurt Canadian agriculture. The focus here is on policies of the U.S. because its price support and production control programs have been more ambitious than Canada's and because output of most commodities is considerably greater in the U.S. The general answer to this question is in two parts: First, while the U.S. supported farm prices of export products, accumulated stocks, and cut back its own production, as it did for several commodities much of the time prior to the mid-1950's, agriculture in other countries was benefited because the U.S. was holding a price umbrella over world markets and was assuming the role of residual supplier. Second, when the U.S. tried to avoid this result by using export subsidies or by reducing its domestic prices, it still put smaller amounts of products on export markets than it would have done under a laissez-faire policy. Accordingly, export prices available to other countries were somewhat higher than they otherwise would have been.

The first proposition is self-evident but applies mainly to policies no longer in force. The second proposition, applicable to recent years, can be illustrated with wheat. The U.S. wheat program as it has operated since 1964 includes concessional sales to less developed countries under P.L. 480, modest export subsidies most of the time (though none at present), support of domestic prices at historically low levels though above export prices, substantial reduction of output, and direct payments that both induce compliance with acreage control and augment farmers' income. Some observers look at the direct payments and at the export subsidy and conclude that the U.S. is artificially stimulating both production and exports. They also say, probably correctly, that P.L. 480 shipments are not entirely confined to noncommercial markets but infringe to some extent upon commercial exports. It seems clear, however, that if all U.S. farm programs had been discontinued a decade ago and all P.L. 480 wheat shipments had been made available to the commercial market, the U.S. would have produced more wheat than it did and would have exported larger quantites in commercial world trade. ~~A similar conclusion applies to feed grains and tobacco.~~

The relationship between the U.S. and Canada in export of wheat has been uniquely complex. While surpluses existed during the 1950's and 1960's, world trade in wheat, featuring five exporters, resembled oligopolistic markets much more than purely competitive markets. McCalla [4] in 1966 narrowed this description down to an export market dominated by two countries, asserting that the U.S. and Canada played the role of duopolists. Canada, in McCalla's view, was the price leader but was greatly constrained by U.S. insistence on retaining a share of the commercial export market, which it did by adjusting its export subsidy. The Canadian Wheat Board often did not drive prices as low as unrestrained production would put them but restricted sales and invoked quotas on deliveries by producers. In more recent years, the situation has been less clear-cut, and one of the other exporters, France, apparently took the lead in breaking down minimum prices established under the International Grains Arrangement. Nevertheless, the basic pattern -- U.S. insistence on a share of commercial exports of roughly one-fourth, considerable Canadian initiative in pricing, and informal cooperation between the two -- was discernible until the strong sellers' market of the past year. The uneasy tension of conflict and cooperation that characterizes oligopoly has described the relation between the U.S. and Canada in the international wheat market.

In contrast to its international price policy in wheat, the U.S. has acted unilaterally in its pricing of feed grains. It has given significant support to world trade prices in the past decade but not enough to impair its own competitive position. Both countries have been protectionist on dairy products: neither has been prepared to expose domestic producers to competition from such suppliers as New Zealand and Denmark -- the dairy policies of the two countries have been a standoff. Neither country has intervened extensively in markets for meat animals, poultry, or their products, and barriers to trade between the countries are low to moderate.

Discussions of agricultural competition between the U.S. and Canada sometimes emphasize such matters as governmental assistance in extending credit to foreign buyers and in promoting farm products in overseas markets. The U.S. has been the more aggressive of the two in these respects in the past. The long-standing preferential freight rate established by the Crowsnest Pass agreement for wheat shipped for export from the Prairies is called a subsidy by some of Canada's export rivals. Dumping of products sometimes occurs across the U.S.-Canada border. Businessmen engaged in foreign trade and particular producer groups are likely to be most aware of such aspects of competition and particularly sensitive to them.

On the whole, however, one does not find more conflict and inconsistencies between U.S. and Canadian agricultural policies than he might reasonably expect in light of the situations the two countries have confronted. Both have been faced with the political necessity of giving some aid to agriculture. Those agricultures are similar and competitive, a situation that might encourage cutthroat rivalry. Yet the more vicious forms of competition have not often appeared and have not long endured. Probably this result has been in part due to a certain regard by each country for being a good international neighbor. Perhaps more important, each ~~nations~~ nation, viewing its alternatives, frequently has judged that its own interests were best served by policies not injurious to the other.

The agricultural policies of the two countries have materially altered production and trade in certain farm products -- sugar and dairy products[2] are examples found in each country. The modification of trade, however, has been greater with respect to third countries than with regard to each other. It seems doubtful that net trade between the two countries in any major farm product has been greatly altered from a pattern consistent with the principle of comparative advantage. Social costs from this source appear to be low.

V

What are the possibilities of greater harmonization of U.S. and Canadian agricultural policies in the future? If the agricultural situations in the two countries in the future are at all like those of the past -- that is, with excess capacity and insistent demands for farm income programs -- little support will exist in either country for abandonment of farm programs and for completely free agricultural trade between them. Only if markets are so strong that concern about prices and farm programs fades away might the full integration of the two agricultural economies win acceptance. We come back, therefore, to the sharp turn in the fortunes of agriculture in 1972 and to the uncertainty described earlier as to what the future may hold.

I claim no special insight into the adequacy of the future productive capacity of agriculture. I do think that the chances are good that surpluses will reappear in some commodities in the next few years, though probably not on the scale of the past decade. In light of inescapable uncertainties, however, we need a strategy capable of drawing forth agriculture's productive capacity should it be needed and of dealing with overcapacity should it reappear. Farm policy makers are unlikely to conclude for several years, perhaps never, that scarcity has become so much the rule that they can stop worrying about farm income support and agricultural imports.

Other considerations bearing upon farm policy may tend to reduce resistance to greater integration of U.S. and Canadian agriculture. The commercial farmers who produce the great bulk of farm products have moved up enough in the income scale so that income programs are increasingly hard to justify to the public. Farm income support may wane as ~~apparently is waning as~~ a policy objective, although legislation now being enacted ~~suggesting not the abolition of farm programs but more modest ones~~ gives little indication of it. Coupled with this shift is the need to give high priority to stabilization of supplies and prices as a policy objective. Events of the last few years have dramatically illustrated the consequences of having a little too much or a little too little product for the market. As agriculture becomes more heavily capitalized, uses more nonfarm inputs, and is more closely integrated with adjacent economic sectors, it is less and less able to live with instability. A shift of priorities from income support to market stabilization does not eliminate resistance to freer trade and similar policies, but resistance should be less.

The practicable areas in which to bring U.S. and Canadian agriculture closer together apparently are those in which considerable integration already exists. The broad agricultural sector consisting of feed grains, oilseeds, meat animals, meat products, poultry, and poultry products could be integrated more fully than is now the case by establishing free trade between the two countries in feed grains and oilseeds and by assuring that tariffs on livestock and poultry products are low.

This proposal is similar to a recommendation of the Canadian Federal Task Force on Agriculture, which in 1969 completed a comprehensive study of Canada's farm policy needs for the 1970's [1]. The Task Force recommended essentially free trade in grains and abandonment of the freight subsidy on feed grain shipments within Canada. Adjustment by livestock producers in Eastern Canada to the loss of the feed freight subsidy probably would be the most difficult adjustment in either country as a result of the proposed policy change. American crop programs would clearly be the major determinant of supplies and prices of feed grains and oilseeds when the programs were in operation, as is the case now. The Canadian Wheat Board would have little reason ever to hold back on sales of feed grains and to accumulate stocks, a questionable policy for these commodities even in the past. Livestock producers in each country would have complete access to essential feed materials at world prices.

The proposed retention of modest tariffs for meat animals and poultry products is based on the expectation that Canada will not develop much export potential for these commodities. Canada should, however, be self-sufficient, and a low degree of protection to encourage this result seems likely to be in the country's best interests. The Canadian Task Force was more optimistic about potential exports of livestock products (dairy excluded) and recommended free trade for them as well as for feed crops.

It does not seem politically feasible to merge the wheat economies of the U.S. and Canada, but close coordination of wheat policies is called for. Instability is inherent in the world supply-demand situation for wheat. Neither of the world's two leading exporters can avoid assuming some responsibility for carrying stocks and supporting prices when supplies are large, as the U.S. and Canada have had to do in the past. The logic of the market situation they face will force the leading exporters into oligopoly-like behavior whenever supplies are burdensome. Perhaps this can be regularized by an international arrangement among leading exporters and importers, but past experience is not encouraging. Informal cooperation between the two countries in stabilizing the market is more likely and, as among more conventional oligopolists, the more aware the participants are of their situation, the smoother the operation is likely to be. It should be noted, however, that the oligopoly behavior envisioned here is strictly defensive and would be likely to be superseded by ordinary competition whenever supplies were short.

The dairy policies of the U.S. and Canada are likely to remain similar but separate. Perhaps in both countries milk produced for manufacturing uses will gradually become a smaller share of total output, and imports of manufactured products will be permitted to rise. This implies less protection for dairy producers but not necessarily more trade between the two countries in dairy products.

The fruit and vegetable sector was found by the Canadian Task Force to be one in which freer trade could and should be achieved. This judgment seems sound. The number of commodities is so great and the situations so special that a more detailed conclusion~~s~~ is impracticable here.

VI

The general conclusions of this survey of U.S. and Canadian agricultural policies are (1) the policies have served important basic purposes in a dynamic world, though they often have done so crudely and inefficiently, (2) U.S. policies have been more comprehensive and have given higher priority to farm income support than have Canadian policies because of underlying differences between the two countries, (3) conflicts and inconsistencies have been frequent, but on the whole they have not greatly distorted production and trade relationships between the two countries away from patterns conforming to the principle of comparative advantage, (4) greater integration of agricultural policies and economies appears feasible, especially in areas where considerable integration already exists, and (5) prospective shifts in national agricultural policies probably will be conducive to greater integration across the border, particularly if chronic crop surpluses do not reappear.

I suspect that to many critics of the agricultural policies of the two countries, this survey will seem too complacent, too indifferent to questions of resource allocation and personal income distribution. Part of the seeming lack of concern is explainable by the survey's concentration upon possible inconsistencies between the policies of the two countries; the policies seem more open to attack for their internal effects than for their external ones. The lack of emphasis on resource allocation is partly intended, however; most failures on this score, I think, are of the second order of importance and more apparent in static economic models than in the dynamic world that actually exists. On the question of personal income distribution, the policies of the U.S. for ~~nearly~~ the last decade seem objectionable for their excessively large and avoidable transfer of income from the public to large farmers definitely in the better-off portion of the population.

If U.S. agricultural policy should now turn clearly toward modest income support and purposeful stabilization of markets, the historical record there would look fairly good. Needed improvements in Canadian agricultural policy seem to be special-case ones, including, I admit, some problems like the feed freight subsidy in which resource allocation is important. But perfection in economic policy is not to be expected. Economic policy in any field is a human endeavor afflicted by the fallibilities of human beings, a fact that should be abundantly clear to those of us living in the United States at the present time.

Footnotes

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[1] For a recent review of Canadian farm policy, see [2].

[2] Both countries would have imported manufactured dairy products if they had no dairy supports or import restrictions. Despite much opinion to the contrary, it is not clear that U.S. and Canada would have imported more than special types of cheese if all nations had no dairy supports and freer trade.

References

[1] Federal Task Force on Agriculture, Canadian Agriculture in the Seventies, Ottawa, Queen's Printer, 1969.

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[3] Kerr, T. C., An Economic Analysis of the Feed Freight Assistance Policy, Agricultural Economics Research Council of Canada Pub. No. 7, 1966.

[4] McCalla, Alex F., "A Duopoly Model of World Wheat Pricing," J. Farm Econ. 48:711-727, Aug. 1966 (pt. 1).