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THE FUTURE OF FEDERAL PROGRAMS FOR SOUTHERN COMMODITIES

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The title assigned for this article suggests that a group of bureaucrats can accurately predict the actions of both the legislative and executive branches of government. Though the compliment is appreciated, it must be recognized that both the legislative and executive branches of government are subject not only to periodic changes in personnel, but also to abrupt changes in the attitudes exhibited by given personnel. Probably the most dramatic recent example of abrupt change in legislative and executive attitude in the area of agricultural policy is the series of events that occurred immediately before, during and subsequent to the January 4, 1980, announcement of the suspension of trade with the Soviet Union. Thus, it is unlikely that any analyst — be he bureaucrat, academic, or businessman — can accurately predict either legislative or executive decisions over the next 30 days, let alone over the next 30 years. Therefore, in analyzing the future of federal programs for Southern commodities, one is to some extent limited to an examination of whether such programs have in

fact accomplished their stated purpose, and secondarily to an examination of whether the conditions and circumstances that originally created the need for these programs persist to a degree that justifies their continuation with or without any necessary modifications.

For purposes of this article, "Southern commodities" are defined to be those commodities for which some sort of federal support program is currently in effect *and* for which the primary production area is south of the Ohio River and east of the hundredth meridian. Commodities fitting this definition include rice, tobacco, peanuts, cotton, cane sugar, and gum naval stores. Corn, soybeans, wheat, and milk, though important, are not produced primarily in the region and hence are not included. The crops included are important sources of income for the region. For the 1976-78 period these crops, excluding gum naval stores, accounted for more than 40 percent of cash receipts from all crops (Table 1) and more than 20 percent of cash receipts from farming (Table 2) in the 15 states included in the region.

TABLE 1. RECEIPTS FROM ALL CROPS COMPARED WITH CASH RECEIPTS FROM FIVE "SOUTHERN" COMMODITIES FARMING, SELECTED STATES, 1976-1978 (1,000 DOLLARS)

STATE	TOTAL CROP RECEIPTS			CROP RECEIPTS FROM 5 CROPS ^a			% RECEIPTS FROM 5 CROPS IS OF TOTAL CROP RECEIPTS			
	1976	1977	1978	1976	1977	1978	1976	1977	1978	3 Yr. Avg.
Alabama	635.2	615.6	706.2	230.2	212.7	211.8	36.2	34.5	30.0	33.6
Arkansas	1,321.7	1,233.4	1,278.9	580.1	639.7	615.9	43.9	51.9	48.2	48.0
Florida	1,842.6	1,882.5	2,382.6	261.3	211.3	240.2	14.2	11.2	10.1	11.8
Georgia	1,102.6	969.7	1,075.5	504.6	506.0	567.7	45.8	52.2	52.8	50.3
Kentucky	922.3	999.4	1,040.1	521.8	619.4	542.5	56.6	62.0	52.2	56.9
Louisiana	928.4	830.6	981.0	478.6	420.2	461.9	51.6	50.6	47.1	49.8
Maryland	248.6	228.7	259.2	22.2	30.2	34.1	8.9	13.2	13.2	11.8
Mississippi	1,040.5	896.8	1,091.8	502.8	443.0	503.9	48.3	49.4	46.1	47.9
North Carolina	1,758.1	1,570.7	1,939.4	1,101.3	975.3	1,218.4	62.6	62.1	62.8	62.5
Oklahoma	647.8	705.2	704.4	105.3	120.9	149.7	16.2	17.1	21.3	18.2
South Carolina	557.3	515.4	605.4	200.4	210.3	237.6	36.0	40.8	39.3	38.7
Tennessee	601.1	705.2	757.1	235.6	220.0	252.1	39.2	31.2	33.3	34.6
Texas	3,091.4	3,135.8	2,901.8	1,297.5	1,485.2	1,403.8	42.0	47.4	48.4	45.9
Virginia	473.6	451.2	524.2	228.7	220.2	240.3	48.3	48.8	45.8	47.6
West Virginia	36.8	41.1	47.4	2.9	3.6	3.1	7.9	8.8	6.5	7.7
15 States	15,208.0	14,781.3	16,295.0	6,273.3	6,318.0	6,683.0	41.3	42.7	41.0	41.7
U.S. TOTAL	48,668.5	48,222.3	52,051.3	8,009.0	7,936.5	8,338.2	16.4	16.5	16.0	16.3

^aFive crops include: tobacco, cotton, rice, peanuts and sugarcane sugar.

SOURCE: United States Department of Agriculture, State Farm Income Statistics, January 1980.

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TABLE 2. CASH RECEIPTS FROM FARMING COMPARED WITH CASH RECEIPTS FROM FIVE "SOUTHERN" CROPS, SELECTED STATES, 1976-1978 (1,000 DOLLARS)

STATE	TOTAL CROP RECEIPTS			CROP RECEIPTS FROM 5 CROPS ^a			% RECEIPTS FROM 5 CROPS IS OF TOTAL RECEIPTS			3 Yr. Avg.
	1976	1977	1978	1976	1977	1978	1976	1977	1978	
Alabama	1,618.1	1,541.8	1,895.3	230.2	212.7	211.8	14.2	13.8	11.2	13.1
Arkansas	2,367.5	2,409.3	2,678.0	580.1	639.7	615.9	24.5	26.6	23.0	24.7
Florida	2,525.3	2,631.1	3,238.4	261.3	211.3	240.2	10.3	8.0	7.4	8.6
Georgia	2,271.2	2,196.2	2,543.3	504.6	506.0	567.7	22.2	23.0	22.3	22.5
Kentucky	1,652.4	1,730.0	2,039.9	521.8	619.4	542.5	31.6	35.8	26.6	31.3
Louisiana	1,330.0	1,236.7	1,419.7	478.6	420.2	461.9	36.0	34.0	32.5	34.2
Maryland	672.9	657.1	770.5	22.2	30.2	34.1	3.3	4.6	4.4	4.1
Mississippi	1,701.5	1,690.4	1,998.5	502.8	443.0	503.9	30.0	26.2	25.2	27.1
North Carolina	2,826.3	2,623.5	3,236.2	1,101.3	975.3	1,218.4	39.0	37.2	37.6	37.9
Oklahoma	1,886.5	1,864.8	2,379.5	105.3	120.9	149.7	5.6	6.5	6.3	6.1
South Carolina	834.7	793.9	978.6	200.4	210.3	237.6	24.0	26.5	24.3	24.9
Tennessee	1,281.5	1,380.7	1,625.4	235.6	220.0	252.1	18.4	15.9	15.5	16.6
Texas	6,293.4	6,660.4	7,548.0	1,297.5	1,485.2	1,403.8	20.6	22.3	18.6	20.5
Virginia	1,032.3	1,009.2	1,231.5	228.7	220.2	240.3	22.2	21.8	19.5	21.2
West Virginia	141.0	146.8	187.0	2.9	3.6	3.1	2.1	2.5	1.7	2.1
15 States	28,434.6	28,571.9	33,769.8	6,273.3	6,318.0	6,683.0	22.1	22.1	19.8	21.3
U.S. TOTAL	94,780.0	95,654.3	111,042.1	8,009.0	7,936.5	8,338.2	8.5	8.3	7.5	8.1

^aFive crops include: tobacco, cotton, rice, peanuts and sugarcane sugar.

SOURCE: United States Department of Agriculture, State Farm Income Statistics, January 1980.

Regardless of the type of program, the objectives of all support programs — be they national or regional in scope — bear a striking similarity. These objectives are typically stated to include:

1. Maintenance of stable and adequate supplies of the commodity.
2. Stabilization of market prices at reasonable levels.
3. Stabilization and enhancement of farm income.

These objectives are perhaps heavily conditioned by the circumstances within which commodity programs were first conceptualized and implemented.

Agricultural support programs evolved from public recognition that large concentrations of small farms lacked individual bargaining power. Because of this atomistically competitive structure, chronically large supplies of commodities severely depressed farm prices and farm incomes. Several general types of programs were developed to relieve this problem, either through higher returns from the marketplace, transfer payments from the Treasury, or some combination of these approaches. These programs have been continued for more than 40 years with substantial modifications from time to time in both content and commodity coverage. Three general types of

programs are examined and related to Southern commodities, particular attention being given to the marketing quota commodities.

PROGRAMS IN TRANSITION FROM MANDATORY TO VOLUNTARY PARTICIPATION

The programs for row crops and small grains have gone almost full circle from no program at all to mandatory programs that — in intent if not in achievement — told producers how much they could produce (acreage allotments and/or marketing quotas), to programs that told producers how much land to divert from production (land diversion based on historic allotments and bases) leaving a producer free choice on plantings once the diversion requirements were met. These programs evolved into the current voluntary programs wherein a producer is free to allocate a normal crop acreage among crops and set aside, the only constraint being that planted acreage of designated crops plus any required set aside cannot exceed normal crop acreage if the producer is to receive program benefits when a set aside is in effect.

Another important program modification that has evolved is the separation of price support (loan rates) from income support (target prices). Loan rates, set at estimated market clearing levels, are designed to provide an interim source of financing and to assist producers in orderly marketing. Target prices,

alternatively, are designed as a "safety net" to ensure returns to participating producers sufficient to cover estimated national average short-run production costs.

At the core of current policy is the farmer-owned reserve program — under which government provides incentive to maintain commodity ownership in producer hands. These reserves tend to moderate wide swings in supplies and prices. Programs of reserves have been established for wheat, feed grains, and rice. If circumstances dictate, similar programs could be established for other commodities.

Rice

Historically, marketing quotas and export subsidies have helped to stabilize rice production and to promote access to foreign markets. Though a minor producer, the United States is a major exporter of rice, accounting for nearly a fourth of world trade in rice. Rice is also a major component of U. S. food aid commitments. American rice producers are supplying a large proportion of a basic foodstuff in a world market which is characterized by greater than normal variability in production in comparison with other crops.

The rice program has gone through a transition from allotments and quotas to a voluntary planted acreage and set-aside program similar to the programs for other major grain crops. This change is creating opportunities for new producers to enter rice production. Substantial increases are occurring in areas such as southwest Mississippi.

Upland Cotton

The upland cotton program evolved from a program with rather rigid acreage allotments as a means of supply control to the set-aside program approach, and the separation of price and income support. A lesson was learned from establishing support prices above the level of world market prices. This circumstance created a "cotton umbrella" of protection for all synthetic and natural fibers. The export market for U. S. cotton eroded, and domestic markets were weakened by rising volumes of imported textiles. In 1965, legislation established the cotton price support at 90 percent of the estimated world price level. This change enhanced the ability of U. S. cotton to regain and maintain its competitiveness. Since the mid-1970s, increasing petroleum prices have reduced the cost disparity between cotton and synthetic fibers, further improving cotton's competitive position in both domestic and export markets.

The current program recognizes the major requirements of the cotton economy — competitive export prices, domestic mill prices that do not place cotton at a competitive disadvantage vis-a-vis synthetic fibers, and income supports to producers that ensure returns adequate to cover short-run costs of production in most years.

Summary

During their mandatory phase, programs for rice and upland cotton were intended at least in theory to limit supplies sufficiently to allow farm income to be stabilized and enhanced through the marketplace rather than from the Treasury. In practice, precisely the reverse occurred. Mounting Treasury costs were a major factor in their modification to the present voluntary program.

Results suggest that the current set-aside programs generally are meeting their purpose. Supplies of both rice and cotton are adequate despite record exports. Current estimates for the 1979-80 marketing year indicate that rice ending stocks of 1.6 million metric tons will fall short of the stock objective by about 18 percent, and cotton stocks of 5 million bales will equal the objective. Of these ending stocks, 300,000 tons of rice are expected to be in CCC inventory with no farmer-held reserve.

The basic farm income stabilization and enhancement feature of these sorts of programs is the twofold target price system and the price support activity. Target price payments supplement the price support activity in the event that markets do not move to levels sufficient to generate acceptable levels of return. Direct target price payments for income support to rice producers totaled \$58 million with the lower market prices in 1978, and decreased to zero in 1979 as the result of improved rice markets. No target price payments have been made for cotton since the passage of the 1977 Act.

In terms of the three basic program objectives, it is evident that both the rice and cotton programs have performed well, even though net rice returns per acre were reduced in 1978 as a result of the transitional phase of the program. Net returns per acre of rice in 1979 are expected to increase by at least 50 percent. Thus, continuation of these programs is justified if the program objectives continue to be deemed desirable.

FARM INCOME SUPPORT PROGRAMS VIA LOANS TO AND PURCHASES FROM PROCESSORS

Support of farm income through loans to and purchases from processors is provided for

those products for which high degrees of perishability make loans to producers infeasible. Loans to or purchases from processors are typically consummated on the condition that producers are paid at least the specified minimum support price. The largest volume of activity in this general category of agricultural program is in the milk price support program. However, the Southern commodities cane sugar and gum naval stores are also supported through this vehicle.

Sugar

From 1933 through the expiration of the Sugar Act at the end of 1974, the sugar program was essentially a marketing quota system that was used as an instrument of foreign policy, as well as a tool for achieving domestic program objectives. There was no sugar program in effect for the 1975 and 1976 crops. The present price support loan program for sugar was established on the authority of Section 301 of the Agricultural Act of 1949.

The United States produces slightly more than half the sugar it consumes. Market prices for U. S. sugar, except for considerations of import duties and freight cost, tend to be a function of the world price. Typically, the world sugar market is characterized by long periods during which the prevailing price does not cover total production costs, punctuated at 7- to 10-year intervals by a short period of run-away prices.

The only mechanisms currently available for protecting domestic sugar producers from the debilitating effects of the sugar cycle are Section 22 of the 1933 Act, which provides for import fees or quotas, and the import duty imposed on foreign sugar under the authority of the Trade Expansion Act of 1962. These devices require a Presidential proclamation to impose or revise, and in some cases must be supported by affirmative findings by the International Trade Commission after investigation and public hearings. In the event of a negative finding by the International Trade Commission, the matter is determined by Congress. Frequently, by the time these requirements can be met, the situation has changed to the extent that the remedy obtained is no longer appropriate.

It is difficult, if not impossible, to evaluate the performance of the current sugar program in terms of the three general objectives. Sugar spot price quotations were not reported during the marketing period for the 1977 and 1978 crops. Therefore, there is no way of determin-

ing precisely whether price objectives were being achieved. The concerns expressed within all segments of the industry indicate that they probably were not.

Realistically, the current authorities available for the sugar program are inadequate to ensure sufficient domestic supplies of sugar, stabilize prices, or maintain farm income. Perhaps the recently approved International Sugar Agreement and the general farm bill to be considered by Congress in early 1981 will provide adequate program authority.

Gum Naval Stores

Gum naval stores meet the criteria for those commodities defined as Southern, but are of relatively minor importance. Production is concentrated in the coastal plains of Georgia, Alabama, Mississippi, and northern Florida. Total government cost of this program over the last several years has been essentially zero, except for some nominal administrative costs. Price supports have improved farm income and have promoted price stability as producer prices are affected directly by price support levels. On balance, this program has performed in a generally successful way.

MARKETING QUOTA PROGRAMS

Two commodities, both primarily Southern, are still supported by mandatory programs of marketing quotas and, in some cases, marketing quotas in combination with acreage allotments. These commodities are, of course, peanuts and tobacco. The conditions which led to the original passage of farm programs in general have been more persistent for these two commodities than for almost any other. Both tend to be produced in extremely small units, and as a result individual bargaining power is nonexistent. Because of the large concentration of very small units, the removal of quotas and/or allotments would almost guarantee a price and income depressing surplus and a resulting instability of supplies and prices.

Peanuts

Peanut production in the U. S. is concentrated in three areas: the Southeast¹ with 63 percent of total production, the Virginia-North Carolina area with 16 percent, and the Southwest² with 21 percent.

Of the 59,100 farms with effective allotments,³ 38 percent held allotments of 10 acres or less. Nearly two-thirds (63 percent) had

¹The Southeast area includes Alabama, Florida, Georgia, Mississippi, and South Carolina.

²The Southwest area includes Oklahoma, New Mexico, and Texas.

³Net number of farms having allotments after lease and transfer of allotments. Historically, approximately 76,000 farms have peanut allotments.

allotments of less than 20 acres. The average size of allotment in 1976 was 26.5 acres. Program provisions allow intracounty lease and transfer of allotments. The implications of this provision are similar to those discussed for tobacco.

Allotments and quotas have been in effect since the 1930s with a statutory limit on the minimum size of the national allotment. Sharply increased yields have required establishing the total national allotment at the minimum level allowed by law in each year since 1957. This minimum allotment level acreage has been more than sufficient to meet market demands at prices dictated by the statutory minimum price support level. Rapidly increasing supplies in relation to demand necessitated large net government expenditures in efforts to attain program objectives.

In recognition of this growing problem, the program was modified in the Food and Agricultural Act of 1977. A minimum acreage allotment of 1,614,000 acres was continued by the Act. However, the output from this allotment acreage is supported in a two-price system based on a marketing quota and production in excess of that quota. Quota peanuts are supported at the price estimated for edible peanuts and additional peanuts are supported at levels estimated to make peanut oil and meal prices competitive with prices of other vegetable oils and meals, considering world market conditions.

Governmental costs of the peanut program since its inception in 1933 total \$1.1 billion. These outlays have resulted in substantially higher farm returns as removal of peanuts from regular commercial channels resulted in proportionally larger changes in prices. Since the program modifications in the 1977 Act, government costs for the peanut program have been modest. For the 1978 crop year, the first year to which provisions of the 1977 Act applied, net governmental outlays were \$18 million, 73 percent less than the average annual outlay for the prior 4 years.

Tobacco

The tobacco program has been and continues to be a key factor in the tobacco industry. The crop generates about 2.5 percent of the nation's cash farm receipts though utilizing less than half of 1 percent of the nation's cropland (Miller, p. 6). This relationship shows that tobacco generally generates much greater cash receipts per acre than land in alternative crops. In terms of net returns per acre, tobacco far outstrips alternative crops.

Relatively high cash receipts and net returns per acre of tobacco production are a very fortunate circumstance in view of the labor in-

tensive nature of the crop and the very small production units. With 542,000 farms having flue-cured or burley tobacco quotas and/or allotments in 1979, allotments are typically very small, averaging 1.67 acres. For the nation as a whole, 51 percent of the nearly 200,000 farms with flue-cured quotas had quotas that could be produced on less than 2 acres. Eighty-five percent of the flue-cured tobacco farms had quotas that could be produced on less than 5 acres.

For burley tobacco, there is an even greater concentration of producers with small quotas. Thirty-eight percent of the farms with burley quotas had quotas of 1,000 pounds or less — the equivalent of less than one-half acre per farm on the basis of 1978 yields.

The concentration of atomistically competitive farm units in the tobacco sector creates a situation in which large numbers of small production units are confronted with a very oligopsonistic tobacco manufacturing sector. Six cigarette producing firms dominate the domestic manufacturing sector, accounting for 85 percent of U.S. tobacco use. Price support loans through cooperative associations provide producers with some countervailing bargaining power, enabling them to market their tobacco in a more orderly fashion and ultimately at higher prices. In an attempt to further bolster bargaining power the Flue-Cured Stabilization Corporation has purchased and is operating a leaf processing plant.

The tobacco sector is somewhat less atomistic than the distribution of allotments and quotas might suggest because of the intracounty leasing and transfer provisions. Through these provisions, some producers have been able to obtain some income from the ownership of the quota right. Though there can be no question that this is an income transfer, the transfer is not from the U. S. Treasury but rather is from producers having excess machinery or labor capacity who are willing to pay for the right to produce and market additional tobacco. The recipients of the transfer are commonly elderly retired farmers who live on fixed and limited incomes. The leasing and transfer transaction results in increased production efficiency and in an income transfer that might be deemed socially desirable. It should be pointed out that whether by design or accident the tobacco program addresses aspects of the equity-efficiency dichotomy; how well it does it is not examined here.

The federal costs of the tobacco program have been nominal. During the 45-year period through fiscal 1978, net losses on loan and inventory operations amounted to \$51.3 million — about 1 percent of the total amount loaned to producer associations. In reality, the

increased returns to tobacco producers resulting from the program have been borne by consumers of tobacco products. Total government outlays for the tobacco price support program, including export assistance, in fiscal year 1978 was \$102.5 million. Most of this amount will be recovered as loans are redeemed.

The annual federal cost of the tobacco program amounts to less than 1 percent of the total government revenues from tobacco products. Government revenues from tobacco products at all levels totaled \$6.2 billion in the year ending June 30, 1979 (USDA, September 1979, p. 37). Of this total, about 40 percent went to the federal Treasury and about 60 percent to state and local governments.

Summary

For both peanuts and tobacco, marketing quotas have proved very effective in meeting the program objectives at relatively modest cost. Supplies are adequate and prices are relatively stable. In view of the relatively much higher returns per acre from marketing quota crops, and in view of the concentration of relatively small, low-income producing units, the absence of marketing quotas would probably be associated with substantially larger production of these commodities and hence with reduced farm incomes. Thus, the marketing quota programs are probably the most effective of all commodity programs in both stabilizing price and increasing farm incomes.

One of the criticisms of the marketing quota programs has been that the value of real estate having a marketing quota or an acreage allotment is artificially increased. It must be conceded that the government action creating the marketing quota increases the value of the farm that has that quota. One of the objectives of any commodity program is to elevate the return to the farm operator above the level that would prevail in the absence of the program. Profitability in almost any business enterprise will ultimately be bid into the most fixed of the assets required for that enterprise. To the extent that farm programs are successful in accomplishing their objective of raising farm incomes, land values and production rights will inevitably be enhanced. Questions relating to the distribution of the benefits are raised. However, these questions must be addressed outside the framework of economic analysis.

SUMMARY AND CONCLUSIONS

Sales of the so-called Southern commodities have averaged more than 40 percent of cash receipts from all crops in the Southern region

over the last 3 years and have accounted for more than half of crop sales in 3 of the 15 states within the region. These commodities have accounted for 21 percent of all farm sales in the region over this period, and have accounted for a fourth or more of all farm sales in 5 of the 15 states. Thus, these commodities are of critical importance not only to the production agriculture of the region, but also to the business community at large.

In general, the federal programs for Southern commodities have performed reasonably well in achieving the stated program goals. This achievement would not have been possible without substantial changes in program content. To the extent that the stated goals continue to be desirable, continuation of the programs — with any modifications necessary to adjust for changing conditions — is justified. Further, the conditions and circumstances which initially brought about the creation of the programs still persist, especially in the cases of the marketing quota crops.

One area of potential concern that is largely beyond the scope of this article is the distribution of benefits among the various categories of producers. Does a disproportionate share of the benefits go to the very large producers rather than small producers? Or does an unreasonable share of benefits go to the part-time operators who do not depend primarily on farm production for a livelihood? Or are these part-time operators part-time purely because their units are too small to generate an acceptable level of living? These distribution of benefits questions involve some of the issues that are likely to be addressed as all commodity programs continue to evolve.

Will there be an accelerating tendency away from mandatory programs toward voluntary programs? It is unlikely — and especially in the case of tobacco — that the mandatory programs will be replaced with voluntary ones. First, there are no really close substitutes for the products of the marketing quota crops. Second, there is no substitute crop available for the land resource upon which the crop is produced — a 1-acre burley tobacco plot in Appalachia simply does not adapt very effectively to mechanized field cropping. Third, because of hand labor constraints, there simply is not the pressure for consolidation of production that affects small units in wheat, corn, or cotton areas. Finally, program costs have been low in relation to revenue benefits generated. Many persons who oppose the program because of health-related and other issues are also concerned with the welfare of the large number of small producers who would be adversely affected if the program were eliminated.

It must be recognized that the future of any commodity program will be based more on

political than on economic considerations. Economics is used primarily to assess the impact of alternative political decisions and to justify the choice of alternatives. But the decision to implement *any* commodity program is rooted in an effort to soften or even to avert the observed result of economic forces. That is, commodity programs have evolved because the results of unconstrained economic forces

have been deemed to be socially and politically unacceptable.

Recognizing that at least the short-term future of any commodity program is much more dependent on politics than on economics, we must conclude that the future of federal programs for Southern commodities depends on the political institutions of the South and on the political institutions of the Congress.

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