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## AGRICULTURAL POLICY: SOME HARD CHOICES AHEAD

William T. Boehm

Most political analysts failed to predict that the election of 1980 would be close; few foresaw the landslide that would bring major changes in the policy-making machinery. The results surprised almost everyone. Ronald Reagan carried all but 6 states, and the Republicans won the Senate for the first time in a quarter century. The balance of power in the House of Representatives also shifted toward the conservatives—Republicans gained 33 seats.

Whether these dramatic changes portend major changes in food and agricultural policy is still a question. An indication should come soon. The policy framework for agriculture, the Food and Agriculture Act of 1977, as amended, expires in 1981. The converging forces that could lead to modifications in that framework are the subject of this paper.<sup>1</sup>

### THE FOOD POLICY ENVIRONMENT FOR THE 1980s

The notion that "new" farm legislation will "replace" the 1977 Act can be dismissed. Congressional and executive branch efforts *simultaneously* to reduce the role of government, cut taxes, and balance the budget will leave little time for protracted floor debates on other issues.

That does not mean there will not be a 1981 farm bill. There will be; it probably will be a 4-year bill. It *does* mean that food and agricultural programs will *not* receive comprehensive examination in 1981 unless doing so contributes to the solution of broader national problems. With few exceptions, subsequently discussed, the bill should extend the policy framework embodied in the 1977 act and its subsequent amendments.

This prediction is based on two factors. First, the changes in people—the policy-making machinery—will tend to slow the legislative process, at least for a time. Second, and perhaps most important, is the changing policy-making process. As the nation's problems have become more complex, so has the process for resolving them. Debates are frequently so protracted that

only policy "crises" are able to attract sufficient attention for resolution.

### Emerging Food and Agricultural Policy Crises

Many farm-sector advocates believe strongly that the case for government price and income protection is stronger than ever. In their view, the infrequent high prices during the 1970s have been more than offset by inflation in input prices, particularly for energy. They contend that government farm programs actually protect consumers from themselves by trading off slightly higher prices now for more stable, perhaps lower, prices in the future. They also believe that most non-farmers are ignorant of the benefits of the farm programs and that all proposals for change from outside traditional agriculture are subterfuge.

These perceptions are quite *real*. They are powerful. They have deep-seated roots and are perpetuated with bits and pieces of fact. Such *perceptions* will continue to carry a great deal of weight during the 1981 farm bill debate—and, unfortunately, in farm policy debates for some time to come.

But economic pressures reflect reality, not perceptions. And the facts overwhelmingly support a conclusion that commercial agriculture fared quite well during the 1970s (Penn). There are strong indications that the economic position of farmers will continue to improve relative to the population as a whole during the 1980s.

The chronic excess capacity problem that characterized the sector for a quarter of a century following World War II has largely given way to pressures for sustained increases in trend output. Domestic farmers and food consumers are now strongly influenced by the close and growing interdependence of agriculture and worldwide economic events. Broad national policies now focus on agriculture for continued increases in exports, help in producing energy from renewable resources, and, simultaneously, stability in food prices. The growing importance of agriculture will give rise to spirited policy debates in these three areas during the next several years.

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<sup>1</sup> This paper was written in late 1980 shortly after the election of Ronald Reagan as president. It was presented in early February, 1980, before the administration's economic program was announced, and the ideas contained herein may be made obsolete by events prior to publication.

*Expanding exports.* Exports of U.S. farm products increased dramatically in the 1970s. The volume of grain exports tripled. The value of all agricultural exports increased nearly sixfold. In the 1960s, exports represented about 14 percent of farm cash receipts; this past year, they represented nearly 30 percent (Table 1). But, agriculture has *not* increased its share of *total* U.S. exports. All through the post-World War II period, agriculture's share of total exports remained unchanged at approximately 20 percent. It is sobering to realize that the sector has barely been able to keep pace with exports from the non-farm sector.

**TABLE 1.** Value of U.S. Foreign Trade for Agricultural and Nonagricultural Products, 1930 to 1980, Calendar Years.

Decade/Year	Agricultural Exports (billion dollars)	Importance of Agricultural Exports	
		To All Exports	To Farm Cash Receipts
		percent	percent
1930s	.8	30.6	10.5
1940s	2.3	22.5	10.7
1950s	3.6	22.3	11.4
1960s	5.9	21.6	13.9
1970s	19.7	20.5	22.1
1976	23.0	20.3	24.1
1977	23.6	19.9	24.2
1978	29.4	20.8	25.4
1979	34.7	19.5	26.2
1980 (est)	40.5	19.3	29.1

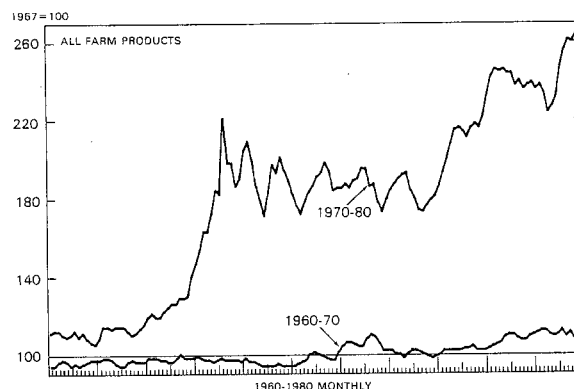
Source: U.S. Department of Agriculture and Council of Economic Advisers.

To accommodate the increase in farm exports, the area devoted to the production of crops for export has nearly doubled. At times, transport systems and grain storage facilities have been pushed nearly to their physical limits. However, export expansion remains the most popular solution to continued farm economic prosperity.

No doubt, exports have contributed to the improved financial position of (and outlook for) farmers. But, when coupled with the disappearance of large government-held grain stocks and the sustained nearly full use of the cropland base, the increase has also exposed U.S. farmers and consumers to an unaccustomed degree of commodity price instability, enough to make it a policy problem (Figure 1). Part of this instability has been the result of unpredictable world weather conditions, yet much of it results from policy—our own and that of our trading partners.

Many nations insulate their economies from extreme fluctuations in commodity prices (Hathaway). Some, like the European Community, achieve price stability as a by-product of policies that keep domestic prices above world equilibrium levels. Others, like Canada and Australia, use state trading agencies to help stabilize prices—quantitative restrictions on exports are routinely imposed when domestic price stability is threatened. Also, an increasing proportion of the total grain exported is going to centrally planned and developing countries that do not

**FIGURE 1.** Prices Received by Farmers, U.S. All Farm Products



Source: Department of Agriculture.

allow the free movement of internal prices to allocate resources. "Needed" marginal purchases are made without much apparent regard for price. Taken together, these efforts by others to stabilize domestic food commodity prices shift the costs of increased prices variability to farmers and consumers in the U.S.

The expansion of agricultural exports also increases the risk that commodity price and farm income fluctuations will come from international political considerations. The January, 1980, decision to ban the sale of certain agricultural products to the USSR had little to do with economic policy. Rather, it was a foreign policy action thought necessary because of the Soviet invasion of Afghanistan.

The growing variability in prices and farm income that will come with increasing exports in this uncertain economic and political environment will almost certainly give rise to farmers' demands for public "protection." Doubters can look to the Agricultural Trade Suspension Adjustment Act of 1980 for supporting evidence.

*Energy Security.* The second major area of potential policy crisis for agriculture derives from a concern with energy security. The doubling of oil prices in 1979 convinced almost everyone that rising energy prices are not a transient problem. Yet as with grain, the needed adjustments not only derive from the prospect of higher and more variable prices, but also, at times, from supply disruptions that have little relationship to market conditions.

The effects of the evolving energy situation on food and agriculture are not yet fully understood. On the one hand, higher relative energy prices increase production costs. They also put more pressure on substitutes for energy inputs, primarily land and water. But energy use is only part of the picture. Agriculture is now looked to for increases in output that will facilitate the substitution of renewable resources for products previously made from oil.

The benefits from programs that diversify our energy sources are doubtless significant, but, much like expenditures on national defense, are nearly impossible to quantify. Moreover, if indeed we have the "moral equivalent of war," the usual economic feasibility studies become largely irrelevant.

However, the accountable costs of such programs are not trivial. For example, current gasohol initiatives imply the need for about 370 million bushels and a 5-percent incremental increase in the area planted to corn by the end of 1982. The ethanol produced would replace about 60,000 barrels of oil per day—about 1 percent of current oil imports. The cost of producing ethanol and the higher corn price, even when offset by the value of by-product feeds and an increase in feedgrain export earnings, imply that the nation will pay nearly *twice* the present world price for each barrel of foreign oil displaced.<sup>2</sup> And with the incentives already authorized, the grain required for gasohol could more than double by 1985.

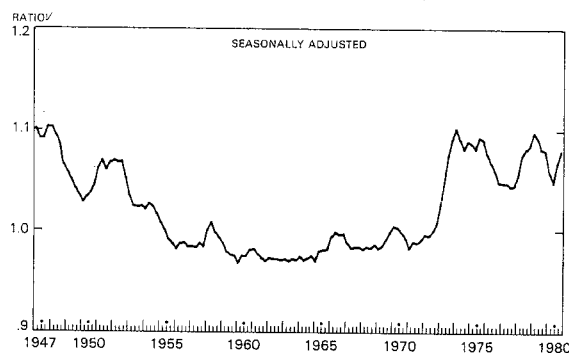
At the same time, periodically high sugar prices and the Southern Hemisphere's expanding use of sugarcane for ethanol have combined to increase the U.S. demand for corn as a sweetener. The amount of corn used to produce sweeteners has increased more than 60 percent in five years (USDA Sugar and Sweetener Report). Corn sweeteners could consume 700 million bushels of corn by 1985. Such an increase would free some of the 1.2 million acres now devoted to sugar beet production, but the pressure for premium Corn Belt cropland would intensify.

Rising energy prices are also increasing the demand for natural fibers, primarily cotton. As energy-based synthetic fibers were developed, much of the 40 million acres once planted to cotton became available for other crops, primarily soybeans. But since 1975, cotton acreage has increased steadily. While a significant increase beyond the current 14 million-acre level is unlikely, cotton will not yield acreage to other uses without significant changes in relative prices.

*Food Price Stability.* A third area of potential policy conflict—food price stability—derives partly from the other two. The political visibility of food inflation, when coupled with the prospect for rising and more volatile commodity prices already discussed, could well make it the single most important factor in shaping the policy agenda for food and agriculture in the 1980s.

The evidence already suggests that the 25-year real decline in food prices had ended by the early 1970s (Figure 2). When food prices soared in 1973, many economists saw it as a temporary deviation from the longer-term trend. The appar-

**FIGURE 2.** Relative Food Prices, U.S.



<sup>1</sup> Ratio of implicit price deflator for food to implicit price deflator for all personal consumption expenditures.

Source: Department of Commerce.

ent return of surpluses in 1976–77 helped support this notion. Nevertheless, food prices remained high relative to other prices, and there is little evidence to suggest otherwise for the 1980s.

If such conditions do evolve, as now seems likely, consumers will be pressing for policy changes that minimize the welfare loss; and it will not matter which political party is in power.

Every action, whether by government or the private sector, that is even accused of putting upward pressure on food prices will be investigated. Tobacco, rice, peanut, and extra-long-staple cotton programs that, to varying degrees, still fix land use patterns by acreage allotments will be scrutinized. Fruit and vegetable marketing orders that sometimes restrict output or otherwise control marketings to enhance prices will also be challenged. The challenge will extend to the restrictive trade policies that protect those higher prices. There will be policy pressure to remove the economic penalties now imposed by regulation on the use of technologies that would raise productivity in the food system. Grades and standards that now discourage the production and processing of foods that are more efficient users of increasingly scarce resources are also likely to be questioned. While debates on such issues will be controversial, they will nonetheless become more numerous as the costs of past policies become increasingly obvious. The debates may begin in earnest during 1981.

I am not persuaded by those who say such changes will not occur. History teaches that while regulatory structures tend to slow resource adjustments, they do not stop them. The economic pressures to make the changes I have mentioned exist already; it is just a question of time. Besides, it is likely that the policy pressure to change agricultural programs will come increasingly from broader-based proposals to deal with the nation's macroeconomic performance.

<sup>2</sup>The key to this calculation is the consideration of the effect of higher average grain prices for *all* uses including domestic animal feed use. A 5¢ per bushel increase in the corn price alone would add about \$215 million to domestic livestock production costs (4.3 billion bushels @ .05 = \$215 million).

## SOME SPECIFIC PROGRAM ISSUES

The policy areas just discussed, when coupled with the crisis-oriented policy process, lead to the identification of three areas for potential programmatic change during the next several years. Each involves competing national goals and/or the relatively visible expenditure of federal tax dollars. In each case, decisions are needed in 1981 because existing statutory authority expires.

1. The relationship between Government-supported commodity reserves and our apparent unqualified policy of continued export expansion ("more is better") is likely to be reviewed over the next several years. That debate could begin this year.
2. There is considerably less uncertainty about the likelihood of a dairy policy debate. The price support and marketing order programs have obvious and direct relationships to food price inflation and budget costs, which make them visible and thus ripe for debate.
3. The third area, which has already been targeted by both the Secretary of Agriculture and the Chairman of the Senate Agriculture Committee, is food assistance. Here the issue is fundamentally that of budget cost.

### Grain Reserves and Export Policy

As mentioned, increased exports continue to be the most popular solution for price and income problems in agriculture. It is considered to be the "free market" solution. But export markets are not free markets, and, assuming that they are, risks exposing the food and farm sector to unnecessary, destabilizing variability in prices and income. Also the nation, in time, will have to deal with the impending depletion of natural resources now being exaggerated by its policy of maximizing exports (Batie and Healy). These are both farm and food concerns.

*Commodity Reserves.* Unless attitudes about embargoes change dramatically, reserve stocks seem the only realistic source of protection against the inflationary price rises that otherwise occur during periods of short supply. They also cushion price declines in temporary periods of overproduction.

If information and credit markets were perfect and if there were no macroeconomic (i.e., "public good") side effects, private markets could be relied on to hold the needed stocks. But such markets are not perfect. Nor is it reasonable to expect that private investors will assume the

costs of avoiding the macroeconomic side effects of extreme price shocks.

Government policy can alter the outcome of the storage decision by changing the expected selling price, reducing the storage cost, or reducing the *relative* rate of return on the investment of funds from sales at the current price. Reaching agreement on whether or how government should influence the grain storage decision is extremely difficult. However, there is general agreement that public programs should utilize market forces to the extent possible.

The farmer-owned reserve program represents a pragmatic solution to the grain storage dilemma (Burnstein). It has been a popular, flexible, and reasonably efficient stock management tool. The nonrecoverable taxpayer costs have been payments for storage and interest costs on Commodity Credit Corporation (CCC) loans extended to farmers using the reserve. Sales from the reserve, above the minimum "release" price, have been subject to the same market forces that would prevail if the stocks were privately financed.

Nevertheless, there are some difficult, unanswered questions, commodity coverage, size, and operational procedures being the most important.

At present, the program is available only to producers of wheat, rice, and feedgrains. Reserves have also been suggested for other important export commodities, cotton and soybeans, for example (Motes). Such reserves might help to build export markets over time, and they would probably help to stabilize prices. But the macro-effects of price variability in these markets are less obvious than with feedgrains, and it is still not entirely clear how much government-supported reserves for these commodities would add to privately financed stocks.

Optimal reserve size is also a difficult and still unanswered question. There is a level of reserves that will provide cost-effective price stabilization in most situations, but the exact level appropriate for any one year changes with supply and demand conditions. And short-run competing pressures, partly related to the existence of multiple program goals, complicate attempts to settle on a specific target quantity.

Other questions pertain to the operation of the reserve program. Most debates in this area will continue to focus on when and how stocks are released for sale and on the types of incentives made available to encourage use of the program. In general, the answers to all these questions will depend on whether the reserve program is perceived primarily as a tool to raise prices and increase farm income or to cushion the sector against price shocks.

*The Reduced Need for Subsidies.* The improving economic health of the nation's farmers re-

duces the need for programs that subsidize their income. The growing importance of exports increases the likelihood that the benefits of certain farm subsidy programs will accrue to our export customers. Taken together, these observations suggest, first, that grain sold from the reserve should be priced high enough to cover not only the costs of grain productions, but also, if possible, program costs; and, second, that the incentives to place grain in reserve should be no greater than necessary to meet the domestic price stabilization objective. Present policy, including administrative practices and legal authority, does not serve either of these objectives as well as it might.

For example, current law requires the waiver of interest normally paid by farmers on CCC loans and the taxpayer payment of grain storage. Consequently, prices for grain sold from the reserve do not now have to reflect carrying costs. If the grain is sold at a lower price than is required to cover carrying costs, export customers benefit disproportionately. In part they benefit because American taxpayers subsidize the storage of grain, and they also benefit because lower average prices imply the need for larger reserves. However, if grain from the reserve is sold at a price that covers both production and program costs (which is quite likely, given the inelastic nature of the demand), farmers receive a windfall that may be larger than necessary to reach the price stabilization objective.

However, requiring farmers to pay storage costs and full interest on CCC loans would probably result in reserves too small to gain the price stabilization objective. But if imperfect agricultural credit markets are the most serious impediment to producer grain storage, the higher CCC loans for grain entering the reserve might be sufficient to attract the desired stocks in most years. The most efficient way to operate the program would be to require farmers to bid for the right to place grain into reserve. Under such a scheme, farmers offering to store a specific quantity of grain at the lowest "price" (i.e., taxpayer subsidy) would be granted authorized entry.

The flexibility granted by the Agricultural Act of 1980, which authorizes special (higher) loans for grain entering the reserve, might be used to implement such a plan. Nevertheless, legislative changes would be needed to require the farmer to pay for storage and interest.

In addition to grain reserves, government policies have subsidized the use of key agricultural inputs. Cost sharing programs for soil conservation, land development, improved soil fertility, pest control, and prevention of plant and animal diseases have been commonplace. Water projects and natural disaster protection programs have reduced to a considerable degree the risks of farming in the South and West. Such programs have reduced production costs and encouraged

greater output; consumers have benefitted from lower food prices. Now that exports account for a large, and growing, share of farm income, it is less evident that such subsidies are desirable public policy.

To avoid unintended transfers of uncompensated national wealth to our export customers, the resources committed to agriculture will need proper pricing. For example, this means that our underground water resources, once thought to be virtually unlimited, should probably be priced to reflect their limited availability (U.S. Government Accounting Office). It also means that the price of grain should reflect the full costs of transporting it to export terminals. Within this context, taxpayer subsidies for grain transport systems become more questionable.

Where all of this is likely to take us in 1981 is unclear. The positions of various interest groups are still quite far apart. The adverse macroeconomic (and political) consequences of the rising and more volatile food prices often associated with increasing exports have generated proposals for state trading. The growing depletion of natural resources has revived talk of export taxes. Such proposals are not likely to go far: mainly they conflict with a deep-seated economic philosophy. However, proposals to eliminate subsidies for input use (including transportation) or product sales are not so constrained. Farmers would oppose such changes, but from a national policy perspective, they seem far superior to the alternatives. And they are consistent with the growing notion that prices should be relied on more, and government less, for resource allocation.

### Dairy Policy

Dairy policy is the most likely candidate for contentious farm policy debate in 1981. The immediate problem areas are the level of, and method for determining, price support, as well as the unresolved federal order policy issues. In fact, if program actions are consistent with the announced emphasis on deregulation, those issues may get considerable attention from the new administration.

*Price Support Program.* Milk remains the only major commodity whose price is supported as a specified percentage of parity. While basic statutory authority provides flexibility in setting the support price between 75 and 90 percent of parity, the 1977 Act made 80 percent the minimum and required a semiannual adjustment. That authority was extended in 1979 for two more years.

There is widespread, albeit not unanimous, agreement that the 1977 Act removed "too much" administrative flexibility and that the support price has been "too high" since then. The removal of a near-record 6.5 percent of the

total milk production during 1979–1980 at a *net* CCC cost of about \$1.0 billion is frequently used as evidence to support the claim (USDA Dairy Situation).

Frankly, and unfortunately, that so-called “evidence” misses the point. There have been times during the past decade when support price was low relative to the cost of producing milk. The real economic policy problem is that the dairy price support decision is now tied to movements in a price-based index that has little relation either to the cost of producing milk or its demand. As an example, feed costs, which account for about half the cost of producing milk, have only a 12 percent weight in the parity index.

This was not a serious problem when grain prices were stabilized by huge government-owned surpluses, but when the price of grain is allowed to fluctuate, a milk support price adjustment based on parity will frequently run counter to changed cost conditions for dairy farmers. When grain prices increase more than other prices, the parity adjustment will not accommodate the increase in milk production costs; when grain prices increase less than other prices, the parity adjustment overstates the cost increase. The evidence is fairly convincing that variability in milk production was increased in the 1970s because the price support decision was tied rigidly to changes in the parity index (Babb and Boynton). That result seems to run counter to the purpose of the statute.

The conceptual role of the milk price support is also difficult to articulate, at least within the context of contemporary agricultural policy. For several years, loan prices for the major grains have been thought of as an economic safety net, a price below which long-run productive capacity would not be sustained. Direct payments have been used since the 1960s to compensate for the income loss that farmers frequently associate with the “low” loan price policy.

That “safety net” concept hardly has meaning for the current dairy program. In only two years since 1948 (1973 and 1974) has the price paid to producers of manufactured milk exceeded 110 percent of the support price (Novakovic). In only five years has it exceeded 105 percent of the support price. For all practical purposes, the support price *is* the milk price.

As with reserves and export policy, it is not clear just how the milk price support question will be resolved in 1981. The recent relative increase in feed costs will benefit dairy farmers in the debate; but the focus on broader national economic issues, including the size of the budget, will force some change. A 1981 compromise that retains the reliance on parity yet allows substantially more flexibility in establishing the support price is a strong possibility. The semiannual adjustment is almost certain to be eliminated.

The “easiest” solution for the Congress, but

one that will be resisted by dairy farmers (and perhaps the administration for budgetary reasons), would be to revert to basic statutory authority (i.e., 75 to 90 percent of parity). Such a “solution” will be only temporary. Until the milk price support is rationalized in a context consistent with contemporary agricultural policy and tied to movements in the cost of producing milk, with appropriate adjustments for changes in demand, this issue will not disappear.

*Marketing Orders for Milk.* The current federal order system evolved from the economic conditions that prevailed in the 1920s and 1930s, when there were thousands of independent farmers selling milk to independent processing plants. Since independent producers could not regulate the aggregate flow of product to the market on any given day, processors were able to offer the *marginal value* for all milk delivered. In short-supply seasons, the marginal value was high in relation to production costs, while at other times it was low.

Market orders were designed to stabilize the fluid milk price. Minimum prices, at least in theory, were established as the prices processors would have to pay if they obtained fluid milk from the upper Midwest and transported it to their local markets, that is, an alternative supply price. This regulatory structure remains intact today.

Almost without exception, the conditions that gave rise to this regulatory structure no longer exist (Fallert). Dairy cooperatives handle more than 80 percent of the Grade A milk and satisfy 67 percent of fluid milk handlers’ needs. The minimum federal order prices are badly out of alignment with the theoretical alternative supply price, and “over-order premiums” are now required in many markets to obtain needed supplies of fresh milk. Most important, the technology now exists to make raw milk less perishable and less costly to transport, thus, less expensive for consumers.

Nevertheless, the pricing system still presumes the need for fresh raw milk in all markets at all times. Fluid products made commercially from manufactured milk ingredients carry an economic penalty. Technologies that would remove part of the water from raw milk prior to transport and resale as a fluid product are also prohibited, either explicitly or by economic penalty.

The availability of such technologies and the rising relative costs of transportation make it likely that current federal order regulations will come under increased policy pressure. In part, this is because such rules penalize consumers by limiting access to lower cost alternatives to fresh milk; but, eventually, producers will also see these policies as limiting their potential for economic gains.

The present rigid regulatory structure is also out of step with the times. Airlines, railroads, financial institutions, and energy pricing have all been "deregulated." In an era when increased reliance on prices as allocators is being sought, it is not likely that milk marketing orders will survive in their present form, at least not without a formal debate.

Where this debate will lead (or just *when* it will take place) is not easy to predict. At some point, the new administration will have to make a decision on the year-old Community Nutrition Institute's reconstituted milk petition.

The importance of that decision should not be minimized. It could clarify whether it is indeed national policy to ensure the continued availability of *fresh milk* as the only commercial fluid dairy product, regardless of any changes in technology or in consumer preferences.

### Domestic Food Assistance

Food stamps have been the primary method of domestic food assistance for about a decade (Boehm, Nelson, and Longen). The program began as a pilot project in 1960 and was made permanent by the Food Stamp Act of 1964. Today about 22 million Americans depend on the program wholly or in part for the food they buy. Program costs have increased from \$580 million in 1970 to \$9.5 billion in fiscal 1980.

The food stamp program faces a crisis-charged debate this year. The 1977 Act established spending ceilings of \$6.19 billion for fiscal 1980 and \$6.24 billion for fiscal 1981, mostly because of uncertainty about the participation effects of eliminating the purchase requirement. The spending ceilings were raised last year—to \$9.49 billion for 1980 and \$9.74 billion for 1981. The 1981 cap will be inadequate to cover program costs at current benefit levels. The new administration will be faced with a tough decision on food stamp spending very early in its first year. The difficulty associated with meaningful food stamp reform is highlighted by the following:

1. Proposals to cut the pool of eligible participants tend to be very expensive politically—large numbers of persons must be removed before significant dollars are saved (USDA, *Characteristics of Food Stamp Households*: February 1978). Nearly 90 percent of the 8 million households now receiving food stamps have *gross* annual incomes below the poverty line. More than half have gross incomes of \$3600 or less; three-fourths have incomes below \$4800. The participant households with incomes above the poverty line tend to be elderly or working poor.
2. Across the board benefit cuts, while the

most direct way to reduce overall program costs are probably the least equitable: the benefit level is already low relative to the costs of feeding a family. The average food stamp family gets about 39 cents per meal. USDA estimates that a moderate income household spends about \$1 per meal to feed a family of 4 (Longen and Stucker).

3. Participation and costs are importantly influenced by food price inflation and unemployment (Longen and Stucker). Even if participation had remained unchanged from its 1977 level of 17 million, fiscal 1980 costs would have exceeded the spending cap by nearly \$1 billion because of higher food prices. Also, USDA estimates that each 1 percent increase in unemployment adds from 750,000 to 1 million people to the program: the 1980 increase in unemployment added about 1.5 million persons to the program.

None of this is meant to imply that important changes in the food stamp program rules are not possible. Quite the contrary. A number of program changes—almost all of which have been debated in recent years—are possible and would help make program operations more defensible. However, the programmatic improvements often discussed when considering budget-reducing options (i.e., mandatory work requirements, halting eligibility for strikers, elimination of overlap with child nutrition programs, elimination of program fraud) will not save large sums of money.

The only *real* solution to the spending problem, which is also politically viable, is to reduce food price inflation and lower the unemployment rate. That conclusion will be difficult to accept in most quarters today, yet it is the only conclusion that is consistent with available evidence.

### IMPLICATIONS FOR SOUTHERN AGRICULTURE

The growing worldwide demand for food and fiber should have important spillover effects for southern farmers. Cotton, soybeans, poultry, rice, feedgrain, and perhaps even peanut producers should experience gains from the relative demand shifts now expected for the 1980s. But to facilitate those shifts in resource use, it is likely that the rigid regulatory structures for some commodities historically associated with southern agriculture will need to change, and those changes undoubtedly will be controversial.

In particular, the growing pressures on the cropland base make it likely that the existing commodity programs for peanuts, tobacco, rice and ELS cotton will not be retained in their present form much longer. These programs probably



will be extended without much change in the 1981 farm bill. Primarily, I believe, that will happen because of the changes stemming from the 1980 elections (a new secretary of agriculture, and new chairmen of the Senate and House Agriculture Committees). But the economic forces that are building are unmistakable.

These same pressures are also likely to generate proposals for change in other production control methods—even those for the major grains. The potential for variability that now exists in annual production and exports makes it likely that temporary production controls for such commodities may again be needed. It will be difficult for farmers or the Congress to focus on that fact in a year following a major drought. In this regard, it is significant that southern farmers were able to convince Congress to withdraw funding for operation of the Normal Crop Acreage (NCA) for 1981 even with strong opposition from USDA. Just how farmers would respond to proposals that would eliminate set-aside or diversion authority is still uncertain.

The potential for change in dairy policy is also important to southern agriculture. The federal order program has doubtlessly enhanced the incomes of southern dairy farmers. After all, this has traditionally been a *fluid* milk market. But southern dairy farmers also have an important economic stake in continuation of the price support program.

Farmers in the South will also be affected by decisions on grain reserve and export policy. Southern agriculture is a large user of feedgrain, and much of it is imported from outside the region. Unless policy actions to moderate grain price volatility are extended, the livestock sector in the region faces the prospect of conditions more volatile than during the 1970s.

Perhaps the most important issues are those being raised regarding the subsidization of input use. Water, land use, and transportation policy

will be extremely important to southern agriculture. And the pressures for change in these areas, as with the commodity programs, seem to be running counter to the narrow special interests of producers in the region.

## CONCLUDING REMARKS

It is critical to keep agricultural policy in perspective. While there are still frequent debates about the wisdom of past actions, history reminds us that the performance of the sector, particularly in this century, has been good. Farmers have benefited less from past programs than is generally believed; consumers (and taxpayers) have benefited more than is generally admitted.

And partisan politics has not been very important. In the main, policy changes have responded to changing economic pressures. Today, primarily because it is necessary for improved economic efficiency, more importance is being placed on the allocative functions that can be performed by prices; there is significantly less government interference with producers' decision making than was the case a decade ago.

Agricultural policy changes in the future will build on this tradition. More attention will be given to programs that stabilize commodity prices and farm income. Programs that control production and artificially raise prices will be changed. Such programs will come into increasing conflict with broader national economic policy objectives and with producers' own economic self-interest.

For agriculture, as for the rest of the economy, the broadest of all policy challenges will be to find new and more flexible ways to use resources efficiently, while at the same time protecting against the potentially destabilizing effects of extreme price volatility. There are some difficult policy choices ahead, but that is where food and agricultural policy is headed in the 1980s.

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