DISCUSSION: THE NEW FOOD AND AGRICULTURE BILL—WHERE IS IT HEADED? POTENTIAL IMPACTS ON SOUTHERN AGRICULTURE

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Boehm and Spitze approach the assigned topic from quite different perspectives. Boehm's principal point of departure is his belief that the policy-making process has now changed to one of crisis reaction. That is, if a problem is not at the crisis stage, it is not acted on. From this premise, he moves on to identify several potential crises that he thinks will develop over the next several years.

In contrast, Spitze seems to view the future of U.S. food and agricultural policy from what might best be described as the traditional academic analyst's perspective. He sees policy making as an evolutionary process that now involves more participants than ever before and exists currently in a world of economic uncertainty. Given the latitude inherent in the assigned topic and the different perspectives of the two authors, the many areas of agreement in the opinions expressed by Boehm and Spitze are encouraging and somewhat surprising.

SIMILARITIES

The two authors have quite similar opinions regarding the current general economic and political situation that will affect food and agricultural policy this year and next. For example, both acknowledge the multiplicity of new faces in the administration and Congress and the seriousness of the general economic situation as important constraints on early food and agricultural policy action.

With respect to factors that will likely influence farm policy during the next few years, both writers named price instability as an important issue. In addition, both point out that exports have been, and will continue to be, increasingly important with respect to market volume and as a contributor to price uncertainties for U.S. agricultural commodities.

Regarding the new food and agriculture bill, both writers state that, for the most part, it would be an extension of the 1977 Act. Despite the fact that they foresee extension of most of the provisions of the 1977 Act, both authors also feel that the days of the omnibus food and agriculture act, like the 1973 and 1977 Acts, are probably nearing an end. However, admittedly, in this case the two similar conclusions are supported by considerably different arguments.

Similar opinions are expressed concerning specific policy issues that are likely to be excluded from the general extension of the 1977 Act. Both writers state that serious efforts will be made in 1981 to curtail future expenditures in the domestic food assistance programs. In addition, both expect that attempts will likely be made to alter the commodity reserve programs; particularly the loan rate and release price level provisions of these instruments.

The similarities do not stop here. In at least two instances, Boehm and Spitze express similar opinions regarding the impacts of future food and agricultural issues on southern agriculture. Both note that the variation in commodity (particularly feedgrain) prices expected during the next few years signals troubled times ahead for the southern livestock sector. On the other hand, they also expect southern producers of export crops (i.e., cotton, soybeans, rice, etc.) to benefit in coming years from the anticipated expansion in foreign trade.

CONTRASTS

Despite these several areas of similar opinions, Boehm and Spitze have also served us with a sufficient helping of divergent and contrary opinions regarding future policy issues. Most notable are their respective views on the likelihood that dairy programs will be subjected to significant attempts at alteration in 1981. Aside from the numerous similar and few contrary opinions just enumerated, the two writers collectively offer a reasonably good prognosis of the issues likely to be included in the food and agricultural policy agenda for the next year or so.

INFLATION AS A FOOD AND AGRICULTURAL POLICY ISSUE

However, Boehm and Spitze have inadequately treated one of the most important policy issue-problem areas; that is, the whole host of

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problems brought on by inflation.[1] Inflation may currently be the most serious policy issue facing the food and agricultural sector. The problem is compounded because many federal legislators and administrators seem to be oblivious to the nature and seriousness of inflation with respect to the food and agricultural sector of the economy and because few agricultural economists have been willing to address the issue seriously. Perhaps most of us concerned with food and agricultural policy have used the excuse that the problem is not unique to the food and agricultural industries; therefore, we can let other economists and economic policy workers deal with it. This attitude is fraught with potential dangers for food producers and consumers alike.

The following paragraphs indicate why inflation and its inherent effects are now the major policy issues of the food and agricultural sector. Critical to this discussion are: (1) the ways in which inflation is affecting agriculture and some of the unique and severe problems that it is creating, and (2) how this problem is being compounded by persistent misinterpretation and reactions to effects as opposed to causes. These arguments will be used to demonstrate why it is imperative for the future well-being of food producers and consumers that those capable of understanding the complexities and uniqueness of the food and agricultural sector of our economy take a more active role in general economic policy discussions when programs to control inflation are on the agenda.

General economic inflation touches the food and agricultural sector of the economy in almost all of the ways that it affects the rest of the economy. That is, everything from the production inputs, such as fuel, fertilizer, and equipment purchased by farmers, to food and clothing purchases by consumers is continually increasing in price. However, there is some evidence that the prices paid by farmers for their inputs tend to increase more quickly on the average than the prices that farmers receive for their commodities (Tweeten). At least part of the increased impact of inflation on farmers is explained by the fact that farmers continue to sell their products in basically competitive markets, while increasing their reliance on inputs that are purchased in markets often characterized as oligopolistic.

But the most serious inflationary influence on production agriculture is the cash-flow problem that it is creating. As Tweeten explains it, inflation increases immediate costs and defers returns for landowners who have incurred debt to purchase land. The extent of the cash-flow squeeze is such that with a 9-percent inflation rate, current earnings from three acres are required to pay the mortgage interest on one acre of land (assuming that the mortgage interest rate equals the real rate of interest plus the inflation premium). With higher inflation rates, the cash-flow deficit is larger.

The problem in-and-of itself is severe, but unfortunately the damage does not stop here. Most farmers continue to be told by administrators, legislators, and educators that they are really better off than ever before. As evidence of farmers' well-being, statistics are cited repeatedly showing quite favorable and generally increasing rates of return on farm resources. These statistics neglect the fact that so far as the average farmer is concerned, the rate of return on investment is largely unavailable for use unless he quits farming and sells out; that is, much of the return comes in the form of inflated land values.

The economic realities of this inflation-related cash-flow situation are such that the only farmers who can survive are those who do not require all current farmland earnings to serve cash-flow and family living needs. Thus, farm survival requires substantial equity and/or access to diversified sources of equity (Tweeten). To meet these requirements of survival, a farmer can increase the size of his operation to the extent that he can generate a flow of funds over and above those required for family living and cash flow by renting or purchasing more land. But the purchase option is not available unless the farmer has substantial equity or is willing to combine his resources and equity with others through incorporation, vertical integration, and so on. Alternatively, he can cut back his farming activities and secure part of his family living and cash-flow requirements from employment elsewhere.

Recently, the results of this farm survival situation have most often been discussed in the context of the "structure" problem. Unfortunately, in many of these discussions, the issue is defined as the effects, that is, size and number of farms, as opposed to the underlying causes. This approach is meaningful only if it is assumed that nothing can, or should, be done to alter the causal situation. It is not in the ultimate best interest of U.S. food producers and consumers to assume that at least one of the causes of the structure problem—inflation—cannot or should not be changed.

Those who are capable of understanding the complexities and uniqueness of the food and agricultural sector must become actively involved in the debate regarding the programs that will be used to control inflation. The most obvious argument for agricultural economists' involvement in the inflation control issue can be gleaned from Boehm's remarks concerning the supply-side price shocks in basic materials like food and their

[1] To be fair to the two authors, it may be argued that they have pointed out that future agricultural programs will be influenced by a general concern to develop policy instruments, in all areas, which are consistent with a general policy to combat inflation. As pointed out in the following paragraphs, however, agriculture's problems with inflation, and the programs designed to cure them, indicate the need for more participation by agricultural economists in general economic policy discussions.

effects on inflation. By using a similar line of reasoning, it can be argued that the current U.S. monetary policy and the resulting high interest rates are causing a supply-side price shock in the food industry.

As it is currently being practiced, the high interest rate program is subjecting agricultural producers to additional price-cost squeeze pressures, which in turn simply speed up the "get-big-or-get-out" problem discussed earlier. In addition, the high interest rate program is adding significantly to the cost of processing and marketing food. In the marketing sector, these increased costs are passed along almost immediately to consumers in the form of higher prices for food products and services.

Boehm expressed the opinion that "*every* action whether by government or the private sector that is even accused of putting upward pressure on food prices will be investigated." If he is correct in this opinion, then those concerned with consumers' interests should be hard at work preparing alternative fiscal and monetary policy instruments that will diminish the impact of the current high interest rate program on the food production and marketing industries.

While other specific examples could be enumerated, it will suffice to summarize by pointing out that inflation is a basic causal factor in many of the frequently discussed food and agricultural policy issues. In addition, unless professionals with an understanding of the workings of the food and agricultural sector are willing to address the inflation control issue in a constructive manner, food producers and consumers may needlessly suffer additional loss of welfare due to the inflation cures developed by those with little understanding of that sector.

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