Are Current Commodity Programs Outdated? Comments on the Knutson and Tweeten Arguments

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Knutson makes some agreeable points: the farm sector (or at least a worrisome part of it) is financially strapped; the stress will likely continue because supplies seem to outrun demand; farm policy needs to recognize macro conditions; and sugar, tobacco, and dairy policy are indefensible.

I disagree, however, with many of Knutson's arguments in support of current commodity programs. First, Knutson suggests ". . . substantial changes have occurred in program orientation," and that flexibility is a highly relevant policy characteristic. Johnson, Paarlberg, Rasmussen, Tweeten, and a host of others, read history differently and insist that today's commodity programs are largely unchanged from the original 1930–1950 legislation. They claim current policy has failed to meet changing market conditions and to meet policy goals. Knutson offers as evidence of change the Act of 1973 which established target prices **and** loan rates as dual features of the commodity program. Target prices, he believes, allowed producer returns to be maintained ". . . at politically acceptable levels . . ." and lowering loan rates ". . . has encouraged exports." Surely neither contention can be supported given the experience of the current farm program. Target prices have not maintained the income of many mid-sized farms at sustaining levels. But they have added (often significantly) to the incomes of the largest, most profitable farms with net incomes well above those of most taxpayers. These program results are not, to use Knutson's phrase, ". . . at politically acceptable levels."

Loan rates, on the other hand, have not been lowered to encourage trade. Rather, loan rates have increased relative to market prices and trade has been restricted. The data on wheat make this clear. Between 1981 and 1983, loan rates climbed from 88 to 103 percent of market prices and our market share of world wheat trade dropped from 48 to 38 percent.

Just where Knutson **really** comes out on his contention of program flexibility is difficult to say. Take these statements:

> "Farm commodity policy has consistently run into problems when it failed to recognize changes in markets and adjust to them. This does not mean that commodity policies are outdated; although it may suggest the need to keep fine-tuning the provisions of commodity policy—something that has been going on since the 1930s."

and:

> "Initial U.S. commodity programs maintained price supports at sufficiently high levels that commodities generally could not be exported without subsidies. This condition existed almost without precedent through the early 1970s."

Second, Knutson argues current programs are still relevant because ". . . target prices also provide the opportunity to limit the magnitude of commodity program benefits obtained by large scale

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farmers." Surely someone as politically tuned as Knutson **knows** the payment limits are, in case after case, totally inoperative. Even Knutson hedges his argument and states, "However, it remains unclear as to exactly how effective these targeting actions have been" and cites the 1983 study by Johnson and Short. It's worth noting that Johnson and Short refer to seven other studies all showing that past program benefits have favored large producers.

Third, Knutson believes current commodity programs, perhaps "finely tuned," will reduce the riskiness of farming, bolster farm real estate prices and incomes, slow regional shifts in production, and prevent an undesirable concentration of agricultural production. He offers no estimate of program costs to accomplish these goals and who would pay, nor does he suggest who would benefit and by how much. Perhaps, given the experience of current programs, the answer is that taxpayers would pay a healthy bill and high income landowners receive the benefits.

At times, Knutson seems to bless the administration's farm bill proposals—and who would argue that those maintain the status quo? For example, Knutson wants loan rates set at 75–85 percent of a moving average market price, as does the administration. Knutson wants target prices maintained and set at a percentage of moving average market prices, as does the administration. But, in contrast to the administration's specific percentages, Knutson leaves this up to "political determination." (A notable lesson of recent history, and one which former Assistant Secretary Lesher underscores, is that leaving decisions of such importance to "political determination" often results in costly, undersirable policy. Special interest pressure in political determinations is intense, and broader social interests often suffer.) Knutson wants payment limits set below $50,000, as does the administration. But again, Knutson gives no clue of what the level should be, in contrast to the administration. Knutson wants a sodbuster provision, as does the administration. Knutson recognizes the need for "... a large exodus of resources from agriculture," which is at least implied in the administration's proposal and surely is not recognized by current policy.

I conclude that Knutson, in truth, believes current farm commodity programs **are** outdated. His key arguments for their continued existence—flexibility, income and export enhancement, and targeting of benefits—are not supported by recent program experience and Knutson himself alludes to his own doubts about the validity of these arguments. He offers no evidence that the benefits of continued current programs (or even finely tuned current programs) would outweigh the costs or that the net benefits would go to whom taxpayers want. He admits straight away that sugar, tobacco, and dairy policy are indefensible. He embraces many of the administration's proposals, in form at least. The administration's proposals are for a radical change from current policy. And, Knutson recognizes the need for significant decreases in resources devoted to agriculture and does not suggest how current policy can facilitate this transfer. In a clever, backhanded way, then, Knutson has made the case that current farm commodity programs are indeed outdated—and he's right.

Tweeten's paper is packed with information supporting his claim that current programs are outdated: programs have not changed much in 50 years; agricultural problems, however, are vastly different; income instability and rural community dependence on a single industry are not unique to agriculture, and equity considerations suggest that agriculture not be treated preferentially; studies show that current programs have not helped income instability; today's programs can temporarily help cash flow, but over-time benefits are capitalized into land values and are not realized by intended beneficiaries; in general, only mid-sized farms have legitimate low income problems, and current commodity programs fail to aid this group; most of agriculture does well without commodity programs; and the net social benefits of commodity programs have been shown to be negative. These are a rather convincing set of assertions, which, in most cases, are adequately documented.

Tweeten's paper does surface (or resurface) a few questions. He claims that export plus domestic demand for our agricultural produce is elastic in the long-run, and therefore sustained commodity programs which restrict supply will lower long-run farm receipts. The profession, however, is still divided on just how elastic demand is. Johnson, Womack, and associates at the Food and Agricultural Policy Research Institute (FAPRI) believe elasticities are still inelastic, and use such assumptions in their current analysis of alternative farm bill proposals. Their analysis has the farm sector blossoming under a mandatory supply control program. Since both Tweeten's and FAPRI's expertise is being used to form the 1985 Farm Bill, it would be nice if something so basic as demand elasticity were known.

Tweeten calls for a transition program to ease financial stress as the government withdraws from its traditional farm policies. In particular, he would provide $15 billion per year in direct payments to farmers. Such subsidies seem inconsistent with his earlier evidence that (1) in general it is the mid-sized farms which bear the most financial hardship and (2) "if $15 billion were divided equally among the mid-sized farms, payments would be $133,000 per farm."

Both the elasticity issue and the transition subsidy proposal are important considerations in forming new policy. They in no way, however, negate Tweeten's considerable evidence that current commodity programs should be abandoned.

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