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U.S. FARM AND FOOD POLICY

(By Howard W. Hjort, Director of Economics, Policy Analysis and Budget, USDA)

I am going to be quite brief on the topic, "Food and Agricultural Policy in the World of the Seventies." and devote most of the time to discussing the rationale for the policies we now have.

Anyone involved in farm policy has only to think back over the last few years to come to the realization that weather is the major source of year-to-year variability in world production. We tend to think of that variability in terms of grains and our attention often becomes riveted there. But it's also true for sugar, cotton, oilseeds and all the other crops. Extreme year-to-year swings in production on a world basis must be taken into account in policy formulation. It's a factor that we have no control over, which seems to say in policy terms that we should have programs which can accommodate that kind of variability, even though over the longer run, technology is the major determinant for increasing production.

The Food and Agriculture Act of 1977 addresses both of these production determinants. The objective that we have been guided by in the development of the legislative program and in the initiatives taken by the administration was a rather simple one: to protect producers and consumers at home and abroad from natural and economic disaster.

It carries with it a series of related policies and programs. First it reserves. If we don't have a reserve, we simply cannot be a reliable supplier in the world. The weather factor is just too important. The favorable weather in 1976 led to a significant excess of grain which provided us with the opportunity to remove some of that excess from the market and into a reserve under rules and regulations for accumulating and releasing it. In late August we committed ourselves to a 30 to 35 million metric ton grain reserve, with nearly half wheat and about half coarse grains. A small amount of rice is also included. That reserve will be in hand prior to the beginning of the 1978–79 marketing year. The commitment to a 17 to 19 million ton feed grain reserve was reaffirmed again late yesterday afternoon in connection with the feed grain set-aside announcement.

The reserve, as I said, helps to insure that we will be a reliable world supplier. It is a hedge against export controls and will help prevent extreme fluctuations in prices. And in a long run context, neither extremely high prices nor extremely low prices are advantageous to producers or consumers.

The reserve concept was adopted and approved by Congress in the 1977 act. It is the first time to my knowledge that the Government of the United States has had an explicit reserve policy. We are now part of an international force working toward the adoption of that policy on an international scale. This is one of the major changes in the programs and policies of today compared to those of yesterday.

For the basic farm programs and policies in the Food and Agriculture Act of 1977 are not very different from those of the recent past. They are basically an extension of programs operated since at least the mid-1960's. They continue the concept of setting the relationship of grain price supports in a manner so as to permit market forces to dictate if wheat should be used as a feed grain. We had been in that competitive position from 1964–65 through the fall of 1976. There was a brief aberration of that policy in the fall of 1976 which had to be corrected in this bill and in the policies of this administration. It wasn't a major consequence for that brief period when things were out of line. They are back in line again.

Market price supports are higher in this bill but they are set at levels designed to permit us to continue to be competitive in world markets. We have to export to have a healthy agriculture. We have to export to have a healthy economy. The level is simply a judgment question. It's our judgment that a level of approximately $2 per bushel for corn, our major grain, is a level that permits us to maintain our competitiveness in international markets. That basic philosophy is the same with respect to cotton, other grains, and other commodities included in the bill.

The law allows us some flexibility if we are wrong, and the U.S. is not competitive at the $2 loan for corn. The market will tell us by pricing close to that loan level. And if that occurs, the Secretary may reduce the particular market support level in any one year by 10 percent and never below $1.75 per bushel. I am hard pressed to find an area in the world or, I'll put it another way, I am hard pressed to believe that the weighted average world cost of production would be less than $1.75.

The target price concept included in the 1973 act was continued in the 1977 act but the basis for tieing it to the cost of production was made more explicit. Congress had previously directed the Department of Agriculture to assess cost of production and that set of studies was used in the development of target price levels. The same components of production costs are used in establishing the target prices for all of the major commodities that were in the bill—cotton, wheat, corn, sorghum, barley and so on. The administration proposed that same concept be used for soybeans, but that was not included in the final bill. This, I think, is the first time that the equity principle, if you will, has been employed on such a broad basis.

There is another point on cost of production and target prices on which I find great confusion. Target prices are based upon cost of production but target prices do not cover cost of production. In arriving at target prices, as I said, the same components of cost will be applied to those commodities. But that is not the same thing as saying that they provide protection and a guarantee for covering all costs. They do not. That part of the philosophy of farm programs and policies is a continuation of what we've had over the years. The farm programs have not been designed to provide a guaranteed income to the producer, they've been designed to provide protection against economic disaster.

There is room for market prices to operate in this program and I don't believe that target prices are going to create any major problems in terms of acreage shifts and so on.

A couple of other changes were made with respect to allotments. In the past, what a grower could do depended upon what he had done in some historical period. That system provided a rigidity that frequently was not to the individual's best interest. So the idea of using the current year as the basis for the program instead of previous years was proposed and was accepted. This provides producers with more flexibility than any other legislation. So it doesn't really make any difference if producers in 1977 shifted to soybeans and cut back on corn because of market indications. They're not penalized for doing so in the 1978 program if market forces and programs are such that he should increase his corn production relative to soybeans. He's free to do so.

There is, in addition, a way a person can guarantee total protection if he so chooses. With respect to USDA's series of other initiatives on an international scale, some of them are in the bill and some of them have been taken by administrative action.

With respect to the bill itself, in terms of cost, the major item was the food stamp program, and in terms of pages, the major item was the research section. I'm not going to cover those at this time because our panel is going into them in detail.