Agriculture at the Crossroads: Agricultural Policy Issues Beyond the Eighties

by

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AGRICULTURE AT THE CROSSROADS: AGRICULTURAL POLICY ISSUES BEYOND THE EIGHTIES

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Agriculture is indeed at the crossroads, as stated in the title to this paper. Again. As in 1933. And 1946. And the 1950's. I wonder if agriculture can avoid finding itself once more at a juncture point in, say, 1988 or 1990.

The idea of a crossroads, undoubtedly the favorite metaphor of speakers at high school commencement exercises, is old, trite. It nevertheless carries a punchy meaning. It says that whoever is at a crossroads faces options, alternate courses of action. A crossroads implies a sense of urgency, an importuning to make a choice from among the options. But the image also suggests indecision or even an uncertain confidence in ability to decide.

All of these images associated with the figure of speech fit agriculture today. Moreover, farm leaders will out-shoot economists in vouching for their authenticity. The key element is the Payment-in-Kind (PIK) experience of 1983. Leaders know that the debacle of PIK will force new attention to the direction farm policy is to take.

To those of us who have been on the spot with agriculture at its earlier crossroads, the question that comes to mind relates to the depth of commitment and comprehensiveness of concern. Are we truly ready to reconsider and redefine our long-range goals for a policy for agriculture? A policy that affects all agriculture and not individual portions? Currently, in October of 1983 it is fashionable to say, yes, we are. If PIK proves to have frightened the agricultural establishment, including its universities, into statesmanlike reconsideration of agricultural policy, it will almost have been worth its cost.

Unfortunately, veterans of the farm scene tend to be crusty. They remember times in the past when similar promises were made. These promises are usually forgotten as interest groups fill the arena with their competitive rivalries. All that results is temporizing patchwork.

INFELICITOUS SETTING

Prospects that agricultural policy will be given the thoughtful review it needs are not bright. My reasons for little optimism go beyond a memory of disappointment in the past.

First, the atmosphere is not propitious. The United States does not yet

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have enough of a crisis to force commitment. Even the outrageous cost of PIK will be forgotten quickly. Further, $15 billion for PIK does not excite when the federal budget is allowed to run $200 billion in the red without anything more than gestures of regret. (The worst harm of a huge macro deficit is that it invites micro-irresponsibility in budgeting.)

Moreover, Americans in the early 1980's were reveling in an orgy of disengagement. What President Reagan promised our voters was not problem-solving, but problem-denying. The President states his case in middle-class aphorisms and a great many citizens empathize. We have government by epigram. Irrespective of whether this stance is appropriate to the time, it does not provoke inquiry into what a national policy for agriculture ought to be the rest of this century.

Furthermore, when citizens believe the federal government is disengaging and that problems are resolved by declaring them nonexistent, they are being deceived. Historically, this era will be viewed as one of contradictions. It is tempting to enumerate the many respects in which the Reagan Administration has violated the long-standing tenets of the Republican Party. PIK, for example, hardly constitutes getting the government out of agriculture. An example of a virtually deceptive contradiction in national economic policy lies in tax policy. The federal government influences the conduct of private business more incisively now than ever before and it does so principally by two instruments that are as sharp as the sword Excalibur. These two devices are monetary policy and income tax policy. Income tax policy is the more objectionable of the two because it is so specific as to both beneficiary and victim, and because it is undercover.

It may be impolitic to deplore income tax policy before an audience of attorneys for whom it is a shower of gold beyond anyone's dreams. For the moment I am commenting not on the soundness of tax policy, but on its surreptitious character. Furthermore, how is it possible to enlist citizens in policy making in the national interest—policy of any kind—when a big payoff awaits any clever or powerful interest group?

Interest-group rivalries in the tax arena are analogous to commodity-group contests in agriculture. The similarity leads me to my final comment about why I doubt much progress will be made soon in framing a new farm policy. Is "agriculture," in fact, any longer a meaningful entity? Commodity specialization in farming, proceeding apace, is internally divisive. Although Congress enacts omnibus farm bills each four years, the laws are to a large extent lists of commodity subsidies or concessions. If the cotton sector's principal interest is in getting some benefit that wheat does not—or vice versa—it is hard to conceive of coherent dialog between the two groups about idealized goals for agriculture as a whole. Agriculture is now too *Balkanized* for easy agreement on agriculture-wide policies.

A CONCEPTUAL FRAMEWORK

Perhaps it is poor strategy to begin with an explanation of why I doubt that a sound long-range policy will be reformulated in time for the 1985 farm bill. If, however, I am proven wrong, I hope the framework for thinking and legislating about a new policy will follow the lines I now sketch. At the annual meeting of the American Agricultural Economics Association held at Purdue University in August, I reviewed principles underlying the New Deal farm legislation that persist to this day.[1] I named several pairings but insisted that "the most fundamental issue in design of farm programs . . . is whether commodity action is still only farm relief or constitutes what has come to be called supply management for an industry." In the 1930's popular support for revolutionary farm programs grew from sympathy for impoverished farmers who had lost their farms or were about to do so. The easiest relief was to disburse Treasury payments, some of which were in fact made under the label of parity payments. Economists were quick to point out the leverage obtained if farmers were paid not to produce. Harvest of one hundred million bushels of corn could be forestalled by reimbursing land-idling at scarcely more than rental value. Holding that same one hundred million bushels from the market would have a disproportionate price effect owing to inelasticity of demand. As a result, farmers were paid not to produce in 1933. They were again paid not to produce in 1983—paid lavishly, some would say.

The difference between concepts of farm relief and commodity (supply) management is deep seated and is at the heart of farm policy debates. During each cycle of strong markets and high prices, supply management is disavowed, only to be revived when markets turn sour.

I think the choice is a discrete one. Supply management is indeed a powerful tool, for it amounts to categorizing agriculture, or at least the commodity involved, as a single monolithic entity. Built into policy, it commits the federal government to continuous monitoring and management of supply and stocks and of prices within specified boundaries.

It is always tempting to disavow an irreversible commitment and instead to opt for "playing-by-ear," which is dipping in and out of supply management activity. I warn of the hazard, the danger in trying to manage wheat, corn or cotton on a "sometime" basis. A Secretary of Agriculture who does not remain geared into the management machinery will find himself surprised occasionally by his unpreparedness. This is precisely what happened in the last couple of years, and why PIK came about.

It is easy to recite reasons why escape should be sought from the obligations and costs of commodity supply management. A major one is that commodity interests will be so politically powerful as to convert a program into a monopolizing cartel. But I believe that supply management is here to stay.

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1. Breimyer, *Conceptualization and Climate for New Deal Farm Laws of the 1930's*, 65 AM. J. AGRIC. ECONOM. 1153 (Dec. 1983).

Further, I believe that the impetus will come from the export sector. This too is not ideal. I wish that feed grain policy, for example, were designed more to accommodate our own livestock and poultry sector than the vagaries of export trade. Foreign trade issues now dominate. A convincing illustration is the fanfare surrounding the negotiation of a new grain trade agreement with the Soviet Union. We rejoice and wave banners. Incidentally, who guarantees the availability of grain, year in and year out? Insofar as anyone does so, the United States government makes the pledge. Both the Soviet Union and the Peoples Republic of China agreements, newly signed in 1983, come close to being state trading.

THE BEDLAM IN INTERNATIONAL TRADE

In no aspect of farm policy has the air been filled with more irresponsible demagoguery than the terms of international trade. Again, the problem begins with conceptualization. For instance, one hears the complaint, "the United States is only a residual supplier." What this really means is not that we fill only the last or overrun demand for grain or soybeans, but that our export trade is a stepchild of our domestic support policies. I do not want to overstate my case: keeping loan rates lower than target prices amounts to giving some consideration to competiveness in world trade. But, by and large, the United States and most other countries have put internal farm policy in the driver's seat and let international trade policy be something of a tagalong.[2]

I can be cutting in my remarks yet fail to offer a solution. My hunch, though, is that we will gradually go further in the direction of state-managed trading. I can foresee an export-CCC separate and apart from the present Commodity Credit Corporation. It would not be a trading corporation so much as a trade-monitoring corporation and it definitely would be charged with guaranteeing the integrity of all private as well as public commitments in export selling. It would also allow more detachment of the terms of export trading from our internal support activities.

I offer one further comment regarding international trade. It relates to the complaint that the United States is a residual supplier. For grains, soybeans and some other commodities, the United States is a giant in world trade rather than a residual participant. We dominate and, to a large extent, set the pattern and tone for the terms of trade. I am not sure we fully appreciate the standing of our nation in the world trade in farm products and are able to demonstrate both the leadership and restraints that go with it.

SUPPLY MANAGEMENT VERSUS INCOME STABILIZATION

I now return to the policy question of commodity management relative to income protection of farmers. On this I dare to believe I reflect the stand

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2. *Id.*

held by the great majority of the more liberally inclined agricultural economists. I have argued repeatedly for keeping commodity price supports and release prices at relatively low levels. In that way, commodity management problems will at least be minimized. Direct payments should represent an income supplement and, unless I read the stars very badly, that portion of a farm program must take into account the income status of the recipient. The existing payment-limit device is too crude. I have argued for years, futilely of course, that payments should be scaled up and down by formula. I would be willing to differentiate according to the entrepreneurial status of the recipient. I do not believe a $40,000 college professor who tax-farms fifty acres of corn ought to get a big upward scaling of a direct payment merely because the amount of acreage is small. However, due to administrative complexity, I do not press this particular idea.

Voluntary Versus Compulsory Acreage Programs

In my judgment every farm bill should contain a maximum number of choices for control schemes in order to allow the Secretary of Agriculture to select whatever is appropriate at a given time. If the United States wants effective supply management for a commodity, authority must be available for farmers to vote mandatory allotments into force. In many of my papers on farm programs I have described a stair-step sequence of program types which range from the loosest voluntary design to mandatory quantity marketing quotas.

A Soil Conservation Component

One could safely bet that a focus of program-design arguments in the next couple of years will be whether to build a conservation-practice unit into the price and income support programs. It is almost safe to wager that something will be done to link the two. The idea circulating most widely now is "cross compliance." This requires a farmer to meet minimum soil-protection criteria in order to be eligible for price support benefits. Presumably, the farmer would get cost-sharing assistance for carrying out any mandated practices. This would be a significant departure from past practice.

Economists of my vintage would like an ideal farm program to take a giant stride further. This step would build land use criteria into a farmer's acreage bases and therefore into program benefits. Corn acreage on erodible hillsides would not qualify as a corn base. Farm programs would not force good land use but would gravitate toward it. I have no illusions about our being ready for so enlightened a step.

While I am dreaming, let me add my ultimate dream. It is the package approach. Farmers would no longer engage, or not engage, in a number of separate programs. Each would opt only to accept or reject a package. The package would include commodity programs complete with income supplement, cost-sharing payments for the minimum necessary cost-sharing practices and crop insurance. I am convinced that eventually our farm programs will take such a form. The only question in my mind is "when?"

"WHO WILL OWN AND CONTROL . . .?"

Anyone familiar with my writings would be astounded if I failed to include a comment on my favorite subject, the so-called organizational structure of agriculture. A decade ago North Central Extension addressed the subject under the general title, "Who Will Control U.S. Agriculture?"

The connection between design of farm programs and organizational structure is well known to lawyer-economists, as is the fifty-year record that price and income programs have been dedicated to preserving the traditional family farm but have generally worked to destroy it. I add instantly, though, that the net effect these programs have had is trifling compared with the devastating consequences of income and estate tax policy.

I divide my comments into two parts. The first relates to the exigency of the moment, the financial peril of hundreds of thousands of younger family farmers who are burdened by debt. If our goal for farm policy is, as sometimes expressed, people oriented, and if we want to help good young farmers survive, a selective, preferential credit policy is not only appropriate but essential. There is no chance that commodity price policy can bail out those farmers at a time of deflation and high interest rates.

At this point I find an excuse for a parenthetical catharsis. One hears it said that times such as the present weed out the good farmers from the bad. This is utter nonsense. Times such as these separate the well financed from the thinly financed. Operating efficiency is scarcely involved at all.[3] Who are the well financed? They are the sons and daughters of well financed farmers or nonfarmers. They are also the weekend farmers who live on their nonfarm income and use farming for a tax write-off.

It is shameful that some leading agricultural economists have been citing the Economic Research Service (USDA) data on costs and returns by size of unit to show that the small farmers are inefficient (their net income is low or negative) and therefore ought not to survive. This is more nonsense. On rural-residence small farms the farmer's object is to contrive a loss. Otherwise, he gets no tax deduction.

My guess is that we will struggle with debt relief issues for several years, putting the Farmers Home Administration in an extremely difficult bind. That agency is caught between the pincers of the Administration and Congress but, in addition, it seems to suffer from marked inconsistency among the states in its own operations.

Now for my second comment. In view of the glum tone of this paper it

3. Of Missouri farmers who kept mail-in records in 1981, those with net losses showed better physical performance (yield per acre, pigs per show) than those reporting a profit. The difference was in interest payments. Hein, Kirtley and Osburn, *Interest & Costs: A Heavy Burden on Leveraged Operations*, FARM MGMT. (Mo. Coop. Ext. Ser. Sept. 10, 1982).

would be surprising if I ended with a burst of confidence that agricultural programs of the future will be designed in the interest of protecting a moderate-sized, market-oriented proprietary unit. There will not be such a surprise. I do not believe the organizational structure issue can be disregarded entirely as agricultural policy is reconsidered. But there is not enough idealism in the air today to expect positive action to be taken.

OMISSIONS

I should do penace for omitting from this paper so many aspects of policy and policy making—issues ranging from programs for health-hazard tobacco to those surrounding provisions for a food reserve. Currently, many interest groups, in the late Jimmy Durante's words, are "gettin' inta da act." Nor have I reviewed policy making or the still uncertain effect on the congressional budget process and its "reconciliation" procedure. (PIK seems to have escaped that lasso.)[4]

Is agriculture at the crossroads? Yes, it is as it was in 1933, 1946 and several times since. Is agriculture prepared to make a wise choice? I have expressed by doubts. It is true that a great deal of experience has been gained and the analytical base for choosing a policy is far better than it was when I helped with the program design in the 1930's. Successful choice of a path for the future rests on subordination of narrow sectoral interests to a broader general interest. This is, of course, an eternal rule. If enough statesmanship emerges to force reconsideration of an *agricultural* policy, and not a corn, wheat and cotton policy, it will be wonderful. If that should happen, lawyer economists could get double duty, as lawyers and as economic analysts. Talents of both roles are needed.

4. For a review of the budgetary procedure, see Infanger, Bailey and Dyer, *Agricultural Policy In Austerity: The Making of the 1981 Farm Bill*, 65 AM. J. AGRIC. ECON. 1-9 (1983).