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The Future of Farm Price and Income-Support Programs

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AMERICAN FARMERS have experienced periodic financial difficulties for many years. Frequently the market—not the actions of individual producers—has been the source of these difficulties. As a result, attaining adequate farm prices and incomes and maintaining them has become an important public policy issue.

The purpose of this paper is to briefly review the need for price and income support programs, to characterize and evaluate the federal government's response to this need, and to outline the issues likely to affect future programs. The primary focus will be on "commodity programs," although selected broader policy options will be briefly analyzed.

Nature of the Problem

Understanding economic problems in American agriculture is not an easy task. For one thing, observers frequently confuse the symptoms of these problems with their causes. The result of such confusion is policies which do not alleviate "problems." Another difficulty is that economic problems vary over time, by size of operation, by enterprise combination, and among regions. No single solution will solve all problems.

Despite these difficulties, government assistance for farmers is best understood through two characteristics of production agriculture: 1) a chronic excess capacity for production which results in both low farm incomes and low cash returns to capital committed to farming; and 2) instability of production, prices, and income.

Excess Capacity—The average disposable income per capita of the farm population has consistently lagged behind that earned by the nonfarm population. The only exceptions in the past 50 years were in 1973 and 1979. However, the ratio of farm to nonfarm incomes has improved over the years. In the 1930's, the average income of farm families averaged less than 40 percent of nonfarm families. It rose above 50 percent in the 1950's, reaching 70 percent for the first time in 1966, and 80 percent in 1972. Between 1973 and 1981 the ratio of farm to nonfarm incomes varied between 77 and 104 percent.

Part of the improvement is the result of farm families earning more of their income from off-farm sources. In fact, off-farm income grew from 40 percent of total farm family income in 1960 to 60 percent in the early 1980's.

Farm incomes represent a return on unpaid labor, management, and equity in land and equipment. But another way to analyze the financial well-being of farmers is to consider the return to individual resources. Since 1960, for example, current earnings on farm equity capital have averaged about 4 percent per year. However, when current earnings and capital gains on equity capital are combined, the overall rate of return on capital more than doubles. These total returns on farm equity capital compare favorably to similarly combined returns on common stocks and on government and corporate bonds during the 1960-1981 period.

Instability—Farmers are frequently confronted by instability in production, prices, and income. This instability is caused by a number of factors including general economic conditions, weather, political decisions, and plant and animal diseases. Moreover the quantity of farm products demanded is only slightly influenced by prices. This adds to instability problems, as does the highly competitive structure of farming, which denies individual farmers an opportunity to "balance" supply with demand.

In the recent ten years between 1973 and 1982, aggregate net farm income in the United States varied from $18 to 33 billion in current dollar terms. In constant dollars, the variation was even more extreme. After reaching $25 billion in 1973 (1967 dollars), real income declined four straight years to $10 billion in 1977. After regaining some lost ground in 1978-79, incomes slumped severely to even lower levels in 1980-82. Overall, the variability in farm income was over three times as great in the 1970's as in 1955-63.

Unstable income continues to concern particular segments of agriculture (e.g., crops, livestock) and individual farmers. A recurring problem is that too many resources are coaxed into agricultural production during high-price periods. However, these same resources —land, labor, and capital—are often so immobile that they cannot exit from agriculture when prices turn

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lower. Thus current returns to resources can be low for long periods of time. Table 1 indicates the variability of farm income over the past two decades, its recent decline associated with excess capacity, and farmers' increasing reliance on off-farm income.

Table 1—Net Farm Income, 1961-1982.

Year	*Net farm operator family income from farming, per farm*		*Farm operator family income from off-farm, per farm*
	Current dollars	*Constant 1967 dollars*	*Constant 1967 dollars*
1961-1965 Avg.	$ 3,313	$3,604	$3,327
1966-1970 Avg.	4,369	4,139	4,796
1971-1975 Avg.	9,798	6,357	6,128
1976-1980 Avg.	9,922	4,935	6,266
1981	12,349	4,533	6,014
1982	9,188	3,178	5,683

Source: United States Department of Agriculture.

Evolution of Policies and Programs

Over the years the U.S. government has introduced a number of programs designed to directly address the problems of low returns to resources, price instability, and income in agriculture. Commodity programs have included such instruments as nonrecourse loans, production controls, direct payments to farmers, and market orders. Domestic food distribution programs have been developed to increase the demand for agricultural products and to provide an adequate and nutritious food supply for low income and dependent citizens. Other programs have been created for the international market to stimulate demand through exports and to restrict competitive imports. In the discussion that follows, the policies and instruments in each of these problem areas are briefly reviewed and evaluated.

Commodity Programs

The review that follows is too brief to include a thorough discussion of each of the commodities, the particular problems encountered by its producers, and the government's response to these problems. However, several points are worth noting.

First, the producers of some commodities have received relatively little assistance from public funds. Producers of cattle, hogs, poultry, and soybeans are notable examples. In contrast, producers of such crops as wheat, tobacco, peanuts, and cotton have been consistent users of commodity programs.

Second, the major techniques or instruments used in programs have varied according to commodity. These techniques can be summarized as follows:

1) Supply controls and price supports: wheat, corn and other feed grains, cotton, rice, peanuts, and tobacco.

2) Price assistance without supply controls: manufactured dairy products and wool.

3) Price assistance primarily through limiting imports: sugar and beef.

4) Price assistance through marketing orders: dairy products, certain fruits, and some vegetables.

The economic and political basis for commodity programs dates back to the 1920's. That decade, while generally favorable for the nonfarm sector, was a period of economic crisis for American agriculture. Farm prices and incomes plummeted from the levels they had reached only a few years previously. The first efforts at relief brought forth a series of legislative proposals known as McNary-Haugen Bills, none of which were adopted. However, that decade did produce the first federal program to improve farm prices and incomes in the form of the Agricultural Marketing Act of 1929, which established the Federal Farm Board and the idea of parity.

Of all the concepts that subsequently became a part of commodity programs, the notion of parity or a "fair price" was the most lasting. The image of parity became associated with higher, more stable, farm incomes. Over the last decade, however, policy deliberations about farm income have increasingly emphasized costs and volume produced. As a result, policymakers have moved away from parity. In its place, they have sought prices which will at least cover production costs.

Price supports have been the federal government's primary instrument for stabilizing or raising prices during the past half century. Typically, such supports have been implemented through nonrecourse loans to farmers. These loans may be redeemed either by a cash payment or by turning the commodity used as collateral over to the government.

While nonrecourse loans were first set as a percentage of parity, they are now set nearer to world market price levels. If price supports are set above market prices, farmers accept the loans as their prices for particular commodities, and the government accumulates stocks.

The farmer-owned reserve (FOR) is another policy instrument used to stabilize commodity prices and at the same time to help meet the nation's longer-term domestic and export needs. A product of the Food and Agriculture Act of 1977, this measure stipulates that feed grains and wheat be held under nonrecourse loans for longer periods of time (3-5 years) than under regular nonrecourse loans. If prices rise sufficiently while grain is in the FOR, farmers can take advantage of those higher prices by paying off the loans in cash. The FOR both absorbed grains from the market and released grains to it until early 1983. By that time substantial stocks had been accumulated, in part because the FOR was being used as the primary price support mechanism. USDA policymakers then chose to deliberately reduce reserve holding through the payment-in-kind (PIK) program.

Supply control programs have been used frequently

since the 1930's, with the intent of bringing supplies into balance with demand at the price support level. In a sense, individual producers have had to view these programs as the price paid for government benefits. However, production control techniques have varied as has their effectiveness.

The predominant technique used until the early 1960's was compulsory production control, involving acreage allotments and marketing quotas applied to each producer on an historical basis. With overproduction and accumulated stocks plaguing farmers due to the ineffectiveness of this approach, the government redirected this policy with the emergency Feed Grain Act of 1961. A voluntary production control program was launched, which provided incentives to persuade producers to participate in land diversion programs. Following the gradual expansion of this voluntary approach to most program crops during the 1960's, it was refined to provide more operating freedom for farmers through more current crop bases and yields and through "set-aside" percentages for individual crops, with remaining acres to be planted to any crop.

The increased flexibility in planting coincided with the great growth in export demand during 1970's. In years like 1973 and 1974 when production increases were not as great as demand increases, many policy analysts talked openly about ending acreage adjustment programs. Indeed, the decade of the 1970's saw little use of such programs, although the Agriculture and Consumer Protection Act of 1973 and the Food and Agriculture Act of 1977 updated the legislative authority for voluntary acreage adjustments.

The Agriculture and Food Act of 1981 did not change the voluntary approach to production control, but it did grant more discretionary authority to the Secretary of Agriculture than did previous legislation. Because of record production in 1981 and 1982 and reduced demand, especially in the export sector, the Secretary has used that authority. In 1983, the benefits package of regular and reserve loans, deficiency payments, diversion payments, and payments-in-kind persuaded producers to retire a record amount of land from production.

Direct payments for land retirement became an important policy instrument in the Agricultural Act of 1956, although such schemes had been used intermittently since 1933. Under the 1956 Act, farmers were paid for retiring land and committing it to a Soil Bank.

In 1973, the Agriculture and Consumer Protection Act provided for supplementing market prices with deficiency payments whenever the former fell below predetermined target prices. These target prices were linked to annual production costs in both the 1973 and 1977 Acts, but in the 1981 Act they were predetermined for the 1982-1985 period. In 1983, the latest version of direct payments was the payment-in-kind program. Farmers received a specified amount of grain as payment for taking land out of production. This grain could be converted into dollars on the open market or fed to livestock.

Market segmentation has been proposed since the 1920's. The idea behind segmentation is to sell in two or more markets at different prices. The technique involved is one of price discrimination in which a commodity is sold at a higher price in the primary market than in the secondary market. For example, wheat that is milled into flour might be sold at a higher price than wheat that is exported or fed to livestock. A well-segmented market will provide higher returns to producers than a market in which all of a commodity is sold at a single price. However, the problem has always been to keep markets divided into high and low price segments and to avoid retaliation from other producers or trading nations.

The most notable successes with two-price plans have been in the dairy industry and in the sale of fruits and vegetables. For milk production, markets are separated into fluid milk and processed products, usually using a Federal Marketing Order. Fruits and vegetables are segregated between fresh and frozen or canned markets, again sometimes using an Order or Federal Marketing Agreement. Producer approval through referenda is usually required.

Though there has been no formal use of such a plan for grains and cotton, export subsidies during the 1960's and early 1970's provided many of the effects of a two-price plan. The blended export credit plan (the use of interest subsidies) of the 1980's also has some of the trappings of a two-price system.

Domestic Market Expansion Programs

Food distribution programs were initiated by the Department of Agriculture in 1933. The first program supplied surplus food products, including meat, butter, cheese, and flour to unemployed workers and their families. In August 1935 an amendment to the Agricultural Adjustment Act of 1933, known as Section 32, set aside 30 percent of customs receipts to be used to encourage the exportation and domestic consumption of agricultural commodities. Direct distribution of food to schools, institutions, and needy persons continues today.

The school lunch program is another product of the 1930's which has helped to expand the market for agricultural commodities. The federal govenrment and individual states have shared responsibility for the program.

The food stamp program was initially launched just prior to World War II, then revived by Presidential Executive Order in 1961, and finally enacted as the Food Stamp Act of 1964. Unlike some previous food distribution programs, the primary purpose of food stamps has

been to improve the nutrition of underprivileged persons.

The food stamp program has become the largest assistance program ever instituted in the United States. In 1982 more than 20 million people received program benefits. However, program cost, now over $11 billion annually, appears at least temporarily to have become a barrier to further expansion.

The Child Nutrition Act of 1966 emphasized providing nutritious meals to children. Special milk, school breakfasts, summer food services, and child care food programs have all resulted from this law. In addition, the women, infants and children (WIC) program provides nutritious foods to pregnant, postpartum, and breastfeeding women who have inadequate incomes. The WIC program has grown rapidly, with outlays rising from $422 million in the 1978 calendar year to an estimated $1 billion in 1982.

In fiscal 1982, food and nutrition assistance programs accounted for $15.5 billion of the USDA's budget. Food stamps accounted for about 75 percent of the total with the remainder scattered across other program areas. By comparison, federal outlays on food programs totaled $789 million in FY 1965 and $6.8 billion in FY 1975.

The economic effects of food and nutrition programs and agriculture have been positive, although they cannot be easily quantified. The federal outlay on food programs has averaged about 4-5 percent of total consumer food expenditures in recent years. One mid-1970's study showed that half of that expenditure would not have occurred without government assistance. Another study showed that government assistance increased expenditures for high-value food products such as meats, fruits, and vegetables. To the extent that food purchases have increased as the result of these programs, farm prices and incomes have increased.

Trade Issues and Policies

In recent years agricultural exports have accounted for the production from 30 percent or more of U.S. cropland acres. The United States is one of the few countries in the world where most trade is the responsibility of the private sector. Still, general governmental policy with respect to such matters as foreign relations, national security, GATT negotiatons, currency exchange rates, and trade subsidies or restrictions can affect agricultural exports. Several specific governmental actions have also increased the demand for agricultural products or restricted their importation.

The Agricultural Trade, Development and Assistance Act of 1954, better known as PL-480, is perhaps the most significant agricultural trade legislation of the last 50 years. PL-480 currently provides for selling products on the basis of long-term credit and for emergency relief through governmental and voluntary relief agencies. In fiscal 1982, the cost of the PL-480 program amounted to about $1 billion.

Perhaps the most important thing about PL-480 is not what it costs but what it returns in future commercial trade and improved foreign relations. Over the years numerous countries that have received substantial PL-480 aid have later become major commercial customers of the United States. These countries include Taiwan, South Korea, Spain, and Israel.

The federal government has also promoted exports directly. In fiscal 1982 it provided about $36 million for this purpose. These funds were used to directly support private commodity associations and other groups with a strong interest in export promotion.

Periodically, the United States government has sought to expand agricultural exports through various export subsidy schemes. For example, in late 1982 a blended credit program was initiated. Blended credit combines public funds at no interest cost with loan guarantees to the private sector.

No discussion of agricultural exports would be complete without acknowledging that governmental action has sometimes reduced exports. During the 1970's, the government interrupted the normal flow of agricultural exports to protect domestic supplies on at least three occasions. In 1980, sales of grain to the Soviet Union were halted for foreign policy purposes. In each instance farm commodity exports have been disrupted and prices depressed, although it admittedly is impossible to measure the extent of the loss. As a result of these policies, both the 1977 and 1981 Acts included protective provisions for American farmers in the event future embargoes are imposed.

Finally, U.S. policy has restricted certain agricultural imports through quotas and tariffs for many years. The legislative authority for limiting imports is a 1935 amendment to the Agricultural Adjustment Act of 1933, known as Section 22. Such restrictions now exist for dairy products, peanuts, sugar, and beef. While they are intended to protect the price of affected commodities, these restrictions can also be seen as inconsistent with efforts to expand exports.

Evaluation of Programs

Economic and Political Evaluation—Public policies for agriculture have undergone continuous evaluation. Part of this evaluation has been economic in nature, the remainder political. Political evaluation encompasses the entire public policy development process, from the time individuals initially perceive a problem to the point where decisionmakers reach some sort of policy compromise. A change in a program or its abandonment signals public disapproval, while continuing it signals public agreement. The public's evaluation of price and income policy for the agricultural and food sector,

reaching from the Federal Farm Board of 1929 to the Agriculture and Food Act of 1981, has resulted in signals of both approval and disapproval. However, shifts in program emphasis can best be characterized as incremental or evolutionary in nature.

In the 1984-85 period, policymakers will be sensitive to the recent high costs of commodity programs, the importance of international markets, and the economic well-being of farmers and the businesses serving them. The new law that emerges in 1985 to replace the Agricultural and Food Act of 1981 will reflect these concerns as well as others that may develop right up until a new act is signed into law.

Assessing Distributional and Other Economic Impacts—Evaluating past farm price and income-support programs is essential for those who must make choices about future programs. An overview of the impact of commodity, food distribution, and trade programs on six separate farm sectors follows.

(1) *Producers*—Commodity programs have at least marginally increased prices of farm products and incomes of producers for short periods of time. However, the rapid technical changes in farming, its competitive nature, the capitalization of farm earnings into land values, the inability to move resources into or out of agriculture quickly, and the exposure of farm markets to international trade have all combined to deny or erode income benefits over longer periods for individual farmers. Domestic food distribution and agricultural trade policies have also generally supported farm producers' incomes, although some trade interventions have disrupted them.

Economic analyses show that the benefits of price and income programs are generally proportional to size (market sales) of farms. This means that those farmers who produce the most generally receive the most absolute benefits, i.e., benefits proportionate to their size in the market, and conversely that farmers with smaller sales receive less benefits. Programs tend to protect the prices and incomes of farmers as a whole vis-a-vis those with whom they buy and sell but not to redistribute welfare among farmers. Cash payment limits (currently $50,000) and minimum acreage quotas per farm have slightly tilted relative benefits away from the largest farmers, but these tendencies are probably counteracted by other indirect forces associated with size. Moreover, the payment limitation did not apply to the recent PIK program, in which millions of dollars worth of commodities were paid to some large producers.

Knowledgeable, efficient, economical, aggressive operators have more opportunities for expanding their scales of operation, their incomes, and their control of resources than do operators with the opposite characteristics. Price and income policies do not substantially alter these advantages. If the above characteristics of these expanding operators are also coupled with other assets, e.g., inherited capital, their advantages are greater and their gains faster.

The longer run consequences of the stability or security which public price and income policies provide for the farm structure is unclear. Professionals argue that in the presence of economic uncertainty and stress the more efficient, knowledgeable, aggressive operators can expand faster than other operators. However, they also sometimes argue the opposite, that farmers expand their operations more quickly in an environment of economic prosperity and stability.

There is little argument, however, that during the past three decades there has been a relentless trend toward increasing numbers of larger commercial farms. During this period, the flow of off-farm income has consistently grown for all sizes of farms, but particularly for the smaller ones. For these farmers, employment opportunities off the farm are more important than price and income policies. Currently, off-farm income comprises over 60 percent of total income for the average farm family. In 1982, even farmers with gross sales up to $100,00 earned this much or more of their net incomes off the farm.

(2) *International Trade and Interrelationships with Domestic Policies*—Throughout the history of U.S. price and income-support programs, the effect of these programs on agricultural trade has been an important policy issue. Moreover, this issue has increased in significance during the past decade as the proportion of total farm production exported grew from 15 percent to 30 percent. As long as there is no recognized international government, trade issues must be dealt with as a part of our national policy.

A wide range of national policies affect international trade. At times in the past, price supports have been set so high as to inhibit trade with other countries while export subsidies and "barter aid" have invited retaliation from them. However, present policies for most products support prices at or only slightly above average world levels, use direct payments, and even out market supplies over years. These policies generally support exports that have long run competitive advantages. Exceptions have been embargoes and the continued high support of dairy products, peanuts, and sugar. Trade is also adversely affected by import policies, including duties and quotas generally on these same few products and to some extent on meats.

In choosing programs, certain inexorable economic consequences of domestic policies to trade should be considered.

(1) Production control programs (e.g., marketing quotas) result in less products for export. As a result, foreign market opportunities may be forfeited. Likewise, if quantities of a product are reduced too much for domestic consumers, imports of this product may increase.

(2) Domestic price supports (e.g., nonrecourse loans) at levels significantly above average world prices reduce exports and increase imports.

(3) Price supports set above world prices and lack of effective production control must often be followed by subsidized exports and restricted imports.

(4) Direct or deficiency payments for producers increase production and hence export volume and also discourage imports unless other trade limits are simultaneously put into effect.

(5) Export subsidization (e.g., blended credit or food aid) and import restrictions (e.g., dairy import quotas), both adopted to serve domestic policy objectives, increase net agricultural exports.

(6) Finally, domestic consumer food subsidies (e.g., food stamps) affect trade only marginally by reducing food available for export or increasing the markets for imports.

Any of these program alternatives may trigger retaliatory actions. The lesson is clear. Price and income policies in the world today are still domestically determined within each nation, but rational policymaking for a country as agriculturally trade-oriented as the U.S. means that major consideration must be given to the interrelationships between domestic policy and trade.

(3) *Agricultural Input and Marketing Industries*—The economic well-being of farmers has generally been mirrored by the agricultural input and marketing sectors. When farming has prospered, whether by policies or other forces, so have agricultural businesses. A notable exception was the dramatic effect of the 1983 PIK program. While it generally benefitted farmers, it brought losses—even bankruptcies—to many suppliers of farm inputs. Like farm firms, agribusinesses have decreased in number and increased in size over the years. Commodity programs have probably stabilized agribusiness incomes in the same way they have stabilized farmers' incomes.

(4) *Rural Communities*—The economic welfare of a rural community reflects that of both producers and supporting agribusinesses. Thus more stability in farm product prices and farmer income translates to better economic health for the community. Since long-term income gains from programs have been marginal, they have provided only minimal gains to communities. However, the rural community has also been affected by persistent economic changes in the structure and operation of farming and its supporting businesses, changes largely unrelated to public price and income policies.

(5) *Consumers*—Consumer welfare is affected by the quality of food, its plentifulness, and the efficiency of its production. At times price supports, production control, trade, and food distribution policies have probably directly increased food prices. But such programs, along with income supplements, have also generally supported an adequate, stable, and generally efficiently-produced food supply.

In the absence of price and income-support programs, it is likely that consumers would have periodically experienced lower prices as the "surpluses" cleared the market. Or they might have benefitted from more efficient production in some sectors as less efficient producers were "driven out." At some point, of course, the surviving producers might have attempted to gain collective control of the market, which would not have been a good omen for consumers. Using such measures as real costs, quality, quantity, and proportion of income spent to obtain food and fiber, the effects of these policies are uncertain but they are likely to vary among commodities. Food distribution and nutrition programs have directly benefitted lower-income consumers while also aiding producer prices and incomes.

(6) *Treasury Costs*—The cost of price and income policies has been substantial and growing, albeit erratically (Table 2).

Table 2—Commodity Credit Corporation Price Supports and Related Expenditures, Fiscal Years 1961-1983 (in millions of dollars).

Year	*Major crops**	*Dairy*	*Other†*	*Total*
1961-1964 Avg.	1,546	236	437	2,219
1966-1970 Avg.	2,287	142	389	2,818
1971-1975 Avg.	1,795	196	398	2,389
1976-1980 Avg.	2,058	357	932	3,347
1981	1,370	1,894	736	4,000
1982	8,989	2,300	309	11,598
1983 (Projection)	13,517	2,190	5,393	21,100

Source: Congressional Budget Office from U.S. Department of Agriculture data.

**Wheat, feedgrains, rice, and upland cotton.*

†Includes other commodity programs, interest, and administrative and nonadministrative expenses.

Even though half of the increase in expenditures during the 1970's is due to inflation, the big increases during the 1980's are real and dramatic. They are particularly troublesome in light of rising overall budget deficits. It is a real political concern that these large amounts are spent directly on an economic sector that represents only three percent of the population, especially when the distribution of benefits is keyed to the volume produced. The 1981 decision to offer small inducements to crop farmers for meager supply control explains the relatively low expenditures that year. The subsequent escalation of costs was necessary to handle the excessive supplies of two record crop years. The increasing reliance upon direct payments and voluntary production controls has shifted the burden of supporting farmer incomes from consumers to taxpayers.

The fiscal impacts of domestic food aid policies rose dramatically during the late 1960's and throughout the 1970's, reaching $16 billion a year, but they have now been slightly reduced.

Price and Income Policy Issues in the Future

Public Policy and Private Policy—Over the past two centuries U.S. policies for agriculture and food have produced a highly productive system of private enterprises operating in a market system *within* a network of public (governmental) working rules, guidelines, and institutions. Our unique educational and research institutions, family farm agriculture, cooperative credit network, soil conservation agencies, and market informatoin and quality control services were set up by public policies. More recently, the various price and income programs, as well as food programs, emerged with the same public sanction.

Whether public price and income policies will continue depends upon the citizens' choices in view of future economic conditions and problems.

Probable Future Problem Areas—Price and income programs that do emerge are sure to be set up in response to perceived public problems. Some of these potential problem areas can be identified.

(1) *Instability*—After two decades of increasing stability in farm production, farm product prices, consumer prices, and agricultural export flows, the 1970's ushered in increasing economic instability throughout the agricultural and food sector. This instability appears to be propelled particularly by U.S. dependence upon foreign markets—many dominated by their respective governments—but also by unusual weather conditions, farmers' reliance upon borrowed capital, unsettled money conditions, and floating international exchange rates.

Fluctuations in a market system can contribute useful price signals, shift resources to better uses, and economically reward efficient management. Yet when market variations deteriorate to volatile instability and extreme economic uncertainty, they result in severe investment losses to producers, idle resources, increased costs for covering risk, and shortened planning horizons. Farmers rely increasingly on borrowed capital (its debt to asset ratio doubled from 1950 to 1982). Furthermore, part of this debt is incurred for nonreal estate production purposes. Hence farmers have more difficulty adjusting to instability by simply reducing their living expenses and interruptions of their cash flow quickly threaten their equity positions. Beginning farmers and commercial operators experience the greatest difficulty. If the instability appearing in the past decade continues, producers, agribusinesses, and consumers are likely to call upon public price and income policy for relief.

(2) *Excess Productivity Capacity—Temporary or Chronic*—From the 1930's through the decade of the 1960's, bypassing the War years, an image of excess land and labor resources prevailed. Yet in the 1970's, this image faded and its fading was reflected in various publications, in rural thinking, and in official governmental pronoucements. During the past two years, this image has reemerged with vigor.

If annual rises in farm output average near 2 percent, while domestic population and income growth generate 1 percent or less in added demand, the rapid net trade-generated demand growth of the first half of the 1970's would have to come back to provide a semblance of supply-demand balance. Trade-generated demand growth dropped to under 1 percent annually during the last half of the 1970's.

Chronic excess agricultural capacity could be the scourge of the future, but capricious weather, natural production hazards, and slowly emerging technology could also switch the issue to a fear of food shortage. World economic and political forces seem able to respond quicker to food deficits than to surpluses; similarly, period of surpluses seem to last longer. In either case, public price and income policy is likely to be relied upon to moderate the economic stress alternatively to producers or consumers. Such policy is probably needed because supply and demand balanced sufficiently to avoid dramatic swings in prices seems unlikely to emerge as the pattern of the future.

(3) *Expectations of World Food Production*—U.S. commodity prices and farm incomes are likely to be greatly affected by world conditions in the foreseeable future. U.S. farm output, compounding at a 1.8 percent annual rate in the post World War II period, has consistently exceeded growth in domestic population and demand for this output generated by increased incomes. However, world population is likely to continue to grow around 2 percent annually for at least a decade and rising incomes in other countries also increase food demand.

If developing countries, where 75 percent of the world population lives, can consistently increase their food production at least as fast as their populations and if income increases generate growth in demands for food (a favorable world scenario), the prospects for continued growth in demand for U.S. exports of agricultural products will be dim. U.S. agriculture would then be under chronic price and income pressure. If, on the other hand, growth in food production in developing countries is less than 2 percent annually, and these countries obtain the same purchasing power (an unfavorable world scenario), prospects for U.S. exports would be brighter and the need for price and income policies might be reduced. However, U.S. production, marketing, and pricing must remain competitive, because other large agricultural exporters—Canada, Australia, Brazil, Argentina, EEC, and even emerging exporters among developing countries—will also stand ready to respond to growing world food needs.

(4) *Future of World Trade Restrictions*—Since adoption of the General Agreements on Trade and Tariffs

(GATT) in 1947, the prohibitive trade barriers of the early 1930's have been reduced. Even though some trade restrictions have persisted, often of nontariff types and on certain agricultural products, world agricultural trade has mushroomed twentyfold during the past quarter century. As indicated above, world food needs imply that there is a strong potential for expanding trade even more. But the companion ingredients of political stability and the propensities for moderating trade conflicts are much less evident.

Growing frustration with nationalistic trade barriers—and in some cases, deeper political antagonisms—could conceivably lead to a serious trade war. Such a scenario could hardly benefit American farmers. It would result in pressure to provide additional public assistance to agriculture. If, on the other hand, trade barriers can be reduced, then increased U.S. exports can relieve the pressure for new price and income policies.

Closing Observation—Whatever future price and income policies come forth as responses to these possible problem areas, they may simply be traditional, familiar packages of instruments slightly retuned. Alternatively, program innovations to better ensure stable prices, secure incomes, adequate food, reliable trade, and fiscal responsibility, might appear. These could involve such principles as insurance, targeting programs for particular regions, declining compensation, self-help, and indexing. Finally, price and income policies might be designed as "change instruments" on behalf of the public. Such policies could be used to conserve land or water, disperse population, improve nutrition, redistribute income, influence structure and control of the family farm, shift enterprises, improve environmental quality, and bring about desired trade flows.

Selective alternative farm price and income-support policies which exemplify the range of choices follow.

(1) Gradually phasing out all support policies, payments, production controls, and trade interventions, letting domestic private market decisions determine production, prices, incomes, and trade, with other nations pursuing their own national policies.

(2) Supplementing the choice above only with a partially publicly subsidized national income insurance and futures price option program designed to facilitate private risk management by farmers.

(3) Gradually phasing out all price and income policies except for a recourse loan program to even out farm prices during the marketing year and a minimal farmer owned grains reserve recourse loan program to provide national food and trade security.

(4) Continuing the provisions of the 1981 Act, modified by setting up a maximum grains reserve as well as a minimum grains reserve, indexing price supports to recent multi-year market price averages, indexing target prices to recent multi-year costs of production including some land costs, extending payment limitations to in-kind as well as monetary payments, and linking production control benefits to soil conservation performances.

(5) Replacing voluntary production control with compulsory control following farmer referenda supervised by a new national marketing board, relying more on higher support prices instead of Treasury payments, aggressively negotiating international commodity agreements, and restricting imports to protect domestic markets.

Choices among these and other options will be greatly affected by future developments in likely problem areas mentioned earlier—economic instability, excess capacity, world food production, and world agricultural trade.

When public policies are viewed as instruments, institutional creations, or responses to society's demands, rather than as rigid goals, scientific norms, or embodiments of ideology, one can envision infinite possibilities for their future use. The challenge to those shaping public policy is to keep as many program options open as possible and to be certain that the public understands both the alternatives available and the probable consequences of these alternatives.

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