

# The Emerging Policy Issues Affecting Agriculture

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*Don Paarlberg*

I begin by stating the assumptions on which this paper is based, knowing that no prognosis can be better than its premises, unless, of course, compensating error is at work.

*Weather will be average.* That is, growing conditions during the 1980s will be similar to those of the past several decades, both in central tendency and departures therefrom. Long-range weather forecasting and predictions of climatic change are not yet sufficiently accurate to be a significant factor in decisionmaking. A person who predicts better or worse weather in the 1980s than during the 1960s and 1970s is telling us more about his state of mind than he is about the weather.

*Agricultural technology will continue to advance*, much as it has during the past 20 years. I discount the widely held view that new agricultural knowledge is lagging. Agricultural productivity — that is, output per unit of input — shows irregular advance during the past century at a rate generally between 1 and 2 percent per year. More institutions are involving themselves in agricultural research: the non-land-grant universities, new agencies of the federal government, and the international research network. We are entitled to believe that some of this research will pay off, as has been true of research in the past.

*The real gross national product will increase*, though at a slower rate than during the past two decades. Performance of the general economy will be handicapped by a variety of problems: inflation with its misallocation of resources; declining competitiveness of the American economy as compared with those of other countries; and a diminution in the work ethic. Severe depression is not foreseen. During the past half-century we have developed so many tools to

forestall depression that we have institutionalized its opposite; inflation.

*Inflation will continue.* The virus is in the bloodstream; it is throughout the system, built into expectations, a component of almost every long-term contract. An effort to totally purge inflation and inflationary expectations would be accompanied by unemployment and recession so severe as to be unacceptable, economically and politically. Efforts to slow the rate of inflation will continue to be made and are laudable. But we should not pray too hard that the rate of inflation be brought to zero; an answer to such a prayer would be embarrassing to the supplicant. With inflationary anticipations written into everything from wage contracts to the price of farmland, a stable price level would be a relative deflation. We know from the experience of the 1930s how disastrous that is. I assume that the rate of inflation will be held to one digit, not two.

*Most of the liberal trade gains made since 1934 will be retained.* This will be in spite of increasing protectionist sentiment, and with the exception of certain industries such as steel and automobiles. The demands of third world countries to get into our markets with their sugar, beef, vegetable oils, textiles, and other manufactured products will increase, and we may accede to them in some degree. The use of trade as a diplomatic weapon is assumed not to be an important component of our policies during the decade ahead.

*Major war will be averted.* I assume that there will be wars of liberation, civil wars, and various uprisings, but that the great powers will succeed in avoiding direct confrontation. No doubt there is an element of optimism as well as analysis in this prognosis; with modern weapons, major war is too horrible a prospect to contemplate. One dares hope that our leaders will realize this and work out their differences at the negotiating table.

*Disillusion will grow regarding the ability of the government to solve economic and social problems.* Evidence is that during the past several decades there has been a gradually growing feeling that government is wasteful, in the hands of incompetent people, run for a few big interests, and that it can't regularly be trusted to do what is right. This feeling is confirmed by the Center for Political Studies of the Institute for Social Research at the University of Michigan, among others. It is witnessed by actions of the electorate and the Congress during the past year. The assumption I make is that a trend of this nature, now evidently established, will run for some addi-

tional time before it is checked.

***Farms that are large enough to be efficient and that are well-run will prosper.*** The reverse will be true for farms that are too small or are poorly managed. In other words, I foresee neither distress so general as to put efficient farms into a condition of persistent loss nor a situation so prosperous as to make profitable farms that are inefficient. I assume that we will increasingly recognize the enormous variation from farm to farm and will slough off the error of thinking that the average represents all the individuals that make up the average.

These are my assumptions. They underlie the choice of policy issues I lay before you.

First I consider the national and international setting within which agricultural policy issues will emerge.

Primary concern will focus on three related subjects which have been at the heart of domestic policy for decades: inflation, employment, and economic growth. These three have certain compatibilities and certain antagonisms. During recent decades the differences were resolved in favor of stimulating employment and growth. These policies led in time to inflation and then to what is called stagflation. Since January we have embarked on a new course called supply-side economics. The intent of this new course is to achieve economic growth and increased employment *without* inflation. The strategy is to reduce government outlays, cut taxes, exercise strong discipline over the money supply, and cut back on government regulation. The country and the Congress have given support to the administration in the pursuit of this new policy. The consequences cannot now be accurately anticipated. Presumably we will adhere to it at least for a time. The previous stimulative policies appear sufficiently discredited so that we are unlikely to return to them quickly.

Spirited debate on overall economic policy is certain during the decade ahead. The prospect is that we will have a lesser role for government than we have been accustomed to. The public appears to have lost its enthusiasm for governmental fine-tuning of the economy; the experts seem not to have known what octave we were in.

Increasingly the United States is involved in world trade. This is nowhere more clear than in agriculture. Exports now take one-

fourth of our total production, and imports constitute one-eighth of our food consumption. Issues focused on international trade will be:

- How much protection and for which industries?
- What degree of self-sufficiency for such products as petroleum and sugar?
- How to relate domestic prices to the fluctuations of international markets? Or how to dissociate them?
- To what degree should trade be supportive of our diplomatic initiatives?
- What roles respectively for trade and aid in our relations with third world countries?

Debates on national economic policy and international trade will provide the setting within which agricultural issues will be fought out. Quite possibly, these issues will be more important than those that appear to be strictly agricultural.

Clearly, econometric models that will be useful to agriculture will have to incorporate their agricultural variables within a larger context, including national and international forces. The agricultural sector is not autonomous and cannot be treated as if it were. The linkages and interactions involving agricultural and non-agricultural sectors are complex. With Keynesian theory unable to explain our situation — unused resources in an inflationary setting — the use of conventional Keynesian coefficients in our econometric models is inappropriate. If there is anything to the Laffer curve, which I believe there is, economic relationships are curvilinear rather than linear. Where are we on the curve? Modeling with curvilinear and joint relationships is infinitely more difficult than modeling with variables that are linear and additive. All of this poses an enormous challenge to the model-builders.

I now list six agricultural areas within which major issues are likely to be debated during the decade ahead. In doing so I have chosen not the issues that the farm people would like to see considered but rather those that seem to me to have the greatest likelihood of arising.

### **Commodity Programs**

Sometime during the past 15 years we crossed a watershed of farm policy so far as the big commodity programs are concerned. From 1933 to about 1964, we gradually increased the role of government in the pricing and production of corn, wheat, cotton,

and other major crops. Since that time the role of government has gradually been reduced, with favorable results. The new farm bill, the Agricultural Act of 1981, will prove to be an additional step toward market orientation. The presence of a few holdouts, like tobacco, does not overrule the general conclusion that a major change has occurred.

Reasons for the change have included evidence that the programs were losing markets, their regressive nature, their inflationary impact on retail food prices, their high budgetary cost, growing dislike for centralized decisionmaking, and the declining political power of the farm lobby. I see nothing in the picture during the coming decade that is likely to fundamentally change the recent social, economic, and political environment within which these programs have come to operate. Thus, the proponents of the big commodity programs are likely to be working within an overall climate of disfavor. Such commodity programs as we will have are more likely to emphasize price stability than price enhancement. They are likely to be symmetrical, with restraints on both price increases and decreases, rather than symmetrical as in **the past**, with floors but no ceilings. The commodity programs, which held center stage for 40 years, as the big feature in the farm policy theater, will become but one of a number of acts in a variety show.

## **Resources**

While the commodity programs retreat in importance as farm policy issues, resource questions will advance. A scarcity syndrome has arisen; the present and prospective mindset is that our resources are limited and that we must protect them. There is of course truth to this perception. Among the items in the natural endowment that are in limited supply are such agriculturally important resources as farmland, water, timber, recreational sites, and wildlife.

Farm people have underestimated the strength of public conviction regarding environmental matters. There has been the feeling among farmers that the ecological movement was a fad and that a new administration which is dubious about governmental regulation will return us to things as they were a decade or two ago. This seems to me unlikely.

The conservation of our soil resources will be an issue of growing importance. Conservation efforts of the past have been in part subverted. The Soil Conservation and Allotment Act of 1936 was a

facade for supply management. The Agricultural Conservation Program became a device for passing out government checks. Under the guise of conservation, government financial assistance was provided to drain wetlands and pump irreplaceable water from underground supplies. These policies and programs are either already superseded or are on the defensive. In the decade ahead, the public will demand value received for dollars spent on conservation. Preservation of prime farmland and erosion control are likely to be important farm policy issues. Not all the facts are clearly established on these subjects, and the ones that have been ascertained are not generally accepted. Is urbanization a serious threat to our agricultural capability? How serious are our soil losses? The policy questions, as well as the questions of fact, are very difficult: what are the respective roles of the individual landowner and his government? As to government, what could best be done respectively at the local, state and national levels? How much can be done by research and education on the one hand and by government on the other? What can best be accomplished by incentives and what by regulations? What is the legitimate public interest in privately owned land? Can we quantify the social costs and benefits of alternative forms of land use?

As to agricultural use of water, the facts are no clearer and the issues no easier than for land, particularly in the West. Generally, agriculture pays less for irrigation water than other users, and far less than the cost of supplying it. An effort to have agriculture pay the full water cost would convert large areas from irrigation to dry-land farming. What is the public stake in continuance of communities based on irrigated agriculture? Very likely we will see increased efforts to limit the amount of water an individual landowner can pump from the supply that underlies his own and his neighbor's land, as we do with oil. There is much work to do, including work of a theoretical nature. How price and manage and asset that is valuable, diminishing, and irreplaceable?

## **Energy**

The real cost of energy will increase during the years ahead. This will affect the cost of fuel, fertilizer, and pesticide. It will affect transportation costs and thus the location of production for bulky farm products produced far from market. It will affect production costs in areas dependent on pumped irrigation water.

If present legislation on gasohol is effectuated, it will result by 1990 in converting to alcohol fuel the corn from 15 to 23 million acres of land. This is equal to about one-fourth of the land presently committed to corn.

Certainly there will be major confrontations on the gasohol program. Favoring it are corn farmers and agribusiness concerns. Opposed, actually and potentially, are livestock producers, soybean growers, the wheat mill-feed people, exporters, consumers of meat, milk, and eggs, conservationists, producers of rival fuels, and taxpayers. This program has not yet begun to bite. If and when it does, it will be a bruising battle.

Are farmers to have preference over other users of fuel? Will energy be apportioned out by some allocation board or will the market be allowed to operate? These will be policy issues of the 1980s.

### **Consumer Issues**

Food safety appears to be an issue that has crested. But there will be debates on it in the years ahead. Legislation put on the books during the zeal of the 1970s remains there, to be enforced, removed, or ignored. Whichever one of these courses we pursue, or whatever combination of them, some groups will take offense.

Feeding programs such as direct donation, food stamps, and school lunches also seem to have passed their peak. They are likely to subside but not to disappear. At what magnitude are they to level off? How to distinguish between the unfortunate and the indolent? Or should we distinguish? By what agency will these programs be operated. Should assistance-in-cash replace assistance-in-kind? We can expect to re-hear familiar arguments on these issues.

Consumer attacks on agribusiness can be expected to continue, particularly with inflation and rising food prices. On occasion farmers will join in the attack. This is a perennial issue, with great political potency.

If retail food prices rise we can expect to hear consumer demands for direct price controls. And there may be proposals to limit exports in order to keep more food at home, an attempt to lower prices by increasing the domestic supply. There will be advocates of a cheap food policy during the 1980s, as one would expect at a time of inflation, with 97 percent of the people nonfarmers. The lineup on this issue is predictable — consumers vs. farmers.

The consumer movement has made substantial gains. It is locked into a power position with legislation, bureaus, and appropriations. In government, these are the certificates of longevity. There are **33** federal agencies with responsibility for consumer activities. These include approximately 400 bureaus and subagencies operating more than a thousand consumer-oriented programs.

Farmers still are inclined to think of the consumer as the adversary rather than as the customer. This feeling is abating somewhat but is still potent. Consumers have won a place on the agenda committee that determines farm and food policy. They are not to be dislodged from that position. How they are to comport themselves in their newly won role and how farmers will adjust to the necessary sharing of the policymaking prerogative are questions of policy portent for the years ahead.

## Structure

Agriculture is being transformed from its traditional status into something resembling an industrial enterprise. We note fewer and larger farms, greater specialization, more purchased inputs, more absentee owners, greater use of credit, more vertical integration, more contract farming, and fewer central markets. It is becoming harder and harder for a young man to begin farming unless he inherits a farm or marries into ownership. This is contrary to the agrarian tradition, which holds that farming opportunities should be readily accessible. Some people look with misgiving on the trends and wish to slow, halt, or reverse them. Former Secretary of Agriculture Bob **Bergland** launched a nationwide debate on this subject and, as almost his last act in office, issued a report on it entitled ***Time To Choose***. The report cited a number of government programs that serve to speed up the trends toward industrialization of agriculture: taxation, credit, commodity programs, research, and extension. He supported modification of these to take out the bias toward larger farms.

Apparently the new administration thought this was *not* the time to choose. No new copies of the report have been printed, and at eight months of age it is already a collector's item.

Will the structure issue subside? I think not. My view is that concern about structural change in agriculture is sufficiently widespread so that the issue cannot be adjourned. I think the agricultural establishment, to which the issue is an embarrassment, will attempt

to avoid confrontation on the subject, and resist it in subtle ways. But the Experiment Stations and the Extension Service will be under steady pressure to reduce their present tilt in favor of the larger and better-off farms. The regressive nature of the commodity programs will be to some extent redressed. Credit subsidies for well-to-do farmers will be squeezed down. Some of these things are already happening in low-key fashion.

This is all part of a century-old policy issue that has surfaced variously. During the 1930s it took the form of the Farm Security Administration. In the 1940s came Goldschmidt's study of Arvin and Dinuba. During the 1950s there was the Rural Development Program. In the 1960s came the report, "The People Left Behind." During the 1970s we had "Hard Tomatoes." Now we have the Structure Report. The issue will not go away.

### **People on the Fringe**

Agriculture's input into farm and food policy has for many years been shaped by operators of the large commercial farms. These have mostly been white and male. This leaves out small farmers, part-time farmers, hired farm workers, women, and ethnic groups including blacks, Chicanos, and native Americans. These left-out people have been on the fringe of policymaking and are demanding an enlarged role. That demand is likely to be heard during the decade ahead, coming in part from these people themselves and in part from their well-meaning sponsors among labor organizations, consumers, and church groups.

The 1900s have been aptly called "the Century of the Common Man." There are still two decades to go in this century, and still some common people who do not share fully in the rights and responsibilities of American citizenship. This will continue to be an issue. Hired farm labor will demand rights and programs comparable with those obtained by non-farm labor. Minority ethnic groups and females will challenge the white male tradition that has long characterized agriculture. A broadening of the base for the determination of farm and food policy is underway. There will be resistance. This will be mostly low-key, with occasional flareups, as we have seen in the effort of hired farm workers to win collective bargaining rights.

If I am right, most of the farm and food policy issues likely to be on the agenda for the 1980s will be placed there by nonfarm people.

Such has been the case now for some 15 years, though those of us in agriculture have been reluctant to admit it.

The new situation will call for a new policy strategy. It will have to be a defensive strategy, appropriate for a team that has lost the initiative. Challenges will have to be met. In years past the strategy for meeting challenges was to ridicule proposals that appeared preposterous, to ignore those that were thought to be faddish, to confront the challengers when there was thought to be the power to win, and to try to co-opt those that could not be overcome. The string of victories won by this strategy had been almost unbroken for a hundred years.

With the new and prospective situation, farm policymakers will have to consider alternatives of a different sort: de-escalate issues on which loss seems likely; find common ground with groups formerly considered adversaries; engage in tradeoffs when a net gain seems possible; reserve available strength for battles on issues that are of central importance and on which victory seems possible. If modeling techniques will help in the assessment of issues and in the development of appropriate strategy, I am an enthusiastic supporter.