

## Commentary

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In forecasting policy issues a decade in advance there is only one real certainty — that you will be wrong. The relevant question therefore becomes: how wrong? In the case of Don Paarlberg's paper, I believe the answer is "not very." He has done his usual exemplary job. It is a thoughtful treatment, grounded in the pragmatism that comes from a unique combination of rich experience and an open mind. Spread throughout is Paarlberg's gentle humor, reminding us not to take ourselves or our bag of tools too seriously.

Much of what I have to say about Paarlberg's paper is by way of supplementing or qualifying it rather than criticizing it. Before turning to these comments, however, let me offer a brief reminder of the present condition of American agriculture. I believe it helps give the greater meaning to the comments that follow. Five or six characteristics stand out prominently.

- ***Approaching equilibrium.*** After experiencing a prolonged period of excess capacity, there is mounting evidence that U.S. agriculture is nearing a state of equilibrium. Acreage diversion measures are used less frequently and to a lesser degree. The movement of labor out of agriculture has fallen to a fraction of its earlier rate. Carryover stocks, though continuing to fluctuate from year-to-year, are more nearly in line with market needs.
- ***A dualistic structure.*** Farm units are gravitating toward both ends of the size spectrum. At the small end of the scale are a large number of units that have been called "farm residences." Although they engage in some form of agricultural production, as a group they are loosely tied to the agricultural economy and independent of it as a source of livelihood. At the other end are

the large commercial farm units that comprise the mainstream of commercial agriculture and account for most U.S. farm production. The interesting feature of this development is that two quite different worlds are being formed — one based almost exclusively on non-economic values; the other based on a combination of traditional agrarian values and economic aims, but with primary emphasis on the latter.

● **Large-scale specialization.** This is probably the hallmark of U.S. agriculture. Through growth in unit size and the adoption of labor-saving technology, our farms have been able to realize most economies of scale. Despite their large size, however, the opportunity for further growth and the demands for higher levels of technical sophistication continue to press. Also, the associated capital requirements have become so large as to be a constraint on the entry of new units.

● **Increased economic instability.** Variability in farm prices and farm income has risen sharply since the mid-1950s. Variability in the index of prices received by farmers for all products more than doubled between 1955-63 and 1964-71; between 1964-71 and 1972-78, this variability more than doubled again.

● **Internationalization of U.S. agriculture.** In the early 1950s, U.S. agriculture supplied the rest of the world with about 2 percent of its agricultural products. It now supplies about 11 percent, and the U.S. share is rising. While U.S. agriculture policy once was fashioned with only passing attention to international trade implications, that is no longer the case.

Let us now turn to Paarlberg's paper, beginning with his three assumptions. There are three or four points to be made about these assumptions.

First, I believe that there is too much certainty implied. As a statement of central tendency or a most likely condition, I believe Paarlberg's assumptions are reasonably close to the mark. But there is one thing we can be very sure of, as I said at the beginning: there will be surprises along the way, and they will probably influence policy in major ways. Some will come from natural sources; some will be man-made. This is important because public policy is in large measure a creature of circumstance and the events that give rise to circumstance.

One does not have to go far into history to find examples of what I mean — Watts, Vietnam, OPEC, Watergate, the Iranian hostages,

Three Mile Island, Afghanistan, Solidarity. Two features of this type of "surprise" are significant: (1) the events are highly unpredictable and (2) many are of foreign origin and carry with them international implications.

A second related point refers not to variation around a central tendency but to mistakes in judging the central tendency. As I said before, I find Paarlberg's list of assumptions reasonably close to the mark. But what if we are wrong? What if agricultural technology begins to lag seriously? What if growing conditions are not similar to those of the past several decades or well-run farms do not prosper? For policy purposes, "what if" questions will continue to be a very important part of analysis.

In this regard, I would give greater prominence to the policy implications of tighter commodity markets than Paarlberg does. Many signs point in this direction, some of them noted in Paarlberg's paper — nearing equilibrium of resource use, increased competition for land and water, growing export markets, an uncertain trend in productivity growth. At the least, I would expect to see policies that prepare for this possibility.

One last point regarding Paarlberg's assumptions — this one regarding the role of government. He points out that the public attitude toward government in general is critical and becoming more so. That is certainly true. Yet it is more complicated than this suggests. Attitudes toward specific government programs and services tell quite a different story. The same University of Michigan research paper that Paarlberg cites also finds that a majority of Americans believe that the government is spending *too little* on health programs, education programs, defense, and protection of the environment. Likewise, there is strong support for the core transfer payment programs, which are rapidly becoming the dominant element in the federal budget. Political rhetoric aside, I find little reason to believe that the role of government will change materially. To the extent there are significant changes, I suspect they will have more to do with transfers of responsibility among levels of government than with a reduced public sector.

I concur with Paarlberg's emphasis on national economic policy. More than anything else, this will shape and limit agricultural policy. This has been the case for the past several years, and it will continue into the foreseeable future.

Paarlberg lists six areas within which he predicts major agricul-

tural issues will be debated. While I agree that we can expect policy activity in all these areas, let me suggest a variation or two on Paarlberg's themes. The major commodity programs are clearly on the defensive, as Paarlberg says. Yet much depends on his initial assumption of prosperity for the larger, more efficiently managed farming operations. Given the cash flow problems that can result from cost-price squeezes of the type experienced in recent years, and the political pressures that follow, program changes can be expected to follow an irregular path.

Paarlberg says that food safety and food assistance programs, both of which he includes under consumer programs, have peaked. He also attributes substantial gains to the consumer movement and finds it operating from a position of significant influence. I have a somewhat different view. Although food safety will not necessarily be wrapped in the controversy that it has in the past, I do not see it receding. If anything, the health and nutritional implications of diet will gain more attention.

Neither am I inclined to think that the food assistance programs have passed their peak. This is not to say that there will not be changes designed to reduce abuse, streamline administration, and target the programs more directly on the poor. Eventually we might even see the largest of these programs, the food stamp program, cashed-out in a general welfare reform. But until these programs are replaced with a comparable level of assistance in a different form, I do not expect to see them become significantly less important.

And while it is true that the so-called consumer movement is more firmly established now than it was, say, a decade ago, that is not saying much. Its position is still precarious. It is weakly organized and thinly staffed.

I agree with Paarlberg that the structure issue will not go away; yet I see it taking a **different form** in the future. Rather than a defense of the agrarian tradition, I foresee attention focused on the implications of a changing structure for economic efficiency and industry competitiveness.

A final word about governmental institutions and their use of economic analysis in the policy process. Contrary to the impression one often gets from press accounts of political trades and bureaucratic infighting, it has been my experience that economic analysis is a far more important determinant of the outcome of most policy decisions than is generally understood. That's the good news. The

bad news is that as a broader array of interests becomes involved in agricultural policymaking, the decision process becomes more difficult to manage and the opportunity for error increases. This too will be a part of the future policy landscape.

To summarize, **Paarlberg** has provided us with an insightful preview of emerging policy issues. With due allowance for the unexpected, it offers a highly useful guide to the future.