

Policy Directions and Conflicting Voices
Within American Agriculture

by

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Policy evolves slowly. Important changes in national legislation or administrative action usually come at times of crisis. In fact, in a crisis atmosphere these changes may be implemented quickly. But the actions taken most commonly reflect shifts in attitudes which have already occurred based on knowledge gained from past experiences, and substantial dialogue, both public and private, about the alternatives available and their likely consequences. Most policy changes reflect the dominant thinking of the leadership groups where the policy action will have the greatest impact. Even if the majority of farmers may not agree, their leaders have privately accepted a change in policy as the wisest course of action.

The preceding set of general statements about changes in policy may seem rather simple and obvious. The evolution of effective policy is far from simple. The road to change is often tortuous and terribly bumpy with endless detours and with lots of holes to be filled and patched. Sometimes after great effort an old familiar road is abandoned and a new one is cut across the countryside. This entails great effort. Usually there is a great debate over where to locate the road and how to build it. But finally it is done. It usually turns out to have some problems. Once again there are holes to be filled and repairs to be made but on a new and more acceptable base. This analogy abstracts my impression of the route to change in policy for agriculture during much of the twentieth century in the United States. Important changes have occurred but usually under the pressure of a crisis.

Current Shifts in Emphasis

In this context I'd like you to think with me about three current aspects of the changing dimensions of agriculture in relation to the public sector.

(1) There is growing public concern about the use of natural resources generally and the control of land use in particular. The urban majority are aware that agriculture and forestry are the primary productive uses to which land is committed. Yet they have only limited understanding of how best

* This paper is a summary of presentations made during June and July 1976 at meetings of the Canberra, Melbourne and Sydney Chapters of the Australian Agricultural Economics Society. It was prepared in response to requests to discuss changes in process in agricultural policy in the United States.

to encourage productive use of these resources and still maintain an environmental balance. Moreover they want a major voice in the decision making process.

(2) There has been a shift in emphasis away from FARM policy toward FOOD policy. Increasingly the farm sector is recognized as part of a larger complex that brings food from diverse inputs to raw product through processing and distribution to the final consumer. The right of the final consumer to establish priorities with respect to what is produced is recognized. Most now agree that the public sector should insure that every citizen has access to a minimum level of food supply.

(3) Price stabilization programs and public intervention into the markets for storable agricultural products are increasingly affected by events outside the United States. Political decisions at the international level and world rainfall patterns are important determinants of purchase, sale and planting decisions. Emphasis on state trading, bilateral agreements, and terms of trade in cash markets provide an important frame of reference for government support programs, storage policy and public assistance commitments to poorer nations. There are new thoughts about price ceilings and export restrictions as well as price floors and income support for farmers.

Natural Resource Policy and Land Use Control

The conservation movement in the United States is more than 100 years old. Initially conservation, ecology, and the environment were the concerns of the few, primarily those with wealth and position. Most ordinary citizens were too busy obtaining the means of livelihood to make conservation of natural resources their basic concern.

Men who made their living from the land learned by experience that sheer exploitation of their fields was costly. In my own state, New York, land in farms reached a peak between 1870 and 1900 when 75 percent of the State's land area was so employed. Today a little over 35 percent of the land is in farms. Much of the rest has returned to woodland or is now reverting slowly. Non-farmers now own more of the private lands in the state than farmers.

Farms went out of production for many reasons, but mostly because they could not compete with the more productive lands of the West and there were alternative employment opportunities to which they or their sons could turn within commuting distance of their home communities.

In the 1920's abandoned farm land was a major problem in New York. State purchases were made. Local units of government sought State aid to continue essential public service that they could not handle because of reduced tax revenue from real estate.

From the time of tax sales and farm foreclosures in the 1920's and 1930's a major change has occurred with respect to land, its control and ownership. People have become more mobile. The automobile has opened new horizons for both daily work and recreation. Perhaps most important of all, wealth and incomes have increased. It has become possible for the great

bulk of society to exercise their interest in owning a plot of land. Land is no longer the preserve of the rich. Or put another way, the numbers with wealth enough to own land outside of agriculture have increased greatly and they have begun to exercise their options.

Land Use Planning by Local Government

In the last 20 years, wherever there has been increasing demands for land, both public and private, planning bodies have emerged as units of local government. Some are elected; some are appointed. Where urban pressure is greatest, professional planners and highly organized programs complete with maps, regulations and ordinances have appeared. A welter of State agencies seek to interact with local planning efforts. State enabling legislation has been drafted with the hope of rationalizing conflicting interests for land use. Currently there are a wide range of approaches being taken within individual states and between them. Land use policy, always critical to agriculture and forestry is now the domain of a much greater cross section of society.

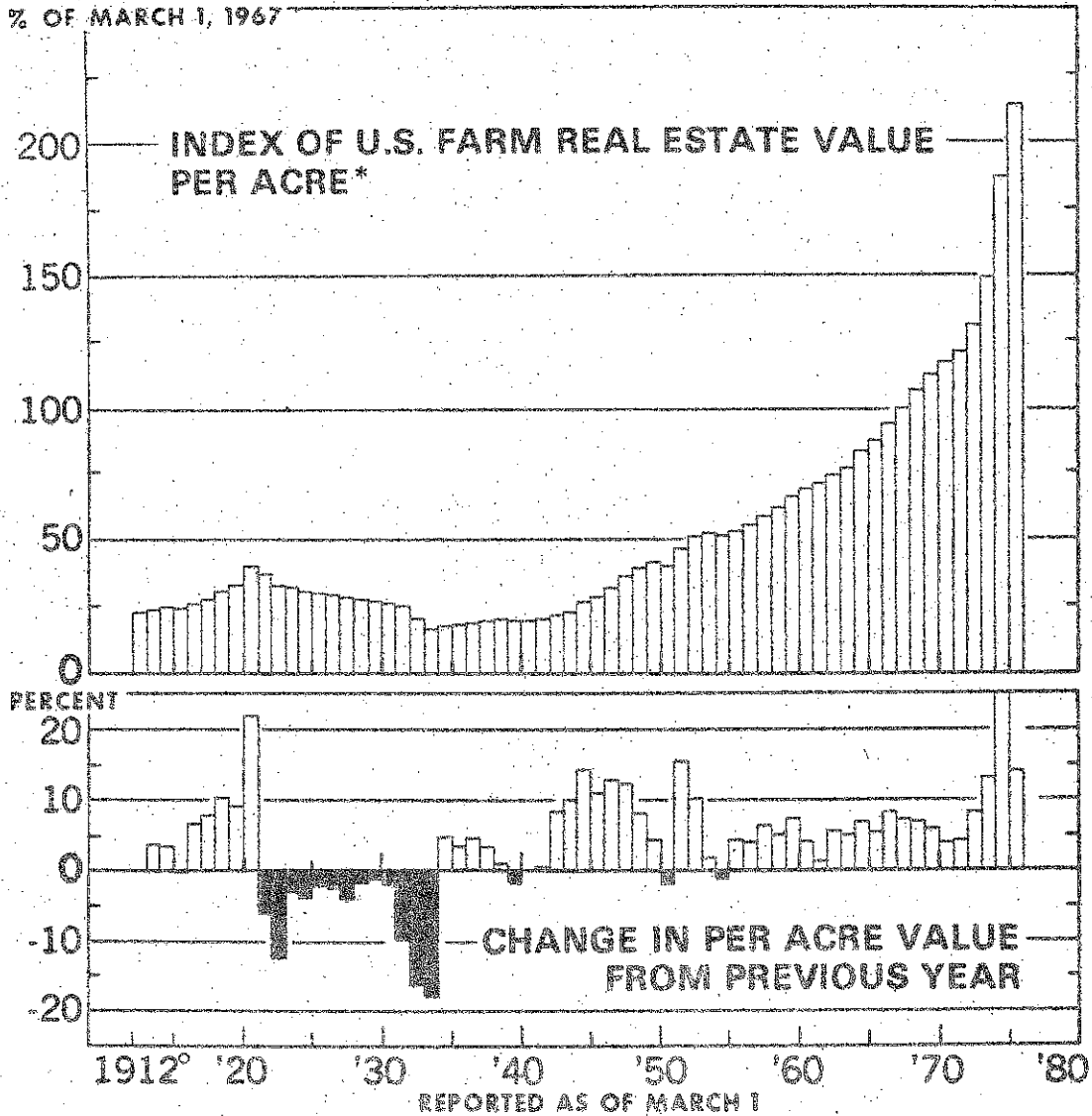
A central issue is where the locus of power for land use decisions should be located. Historically local units of government have exercised most of this power. While land initially was held by the central, federal government, most of it was allocated through legislation either to the states or to private holdings. State governments exercised the right of eminent domain when necessary to acquire land for roads, parks, or reservoirs. Rights to tax real estate were passed on to local governments. Local control has been the historic precedent. The state and federal governments have provided the framework within which local decisions about land use could be made.

But the tide may be shifting. There is increasing interest and support for national or at least state control. Ecology and environment are much talked about even though with limited understanding. Central land use planning is both worshipped and hated by people of different political, economic and philosophical persuasions. Agriculture and farmers, the largest single group using land for primary production, are at the center of the arguments and become emotionally involved in policy debates. Self interest stands behind most positions. The question no longer is, "Will there be more public control of land use?". It is more nearly, "Who will exercise this control, how much will there be, and when will it be made effective?".

Farm Real Estate Values

There have always been substantial changes in the market for agricultural land over time. Recent changes in the demand for agricultural land and the resulting impact on market prices adds one more dimension to the current concern over land use control and natural resource policy. Historically farm real estate values have risen and fallen with changes in the health of the general economy and the wholesale price level. When agriculture was the major source of income for most people, the old saying, "Booms and busts are farm fed and farm bred", had a substantial ring of truth about it. Today agriculture more nearly follows the fortunes of the rest of the economy although

Chart 6.



* BASED ON UNROUNDED DATA. FOR ROUNDED DATA, SEE "FARM REAL ESTATE MARKET DEVELOPMENTS," SUPPL. 2 TO CD-77, JUNE 1973, AND CD-80, JULY 1975; ERS, USDA. EXCLUDES ALASKA AND HAWAII.
○ DATA UNAVAILABLE PRIOR TO 1912.

it remains an important contributor. Clearly land prices reflect people's expectations about the future. Land is a store of value, a source of current and future earning power and a tangible resource representing wealth. (Chart 6. U.S. Farm Real Estate Values)

In the sweep of more than 60 years since estimates of farm real estate values have been prepared in the United States, major rises and falls in the market for agricultural land are documented. Sharp rises in value during World War I were followed by the difficult years of the 1920's and the great depression of the 1930's. During World War II and the years that followed the farm real estate market rebounded sharply. Despite conservative expectations by those who remembered so clearly the 1920's and 1930's, prices have steadily increased ever since. In the past 20 years real estate values have increased four times while wholesale prices doubled. Even when one looks at recent increases in terms of the percentage change on last year's base, the recent increases seem to be pushing forward at unsustainable levels.

Table 1. AVERAGE FARM REAL ESTATE VALUES PER ACRE
Selected States, 1960-1975

State	Year				
	1960	1965	1970	1973	1975
	(Dollars per acre)				
New York	162	199	273	390	610
Vermont	81	119	224	328	433
Connecticut	446	569	921	1,316	1,737
Massachusetts	314	393	565	799	1,055
New Jersey	528	672	1,092	1,599	2,569
Pennsylvania	188	233	373	518	810
Michigan	194	237	326	433	531
Iowa	257	279	392	482	801
North Dakota	53	67	94	111	207
Georgia	99	142	234	340	505
Louisiana	173	233	321	411	532
Texas	85	114	148	194	241
Montana	35	42	60	76	113
California	360	469	475	496	646

SOURCE: Farm Real Estate Market Developments, Economic Research Service, U.S.D.A.

Ownership costs (interest, insurance, and taxes) for agricultural real estate valued at \$1000 per acre amount to approximately \$100 annually or an imputed rent of \$100 per acre. One could argue that annual costs are lower or higher depending on the opportunity cost of capital, local tax rates, demands for land and its use. Few would argue for less than 8 percent of current market value or more than 15 percent. At current market prices for corn at the farm this means from 40 to 50 bushels of corn per acre are required to cover land rent on \$1000 land. For the family farm with modest debt and a strong ownership position, the implicit capital gains resulting from rising land prices make him quite happy to live on his imputed rent or the payment he is receiving for the use of his owned capital. The vulnerability of farmers with high debt ratios to modest changes in key price ratios should be clear to all. Complications are provided from two additional sources:

(1) In times of inflation non-farm investors with modest amounts of capital are attracted to such tangible assets as land, particularly given recent trends in its appreciation in value.

(2) Tax treatment of investments in productive real estate and the accumulation of capital gains from real estate have been generous.

In this climate an interesting alliance of special interest groups has arisen especially in states with substantial urban pressure on prime agricultural lands. Commissions to study the preservation of agricultural lands have enlisted the interests of (1) professional planners, (2) agricultural groups, (3) environmentalists, (4) recreationists, and (5) social action organizations. Once convened the respective forces find themselves of very different persuasions in both method and approach to solving "the problem" but united in central purpose, broadly stated. As a resource person working with leaders from these divergent groups assembled in New York's Agricultural Resources Commission, I can attest to the interesting process of self-education involved for all of these able and dedicated people. Progress in understanding is sometimes slow but it does occur.

Control Mechanisms

Planning councils, agricultural resource commissions, and groups interested in land use control try to learn from past experience from within various parts of the United States, Canada, and Western Europe. Given the nature of the American political system where initiative with respect to control still rests largely in local government and the states the following options and proposals are most discussed:

(1) Differential agricultural assessment in urbanized areas with penalties or rollbacks if agricultural land is sold for development or used for non-agricultural purposes.

(2) Voluntary agricultural districts within which present use value assessment can be petitioned and non-agricultural development is prohibited with sharp penalties assessed to any developer.

(3) Public purchase of development rights from owners of agricultural land with attendant taxation thereafter at present use value.

(4) Exclusive agricultural zoning by state or regional authorities (currently in practice in Hawaii).

(5) Fee simple purchase by the State and leaseback to farmers, much like federal grazing lands are now handled.

The first alternative is now widely available in more than 30 states where urban pressure on agricultural lands has induced interest in maintaining green belts of cultivated lands near centers of population. The first such law was enacted in 1956 in Maryland. Agricultural districts were pioneered in California and New York. In New York more than half of the state's cropland is now organized into voluntary districts which are subject to review by participating land owners, local governments, and two state agencies every eight years. The other three alternatives have been widely discussed but seldom put into operation. Purchase of development rights has been authorized in Suffolk County, New York. The mechanisms to handle the bids and purchases are now in place. Funding the bond issues to carry on such a public purchase has prevented its implementation. Exclusive zoning has been enforced and maintained in Hawaii. Elsewhere such exercise of the police power has been fought successfully as an "unfair taking without compensation".

The idea of State purchase and ownership of all natural resources is gaining attention by diverse segments of our urbanized society. To most it is an idea or abstraction rather than a realistic means to allocate and use resources. But observation of recent experiences in Saskatchewan, Israel, and Eastern Europe often find expression at public meetings. Discussion of this topic is capable of bringing forth strong emotional reactions from those who own land and those who do not. It is certainly one possibility in the continuum of ways of controlling land use, but one which most Americans are not yet ready to consider seriously except in very unique or special circumstances.

Farm Policy and Food Policy

Ever since farm prices and land values fell so sharply in the United States in the 1920's, American farmers and politicians have talked a great deal about legislation and public programs for agriculture. Much of the debate and subsequent action occurred in the name of FARM POLICY. It included a wide range of things from the Federal Farm Board of the 1920's, the Agricultural Adjustment Act and the drastic supply management ideas of the 1930's, to the Soil Bank and Food for Peace programs of the '60's and '70's. Legislation has come and gone. Competing interests, regional constituencies and the public interest have all been recognized in the many compromises that finally emerged as workable. Initially the emphasis in these efforts was to improve the welfare and incomes of farmers. But this primary focus has become less central over the years.

The "public interest" in terms of taxpayer cost, consumer welfare, and minimum levels of income for all groups in society has received increasing

attention. Most now understand that problems of rural poverty can not be solved by price and income policies for farmers. Consumers issues, always recognized as a constraint in farm legislation, are now given great weight.

Rising Role of Food Distribution Programs

The food stamp plan, initially conceived as an acceptable means of helping to dispose of "surplus" agricultural commodities while also helping to provide welfare assistance, is now a major national instrument to combat poverty and improve levels of nutrition for the poor. When our federal government recently (1976) proposed limiting the eligibility of families to buy food stamps to those whose incomes were \$100 per month over the poverty level (e.g. \$383 per month + \$100 for a family of three) a federal judge blocked the new regulations on a suit filed jointly by 26 state governments, The U. S. Conference of Mayors, 53 labor unions, 33 civic, political and civil rights organizations, and 22 church groups. Currently there are 5,880,000 families making use of the food stamp program. The Treasury cost in 1975 for this one program was \$5.7 billion. All other items of expenditures in the U.S.D.A. budget in total were smaller.

Domestic food distribution programs are today the largest item in the U.S.D.A. budget. Besides the food stamp program, the School Lunch and Expanded Nutrition programs have very solid congressional and public support. This cuts across both political parties. Grudgingly, current leadership in the U.S.D.A. have become responsible for one of the largest and most successful programs to alleviate rural and urban poverty in the United States.

The inspection, grading and regulation of the marketing of perishable foodstuffs has long been a responsibility of federal and state departments of agriculture. The collection and dissemination of price and quantity information is a necessary public service for farmers, processors, wholesalers, retailers, and consumers.

In the 1970's issues related to FOOD policy rather than FARM policy have provided the basis for most discussion in the media and in the halls of Congress. The Marshall Plan and later PL 480 mixed national political objectives with income and price support for domestic food and feed grain producers. Agricultural exports have long been important dollar earners. Concessional sales and food aid have been important instruments of our foreign policy as well as providing an outlet for government held stocks of grain. When grain prices rose sharply in 1973 and the retail prices of food rose sharply as well, the national debate was on. Mr. Butz joined the middlemen in the role of villain. He even seemed to enjoy center stage in that role.

Domestic and international food policy is now a topic of discussion for the League of Women Voters, church groups, consumer activists, as well as the academics and farmers. Urban Congressmen now seek places on the Senate and House Agricultural Committees. The urban majority are clearly concerned about taxpayer costs for government programs, consumer food prices and feeding the poor both in the United States and overseas.

Comprehensive Food Policy Complex

A comprehensive food policy has not evolved, nor is it likely in the near future. The switch in words is important and fundamental. Many elements of a national food policy have evolved as responses to widely differing initiatives over a span of decades. If something approaching a conscious national policy does evolve, I think it will develop from a long series of modifications in existing programs and the development of new programs which will be again altered and revised after experience.

The impact of the public sector on the food industry in all its facets is substantial. It seems clear that we will continue to have at a minimum:

- (1) Food distribution programs as an instrument to supplement low incomes, improve nutrition for children, and assist the disadvantaged.
- (2) Food inspection, grading and regulatory activities to protect the health and safety of consumers as well as to insure fairness of exchange within the food industry itself.
- (3) Support for international trade for food and food products designed to minimize barriers in providing a varied and low cost diet to all consumers, but assuring protection from dumping of agricultural products on American markets from high protection countries with two-price systems.
- (4) Provision for food aid and technical assistance to low income countries both when the government holds surplus stocks and when it does not.
- (5) A system of farm price supports and mechanisms to purchase storable farm commodities with necessary controls to be instituted when market prices fall below agreed upon levels.
- (6) A systematic effort by government to monitor and distribute information on prices, costs, returns, and efficiency at each of the different levels of activity within the food industry. Such monitoring will be done by a group of public agencies such as the U.S.D.A., the Federal Trade Commission, the Bureau of Labor Statistics, the Bureau of the Census and the Office of Business Economics.

There are at least three major, primary products flowing from American agriculture for which this new emphasis on FOOD policy seems inappropriate. These are tobacco, cotton and wool. All three have strong producer and manufacturing lobbies. All have a long history of market intervention, including price supports, government purchases, and supply control. Yet to talk more expansively about food and fiber policy because these products are agricultural, and because they have an historic place in farm policy, is to miss a basic point. The emphasis in discussion has shifted away from considering what is just and right for farmers. Concern for farmer welfare must be shared with other sectors, especially taxpayer cost and consumer welfare. Legislation for narrow sectoral interests will be increasingly difficult to pass.

In this larger context, sectors within agriculture are likely to be in

conflict as they have been many times before. Grain producers and livestock feeders nearly always gain at each others' expense. But the political gains from internal compromise within agriculture can no longer produce the votes or the power in Congress or at the White House to protect special interests of farm groups consistently. The power of the chairmen of the House and Senate Agriculture Committees has been reduced substantially by Congress itself. All of which means that commodities like tobacco, cotton and wool must more nearly make their way on their own merit or from their own constituencies. Wool producers already recognize that world markets and competition will dictate their future. Consumer interest and taxpayer cost are much more dominant in the legislative process.

Price Stabilization, Grain Reserves and Support Programs

Consumer concerns have gained political power relative to producer interests in the last decade. New attention has been drawn to the importance of world markets and national responsibilities to meet the needs of poor, food-deficit countries. The voting public and their representatives are asking how this nation should deal with the great state trading nations like China and Russia and what we should provide as gifts or as aid to those nations chronically faced with food deficits and no hard currency to pay for needed imports. People recognize that exports are important in maintaining a reasonable balance of trade. They also know that exports and concessional sales or gifts have some impact on prices both at home and abroad, particularly when weather conditions lead to short supplies.

Price Stabilization Less An Issue

My colleague, K. L. Robinson, in addressing a national conference in Canada recently opened a paper on price stabilization alternatives for the United States with this sentence, "Agricultural price stabilization is now an academic issue rather than a political issue in the United States."^{1/} On the face of it that is a surprising statement. But I believe it is a correct assessment. Price stabilization to most grain farmers means low, stable prices, coupled with government stocks and various kinds of controls. Grain farmers would like to have a higher floor under their prices, but no ceilings. They resented the export controls imposed in 1973 and 1975 for soybeans and wheat. They have made substantial gains associated with the price instability since 1973 and have enjoyed having the newly available capital for investment. Their terms of trade within agriculture and with the rest of the economy have improved substantially.

Some indication of the current situation is provided by the current support prices established by the Secretary of Agriculture for the three most important, storable grains.

^{1/} Robinson, K. L. "Price Stabilization Policies for the United States," Department of Agricultural Economics Staff Paper No. 76-19, Cornell University, April 1976.

<u>Crop</u>	<u>1976 Loan Rate</u>	<u>Cash Market April 1976</u>	<u>Futures Price December 1976</u>
	(price per bushel)		
Wheat	\$1.50	\$3.50	\$3.90
Corn	1.25	2.50	2.50
Soybeans	2.50	4.30	5.00

The legislative authority for existing support programs expires in 1977. Congress must take some action in the next 12 to 15 months. But not much will happen until after the Presidential and Congressional elections in November and a new Congress convenes in January 1977. It seems likely that there will be a Democratic President and Congress. New legislation may be more easily obtained under these circumstances. But the basic interest groups will not have changed, nor will the basic needs of our society and the rest of the world unless summer and fall 1976 bring very large or very small supplies of food and feed grains on world markets.

The recent initiatives to negotiate bilateral agreements with the Soviet Union and Japan had strong bipartisan support from the Congress and American grain interests. This reflects an indirect effort to help to stabilize demand and prices without much attendant machinery or controls. It is generally accepted that federal efforts in agricultural stabilization will center around grains and soybeans and perhaps peanuts (especially now). Very little initiative is devoted to government programs for perishable commodities such as fruit, vegetables, poultry, eggs, beef, pork or lamb. Milk is the one exception. In general farmers are not likely to seek government "interference" unless prices fall precipitously. New legislation is likely to be a small modification of that which exists now with discretion for the Secretary of Agriculture to set "more realistic" support levels for the basic commodities--corn, wheat, cotton, soybeans, and peanuts.

Grain Reserves

Most academics and administrators of international agencies concerned with agriculture agree that the world needs larger reserves of both feed and food grains. Total carryover stocks held in the United States ranged from a high of over 100 million tons in the early 1960's to a low of 22 million tons in 1975. At one time 90 percent of those stocks were in government hands. Now they are all in the hands of farmers, private traders, exporters and processors.

Substantial debate must ensue on the amount of grain reserves that should be held, who should hold and control them, and the circumstances under which they can be released. It is easy to say we need more than 22 million tons as reserves and less than 80 to 100 million. There seems to be some agreement that 50 to 60 million tons is an acceptable target (Robinson, Brandow, Tweeten, and Rojko). But the annual carrying charges for 60 million tons

amount to at least one billion dollars and someone must pay the costs. D. Gale Johnson believes that we need much smaller stocks - perhaps 10 million tons above what would normally be held by farmers and the commercial trade, (perhaps between 30 and 40 million tons). Fortunately a wide range of economists are working on various aspects of this problem. The results of their analyses and proposals should be available to assist in the political discussions of the next months and years.

A set of policies that will encourage the accumulation of stocks should be built around a set of decision rules based on prices rather than on quantities. We have much more experience working with a system based on prices. The mechanisms work automatically if price floors are needed. Resale prices can be keyed as a percentage of either base or floor prices. Robinson^{2/}, for example, proposes that resale prices be at least 150 percent of the base or loan rate. If world stocks continue low, it may be necessary for our government to go into the open market to provide food grains for Food Aid or P. L. 480 commitments. This argues strongly for a formal mechanism by which our federal government can enter the market and acquire stocks for emergency or direct donor purposes. It may well be that the Commodity Credit Corporation will be designated with such authority under rather carefully established procedures. It is not likely that a broad authority for a government agency to participate in the market will be legislated. A bill to give the Commodity Credit Corporation the authority to act in a role similar to that of the Australian Wheat Board was introduced in the last session of Congress. It was never reported out of Committee. The one aspect of the proposal which drew some favorable response from Congressmen and some wheat growers was the authority to act as agent for the United States in international sales and contracts with foreign governments or their agents.

At the same time as producers talk about more "realistic" floors or support levels for the prices of wheat, corn, and soybeans, there is some discussion from consumer interests about establishing upper limits to prices as well in any given season. The ad hoc export controls imposed in 1973 and again in 1975 were responses to this kind of consumer concern. Gray and others argue that the market will allocate supplies more effectively if it knows the rules of the game in advance. If there is always the threat of export controls this adds to instability rather than reducing it. It may well be that the new legislation in 1977 will have amendments which provide for either export controls or price ceilings under carefully defined circumstances for wheat and soybeans. Little analysis has been made of alternative ways to administer such a program. Any spread between the price floor and ceiling would necessarily be large. If price is not allowed to ration supplies then a complex system of controls must be substituted. Further discussion of this issue may be helpful in making consumer groups more aware of the costs and implications of price ceilings which at first sound quite appealing.

Final Observations

Changes in public policy are usually implemented at times of crisis. Important changes only occur if enough people believe that delay or continued

2/ Op. cit.

observance of existing policies are both inefficient and harmful. One of the reasons for renewed interest in land use policy and the control of the use of natural resources is such citizen alarm particularly around centers of urban concentration. Farmers and agriculture have a great stake in new policy as it evolves. Consumer concerns are much more explicitly considered in new legislation generally and particularly that related to food, its production and distribution. Price stability for agricultural commodities is not a major issue directly. The acquisition of reserves of food and feed grains and their control does have the center of the stage. Some measure allowing federal acquisition of limited stocks of grains for release under carefully prescribed circumstances seems likely to pass in this next session of Congress.