POLICIES TO PROTECT FARM PRICES AND INCOMES

by John A. Schnittker

I. The Goals

The goals of U. S. agricultural policy remain today just about as they have been stated previously by Secretary Freeman:

A. Improved levels of food consumption and nutrition in the United States.

B. Increased use of food supplies from the United States to improve nutritional levels and support economic development in the under-developed parts of the world.

C. The adjustment of supplies, commodity by commodity, to these expanded demands, at prices which contribute toward parity of income for adequately sized family farms.

D. Strengthened and improved agricultural services (e.g., credit, marketing, research and extension) to support and promote a family-farm structure of agriculture.

E. Reduction of poverty in agriculture through the successful operation of a general program of assistance to low-production farmers and rural people.

F. A pattern of land, water and other resource use in the United States that is consistent with our social goals and our national requirements (e.g., for recreation, parity income for farmers, economic development and water requirements).

My assignment relates particularly to the objective of supply adjustment -- supply management. But it has implications also for domestic food consumption objectives, for the food used in foreign assistance programs and for land and water use objectives. Supply management or supply adjustment programs, far from being programs of scarcity, are aimed at gearing our apparently unruly farm output tendencies to all the demands of the market. These are demands which are both comparatively stable and predictable whether they arise commercially or out of public programs.

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Objectives, however, are not policy; neither do policies by themselves often achieve results. Programs -- actions -- bring results. Objectives which are to be achieved must have, therefore, some basis in reality. They must seem plausible to those who will decide on the programs that are aimed at achievement of the objectives -- and they must lead to program proposals which can be enacted. Objectives and programs do well then to be directed toward the fundamental practical issue -- to what can be done to meet the most urgent public needs in a manner which will contribute to long run objectives -- not to indecision born of unattainable objectives.

Policy decisions are made in political situations. As an economist, I do not sell short the importance of economic analysis to intelligent political decisions. Yet it does no good (and may do immeasurable harm to the economics profession), to mourn the fact that some of the dearest abstractions of economists apparently have little practical appeal to many Congressmen. The beauty and simplicity of textbook "pure competition," for example, may continue to enable students to grasp certain issues. It may still be the choice of some economists for the economic organization of agriculture. But its appeal to those in public life who bear some responsibility for stable and satisfactory incomes to farmers is very limited.

II. Commodity Programs

Farm prices and the incomes of commercial farmers are protected -- that is supported -- largely by commodity programs. The fact that farm prices are raised, and the extent to which farm incomes are supported, by programs which limit output and stabilize prices is not now seriously debated. Farm prices would be roughly one-third lower in the absence of such programs. Aggregate net farm income would be reduced even more, and net income per farm would be reduced substantially. I mention only these broad aggregates because they are the crucial factors which influence broad policy decisions. There is of course, a large area for disagreement on the longer term effects of such a result, and on the wisdom of such a course of action.

One other general matter on supply management programs deserves mention. This is the question of the mechanics of supply management. The term "supply management" is self-defined. It refers to programs which are designed to limit the output of farm products to the demands of the market. This can be done and is being done in many ways. The voluntary acreage diversion program for feed grains since 1961 has reduced not only feed grain production; it has probably also reduced aggregate farm output significantly. The tobacco program, which has long been a mandatory program in which farmers who exceed their acreage allotments are subject to cash penalties, is also a supply management program. The point here then is that these programs are distinguished more by results than by techniques. I do not argue that the mechanics of programs are not important, or that there is not a significant basis for disagreement over those mechanics. I do insist, however, that the major distinction which is often made between the program of one group on the basis of procedure and mechanics, is a comparatively superficial distinction. Special uses of words and terms will not cover up the fact that the results of supply management programs -- to reduce the surpluses, to support farm prices at or near current levels and to reduce government costs -- are among the objectives and are in the program proposals of all major farm organizations.
Another major objective of these programs is to remove the government from the farm sector to the maximum extent possible consistent with maintenance of adequate stocks. Supply management programs for the grains, for example, will permit the Department of Agriculture to gradually reduce its new role. The feed grain and wheat programs of the last two years are tangible evidence both of this objective, and of progress toward the objective. As annual production is held equal to or less than utilization, acquisitions by the government will decline. The price support level will no longer be such a critical market factor when surpluses are not the usual thing. As surplus stocks are reduced, storage is becoming and will necessarily become a less important part of the total grain industry. Hence as a general statement, it seems clear that the grain business of the future will tend toward the functions which grain and feed men have traditionally performed -- the merchandising of grain.

Once the surplus of commodities has been removed, grain stored each year will represent supplies for the coming year, plus security and stabilization reserves. These are presently estimated at 600 to 700 million bushels of wheat, and 45 to 50 million tons of feed grains. Holding these reserves will involve some turnover of stocks -- some merchandising by CCC. But it should be on a much smaller scale than in the years when CCC was the residual claimant of a large portion of each crop.

**Feed Grain Programs**

By October 1, 1964 (after three years of the voluntary feed grain program) the feed grain carryover is expected to be reduced to 45 or 50 million tons. If the Agricultural Act of 1958 -- with unlimited production of feed grains supported at not less than 65 percent of parity -- had been in effect for those three crop years, the feed grain carryover by that time is estimated at around 120 million tons. When stocks must eventually be reduced from the high levels of recent years; when this can be done only at the rate of 10 or 15 million tons per year without undesirable dislocation of normal farming practices; and when it must be done by voluntary acreage diversion programs, the difference between 120 million tons and 45 million tons is very great indeed.

The voluntary acreage diversion program under which these results are being achieved has been a costly program, but it has cost far less than the program it replaced would have cost. Dr. Willard W. Cochrane showed in his paper of a year ago at this conference that both budget expenditures in the 1962 fiscal year and the long-term costs associated with storing surplus commodities were smaller under the 1961 Emergency Feed Grain Program than they would have been if the old program had operated in 1961. The major saving is of course, in future obligations -- obligations avoided by the feed grain program.

That Congress expects to consider feed grain legislation in the coming session is clear from the legislative history of the 1962 Act. If legislation is not enacted prior to the 1964 crop, there would seem to be no alternative but to reduce the price support level for corn toward the lower end of the price support range -- to 50 percent of parity or 80 cents per bushel -- since the Secretary is directed to avoid adding
to feed grain stocks. We estimate that in 1964 feed grain production, without acre-age restrictions and with corn price supports at 80 cents per bushel, would fall between 165 and 170 million tons. Utilization would be a little less than that; corn prices would average slightly below the support level, and CCC would acquire several million tons of feed grains.

Discussions are being held, therefore, toward development of a feed grain program for the longer run. These discussions have been primarily -- almost exclusively -- of voluntary approaches to the feed grain program. Neither the 1962 approach under which market prices were 10 to 15 percent below support prices because of CCC sales, nor the 1963 approach under which the necessary differential between returns to co-operators and non-cooperators will be maintained through a price support payment, has been ruled out at this time. The Department of Agriculture has held a broad series of talks with advisory groups, with livestock producers and with others interested in the feed-livestock economy.

There are important differences in the way in which price support and CCC operations are handled under the two approaches. In the former, there is extensive CCC merchandising activity and co-operators can get the full effect of price support only by delivering their grain to CCC. In the latter, there will be less CCC activity because producers get price support payments even though they feed their grain. It is on the basis of these differences -- and on the basis of economic and political factors which will reveal themselves only in 1963 -- that decisions will be made within the Department and by Congress on the feed program for the longer run.

Wheat Programs

The 1964 wheat program is not a new idea. There is a history of nearly 40 years of discussion of programs of this type. The program is substantially the same program as was approved by Congress in 1956 but was vetoed at that time. It is in two parts -- one part dealing with production adjustment and the other with price support.

The production adjustment features of the program are familiar to wheat farmers and the grain trade. There will be a national marketing quota, a national acreage allotment, county acreage allotments and farm acreage allotments. The acreage diversion program is very similar to that now in effect for feed grains and wheat. The diversion payment levels authorized are comparable to existing law. The 15 acre exemption is terminated permanently, but small producers will receive acreage allotments based on recent plantings. A voluntary acreage diversion program is authorized at the discretion of the Secretary. Farm allotments will probably be at or near the 1962 level -- 10 percent below the long time level under the 55 million acre allotment.

Price Support. Instead of a price support loan on all wheat between 65 and 90 percent of parity, producers would be eligible for price support on a specified number of bushels of wheat, equal in the first year to approximately 85 percent of the normal production on the acreage allotment. Any additional wheat produced would be seeded, fed, or would be marketed at a price related to the feed value and the world price of wheat. The effect is to put a limit on the amount of wheat eligible for the higher price
support, and to provide a lower price support for any other wheat produced. Export subsidy costs will be reduced immediately under the program, and can be reduced substantially or eliminated under the program after a few years -- if farm income can be maintained at satisfactory levels even though U. S. farmers get only the world price for half their crop.

Two special provisions of the wheat program bear special mention. One would, for the first time, permit the Secretary to increase the acreage allotment of any class of wheat which would otherwise be in short supply. The other would, for the first time in a wheat program, provide for the production of wheat as a feed grain, in place of corn or sorghum or barley. This latter provision, however, was adopted only in principle in the Agricultural Act of 1962. It can become effective when an acreage diversion program for feed grains is enacted and is in operation. With both programs operating, farmers will, in effect, be able to consider their wheat allotment, plus any feed grain acreages, as "grain acreage," with complete flexibility to plant any combination of crops on the acreage.

Any program subject to a referendum raises the possibility of a negative vote. Farmers face an important decision in next year's referendum -- to choose to limit production with price supports at $2.00 per bushel, or to produce without limit with only nominal price supports (to producers who stay within their acreage allotment) at about $1.20 per bushel.

Dairy Programs

The present dairy price support program operates under Title II of the Agricultural Act of 1949. Milk and butterfat are included in the designated non-basic commodities, and the Secretary of Agriculture is required to support the prices of milk and butterfat between 75 and 90 percent of parity and at such level within that range as will provide an adequate supply. From September of 1960 through March 1962 milk prices were supported above 75 percent of parity -- at about 82 percent of parity during the last 12 months of that period. But during 1961 the amount of surplus dairy products acquired by CCC increased substantially. Program expenditures rose from less than $300 million to slightly over $600 million during that one year period. The increase was about equally attributable to increasing production and declining total consumption.

In the farm legislation sent to Congress in January 1962, the Administration proposed a new dairy program which provided for marketing allotments to reduce milk supplies on a national basis. But this dairy program proposal encountered strong resistance very shortly after it was introduced and was dropped from the bill in both the Senate and the House while still in Committee. The House later passed a greatly modified voluntary dairy program, but this measure did not gain acceptance in the Senate and dairy was dropped from the bill altogether before final passage.

The dairy problem is still with us and at present looms as one of our more difficult commodity problems. Butter stocks are continuing to accumulate and threaten to exceed the amount of freezer space available for storage. Domestic distribution
can utilize only about 50 percent of the amount of butter being purchased annually by CCC, and to this point it has been possible to program only minor quantities for foreign distribution.

Again the Department is studying alternative programs and will probably make a recommendation early in the next Congress. In view of the lack of enthusiasm for a national allotment program during the last Congress, the new proposal will probably be along somewhat different lines. Discussions to date have centered on voluntary means of reducing production, including features which might operate within the Federal Milk Orders, which regulate fluid milk marketing in some 80 metropolitan areas.

Cotton Programs

Cotton has some characteristics that are unique among major agricultural commodities. First, there are synthetic substitutes which compete in price and quality. Second, there is an extreme divergence in production efficiency among cotton growers. As a result, some growers would prefer that price supports be reduced substantially, to a level at which other producers would find themselves unable to compete. Third, we have had a large increase in imports of cotton textiles.

While the first two problems are perhaps most important, it is the third factor that has been dominant in developing a new legislative program for cotton. On May 2, 1961, the President announced a seven-point program designed to aid the textile industry of the United States. The fourth point of this statement was a promise to eliminate or offset the inequity to U.S. mills arising from the export subsidy for cotton. As a result, the Department of Agriculture requested the Tariff Commission to recommend the application of an offset fee on the cotton content of imported textiles that would be equivalent to the export subsidy. On September 6, 1962, the Tariff Commission ruled adversely on this request. On that same date, the President asked the Department of Agriculture to develop a domestic program for cotton that would eliminate the inequity of the present system.

Some interesting problems of economic relationships and measurements have arisen as we study the cotton problem. How much will U.S. imports of cotton textiles be affected by specified changes in the cost relationships for raw cotton to U.S. mills vis-à-vis their foreign competitors? Is price or performance the dominant factor in the serious inroads that synthetic fibers have made in markets traditionally reserved for cotton? How will producers in different sections of the cotton belt respond to possible opportunities to grow cotton at the world price?

We have consulted broadly with producers, trade people and mill interests. On October 9, 1962, the Cotton Advisory Committee recommended a "trade incentive" payment that would bridge the gap between the price that is necessary for cotton to be competitive in end-use markets and the price that is necessary in order to maintain farm income. This group also recommended that cotton growers be given a choice to plant additional acres to cotton at returns no higher than world prices if the individual farmer wishes to do so. This latter provision would be similar to the "blended price plan" which the Department developed but did not actually submit to Congress in early 1962.
III. Summary

Discussions of wheat, feed grains, cotton and milk do not exhaust the com­modity problems or the farm income problems facing U. S. farmers or the Depart­ment of Agriculture. The statements made in each case are only summaries. But they indicate briefly the basic situation, and they at least imply the alternatives facing farmers and Congress in 1963.