Legislators prepare to update farm policy

WASHINGTON, D.C. — Are farmers and their families being treated fairly with respect to income?

The heart of public debate on farm price and income policies focuses on this question. There is concern about farm family income compared to non-farm income; about farm costs that rise with inflation; about the instability of farm income; and the wide variability in size and income among farmers.

With the Food and Agriculture Act of 1977 set to expire next year, it's time to review our national farm price and income policies.

It's still true that the average farmer has less money to spend than the average non-farmer. Members of farm families often must supplement their incomes with off-farm jobs

Keeping our farmers farming is vital. U.S. farm policy has long been designed to boost farm income when necessary. But informed citizens disagree about just how much help, and what kind of help, is needed.

Congress will have many alternatives to consider when deliberations on future farm price and income legislation begins in January. Some of the policy alternatives are: 1 - continue the present program; 2 - fine-tune the present program; 3 - revert to previous legislation; 4 - establish a free market; 5 - encourage farmer group actions; and 6 - target programs to certain groups.

Each of these alternatives will affect farmers, consumers, taxpayers and foreign markets, explains Delaware extension community resource economics specialist Gerald F. Vaughn.

The Food and Agriculture Act of 1977 is commodity oriented, the specialist explains. Deficiency payments (income supports) are made directly to producers from the Federal Treasury whenever market prices are less than target prices.

The farmer-owned grain reserve is intended to be used together with nonrecourse loans to provide price stability for commodities subject to large fluctuations in production and use. Continuing these policies should provide reasonable price and income stability in agriculture.

However, since support benefits are distributed on the basis of production rather than need, some small farmers struggle financially while large corporations benefit from unneeded income supports.

As long as the economy suffers from inflation, the cost of entering farming will continue to increase. Price and income provisions of the 1977 act are not designed to counteract this problem.

There are many ways the present commodity-oriented program of price and income supports could be fine-tuned in 1981. But any upward shift in the nonrecourse loan rate would have to be evaluated in terms of its impact on world demand for U.S. agricultural products.

The greater the possibility of substitute supplies for U.S. farm commodities, the less attractive an increase in the loan rate becomes. In contrast, the higher the loan rate can be set, the higher the market price floor will be for all producers.

Adjusting target price levels does not directly disrupt market prices In general, however, the higher the target price, the less the income risk for individual producers. Over time, producers will respond to high target prices by increasing production.

Target prices may also be considered on the basis of cost to the government. A one-cent increase in the target price can amount to several million additional dollars in deficiency payments.

Farmer-held reserves are more accepted by farmers than government-held reserves. Farmers feel they have more opportunity to benefit from rising prices if they control the reserves. Consumers and foreign buyers tend to favor government-held reserves because commodities are automatically marketed at release price levels.

Thus, prices may be more stable and predictable.

Some people are reluctant to have a large set-aside or other production adjustment program. In the event of poor weather, total crop production could be reduced considerably. With worldwide population continuing to grow, both moral and price objections could be raised if substantial acreage were kept out of production.

Another alternative — although not very probable for 1981 — is that no new legislation would be enacted.

In that event, a number of individual commodity programs would revert to existing permanent legislation dating back to the Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949.

Reverting to permanent legislation would generally mean that grain producers would no longer have the option of voluntary production controls or be eligible for deficiency and disaster payments. Nor would there be provision for a farmer-held reserve.

Farmers would tend to produce in relation to government controls, not market forces, when there are commodity surpluses. The long-standing questions of fairness and production efficiency would be raised as farmers are allocated their allotments and quotas

Some farm spokesmen have at times advocated a "free market" alternative. This usually means freedom from government intervention. Specific Congressional action would be necessary to establish a free market, since permanent statutory authority already provides for price supports once the current act expires.

A free market would result in considerable price and income instability. It would bring a survival of the fittest situation to much of production agriculture now protected by basic commodity programs.

In the short run, farm income would go down unless expanding foreign demand would absorb reserve stocks Farms with cash flow problems would be particularly hard hit. The absence of price and income supports may dampen the current land price spiral. A free market may encourage enterprise diversification, particularly in feed grain production areas

Consumers would face unstable food prices in a free market situation. As taxpayers they'd benefit from reduced government costs.

World trading prices for our major export crops would fluctuate more. Without a reserve program, the U.S. would be a less dependable supplier for foreign buyers.

For many years, farmers have tried to help themselves through the alternative of group action. Establishment of marketing and bargaining cooperatives and producer-initiated Federal and state marketing orders are noteworthy examples. Farmers have also formed general farm organizations and commodity groups to enhance their economic position

Legislation may be needed to give sanction to increased group action, particularly in such areas as collective bargaining and marketing orders. The most feasible way to implement farmer group action would be to continue on a commodity-by-commodity basis.

If farmer group action were to focus on keeping prices high, production capacity would exceed needs. Farmers themselves would have to decide who produces and how much each will produce.

Large and efficient producers would likely bid away production rights of smaller farmers in an effort to spread the cost of fixed resources over a larger number of production units. Small farms may have difficulty finding markets.

Farmer group action would not contribute to stability of production and prices unless farmers had both effective production control (which would require the cooperation of a majority of farmers) and a reserve for use when production was low.

Targeting government benefits to certain groups in production agriculture is another alternative that is sometimes proposed. For example, the government could provide direct payments to farm families with the lowest incomes to bring them up to the level of the non-farm population. Special credit programs could be instituted.

Another suggestion would make government benefits available only up to a certain level of production. Off-farm income could be taken into account when establishing government benefits for farmers. Or benefits could be directed only to beginning farmers or to those with high debt-asset ratios.

Perhaps benefits could be limited to a certain number of years for each farmer.

In general, government subsidies applied selectively have the advantage of targeting benefits to those most in need. The problem comes in determining which farmers should be eligible for benefits. Moreover, programs which direct payments to certain groups may benefit the most inefficient farmers while offering no protection at all for efficient ones

For a more complete discussion of farm price and income policies, contact Gerald Vaughn for Factsheet No 2 of the series devoted to food and agricultural policy issues for the 1980s It can be obtained free by writing to Vaughn at Agricultural Hall, University of Delaware, Newark, DE 19711