

# Will stability be goal of new farm bill?

NEWARK, Del. — Congress will draft a new Food and Agriculture Act in 1985 to replace the 1981 version. Given the complexity of today's farm issues and the seemingly endless range of policy choices, what is this legislation likely to look like? Is any sense of direction emerging from current discussions of farming's many problems?

"Yes," says University of Delaware extension economist Gerald F. Vaughn, "if areas of substantial agreement can provide direction. There's more agreement today among farm policy observers than might be expected."

In particular, observers are concerned about American agriculture's heavy dependence on volatile foreign trade, wide annual fluctuations in farm production, dim outlook for commodity price improvement (at least in the short run), and the trend toward fewer and larger farms.

Based on these common concerns, Vaughn feels drafters of the 1985 farm bill are likely to push toward a goal of greater stability, rather than increased returns to farmers.

## Volatile trade

"U.S. agriculture operates within a changing economic framework," the economist says. "Once again it's going through a highly unstable period, made more so by greater dependence on foreign trade. There are probably no free trade countries today, since much of the trade is managed by governments. Foreign trade is volatile and influenced by many factors, including production and consumption in other countries, export competition, exchange rates, inflation, interest rates and domestic agricultural policies. These factors are often outside U.S. control, making our agriculture highly vulnerable to the extent that it depends on foreign trade."

Moreover, nearly half the U.S. increase in exports in the late 1970s was to developing countries. "As these countries became overwhelmed with debt, they had to stop buying from us," Vaughn says. The recent sharp decline in American agricultural exports is directly related to loss of these markets.

Fluctuations in export demand

merely compound the perpetual problem of sharp year-to-year variations in American farm production — variations associated with weather and farm programs. U.S. economic policies adopted to control inflation, stimulate investment and increase employment also critically affect agriculture, directly and indirectly, in both domestic and world markets.

## Cash flow problems

"These factors foster agricultural instability," the specialist says. "Some segments of the farm economy, such as livestock producers, aren't protected by government programs and may suffer the most severe consequences of instability."

Prospects aren't bright, either, for significant near-future price improvements for farm commodities. Total demand apparently won't rise more than production, Vaughn says. There are surpluses, and the export market won't take up the slack.

Under the circumstances, many farmers are experiencing cash flow problems — they are debt-

ridden from past inflated land prices, heavy investment in machinery and equipment, and high interest rates. Much of the investment in land, machinery and equipment over the past decade was fueled by export trends and expectations for the 1970's that didn't carry over into the 1980's.

Small to moderate-size full-time farms are under the greatest stress today, and many are succumbing, the economist says. This leaves a relatively few farms that produce a large percentage of U.S. output and receive the major benefits from farm programs, while a much larger number of farmers produce a small percentage and depend on off-farm income.

"Federal tax policies seem to disadvantage modest-sized family farms most severely," Vaughn says. "These policies have been criticized for favoring larger farmers and wealthy investors."

Given these conditions, he feels only four basic options exist for U.S. farm programs today. The choices are: (1) to have no program; (2) to have voluntary programs; (3) to have voluntary programs with income sup-

plements to medium-sized and smaller farmers; or (4) to manage commodity supplies. Vaughn says these alternatives would probably affect farmers as follows:

## No program

Option one: no program - The chief result of this would likely be further decline in farm prices and more farmers going out of business. An eventual equilibrium would be reached, but without price stabilization measures farming could be even less stable than it is today.

## Voluntary programs

Option two: voluntary programs - These would protect against the lowest prices but would not assure anything better. Such programs are viewed as costly and ineffective. They suffer from the free rider who doesn't participate in the production adjustment part of the program but benefits from any price improvement. "Voluntary programs achieve little production adjustment unless made attractive by high (and costly) diversion payments to farmers," Vaughn says.

## Income supplements

Option three: voluntary (Turn to Page D25)

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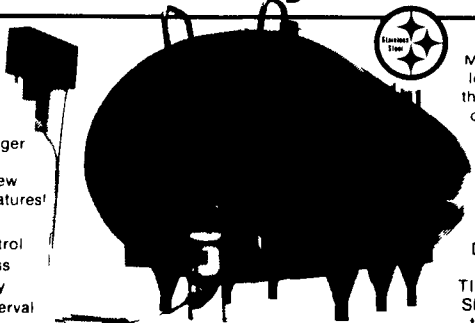
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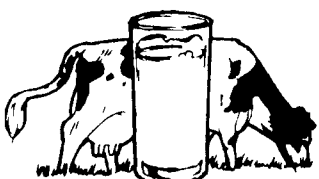


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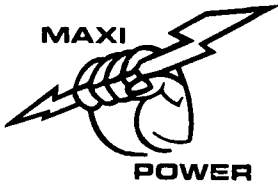
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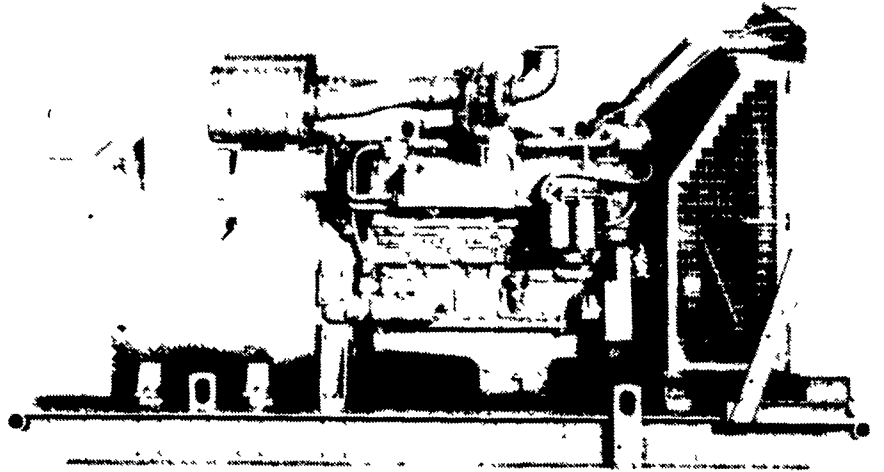


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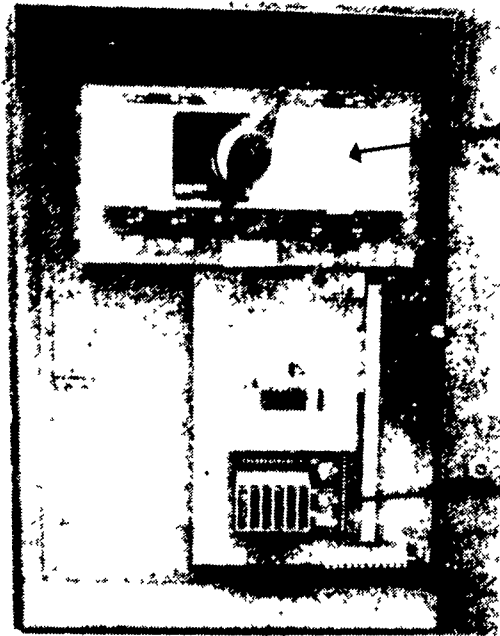
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