# Farm policy

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market and the Secretary's authority to use acreage set-asides as a short-term supply management tool.

This was the situation less than 3 years ago, and essentially no one was prepared for the combination of events that began unfolding in 1981.

After the steady climb in U.S. exports throughout the 1970's, it's not surprising that analysts failed to forecast declining exports.

## *Exports fall*

Most of the root causes of the reversals experienced in the export market over the last 24 months were unexpected: the worst worldwide recession since 1929; a surge in interest rates and the value of the dollar; near bankruptcy in several debt-ridden middle income countries; the lingering effects of the Soviet grain embargo; and greater competition from the other exporters who refused to reduce their production and, in some cases, employed questionable trade practices to increase their market shares at our expense.

These weren't the only shocks. Domestically, a number of less dramatic but no less important developments are taking place. Inflation was reduced faster and more significantly than expected. Even oil prices weakened, and increases in farm production costs dropped off precipitously.

For many large, efficient producers, the combination of relatively stable production costs and legislated raises in loan rates and target prices provided a strong production stimulus — strong enough to overshadow weakening market prices. Despite 1982's set-aside and diversion programs, both corn and wheat production topped 1981's records.

## *Bumper harvests*

These 2 years of bumper harvests back to back pushed U.S. supplies to new highs. With supplies climbing and demand stagnating, farm price supports held U.S. prices well above market-clearing levels in both domestic and export markets.

High and raising price supports, in effect, indexed us out of world markets at the same time that they worked — through changing exchange rates — to boost foreign producers' production incentives and their returns from trading in dollar-denominated markets. As a result, the world's excess supplies of most farm products were concentrated in the United States.

By the end of 1982, it appeared likely that U.S. grain stocks would reach 150 million metric tons at the end of the 1983/84 marketing year — roughly 60 percent of the world total and more than twice the stocks needed to meet normal carryover needs. The 1982 acreage reduction programs had not worked, and another approach was needed.

## *PIK picked*

The PIK program was selected as a short-term, stopgap measure. The alternative appeared to be allowing commodity prices to weaken further, farm incomes to continue slipping, and government payments to the sector to continue at a $10-$15 billion level for the 3-4 years likely until the market turned around.

Yet the price, even for this stopgap measure, has been very high. During the 1970's, the cost of farm programs typically ranged between $3 and $4 billion a year. They reached $6 billion in 1981 and $12 billion last year. For the 1983 fiscal year, which ended on Sept. 30, federal outlays probably exceeded $20 billion.

Together, the drought and the 1983 acreage reductions have taken us a long way toward reducing current stocks and government liabilities over the next 3-4 years. However, this will not solve the longer term problem. The evidence suggests that U.S. agriculture's capacity to produce could well be more than adequate to meet the increased demand that will come with economic recovery here and abroad. This raises questions that should take us beyond present conditions of drought-caused price runups. Will the marketplace, without the help of drought, be able to generate the prices that were envisioned when lawmakers set loan rates and target prices in the 1981 Act?

## *Volatile years*

Moreover, there appears to be little likelihood that the next several years will be any less volatile than the last 4 years. If so, the market setting could well shift as dramatically between short and surplus supplies as it shifted in the last few years.

If lawmakers are to improve on the record of the last several years, they will have to recognize that sudden and dramatic swings in market conditions cannot be ruled out. Weather is only one of a number of uncertainties that include economic developments here and abroad and foreign farm and trade policies.

To avoid or soften continuing

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