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# A New Vision for Agricultural Policy

*By Mark Drabenstott and Alan Barkema*

**A**fter six decades of evolution, U.S. agricultural policy may be about to enter a *revolution*. Ever since farm programs were created in the 1930s, farm policy has generally evolved along predictable lines. To be sure, over the past decade policy has tended to move in a market direction, but the goals and policy instruments remain amazingly akin to those put in place during the Great Depression. Now, federal fiscal discipline may do the unthinkable—force the nation to rethink an antiquated farm policy and replace it with a much leaner, more targeted policy to answer the nation's food needs for the next century.

While the federal budget may force this policy change, economics is likely to justify it. The agricultural industry for which past policy goals and programs were designed is long gone. Yesterday's small farms have grown into today's commercial operations. Yesterday's domestic food market has evolved into today's global supermarket. And a rural America once dominated by barns and silos has been transformed into a diversified rural economy. In short, the policy of the past no longer works with an industry of the future.

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With the budget forcing change and economics supporting it, the question is, where should agricultural policy go? Debate on the 1995 farm bill has focused almost entirely on the budget, while neglecting the more important question. A new vision for agricultural policy is lacking, mainly because current arguments center on whether to maintain the status quo. But the status quo is unlikely to stand. Rather, the future of agricultural policy lies in the pursuit of four key goals: competing in world food markets, improving the nation's diet, conserving the nation's natural resources, and increasing economic opportunity in rural America. In combination, these goals will encourage continued growth in the agricultural sector, enhance the welfare of consumers, and have the added benefit of requiring considerably less government involvement than in the past.

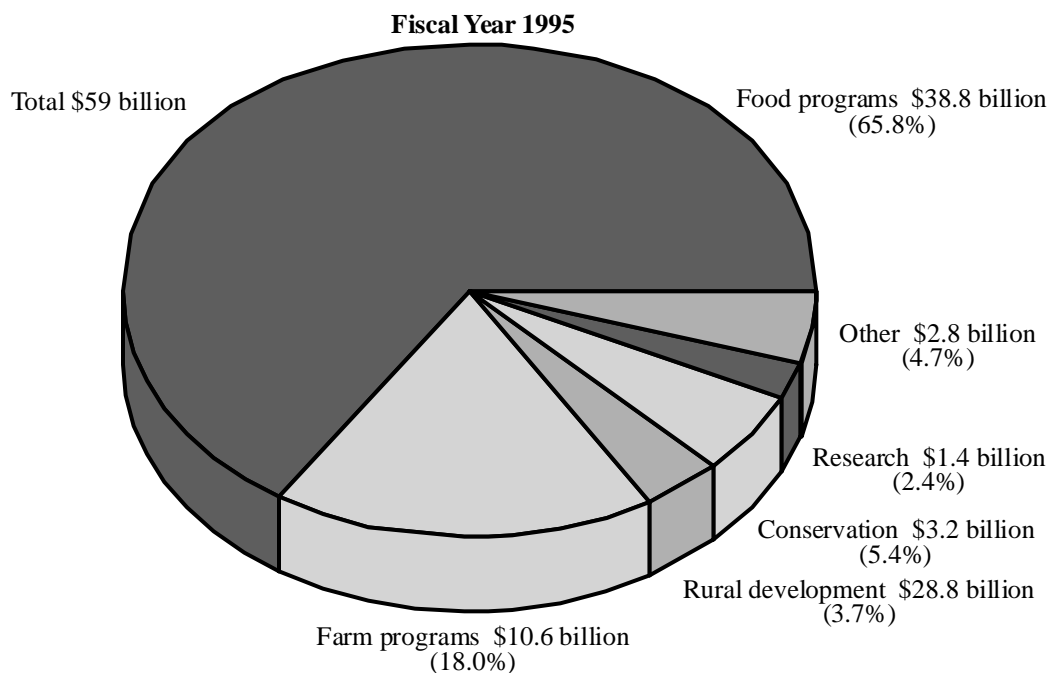
This article outlines a new vision for U.S. agricultural policy. The first section reviews the budget imperative that is forcing the debate. The second section presents economic arguments that justify a redirection of policy. The final section explores four goals that mark the way to a new policy.

## THE BUDGET IMPERATIVE

Agricultural policymakers have always had to work within budget parameters, but normally those parameters have required little change in programs.

Chart 1

## U.S. DEPARTMENT OF AGRICULTURE SPENDING, EXCLUDING FOREST SERVICE



Source: USDA 1996 Budget Summary.

Today, writers of the 1995 farm bill are facing a budget imperative driven by plans to balance the federal budget by 2002.

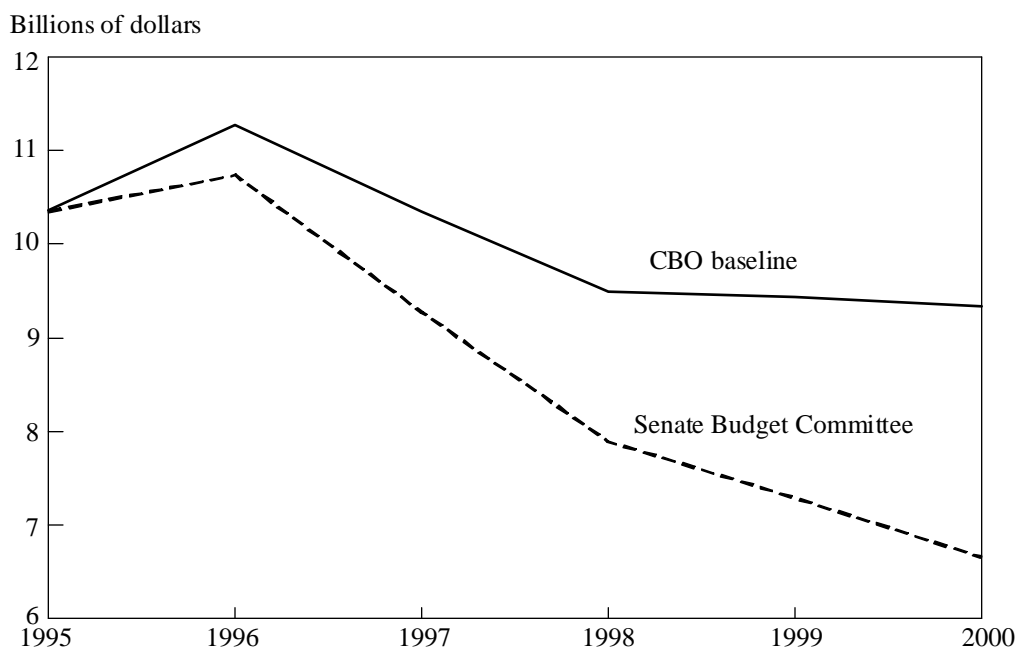
Before considering the budget targets that now confront Congressional writers of agricultural policy, it is useful to look at how the farm bill's money is spent. While many may think it covers only programs directly tied to production agriculture, the farm bill reaches all the way to an assortment of consumer food programs.

The farm bill is actually many pieces of legislation held together under a broad umbrella. One way to illustrate the bill's many facets is to review the U.S. Department of Agriculture's annual budget.

Setting aside the Forest Service, a large agency administered in the USDA but whose spending is overseen by the House and Senate Interior Committees, it is evident that farm and food programs dominate (Chart 1). Food programs account for nearly two-thirds of department spending. These programs include food stamps, Women-Infants-and-Children (WIC), and school lunches. Farm programs, mainly price support programs for a handful of commodities, account for nearly a fifth of USDA spending. The smaller programs that round out USDA spending include conservation programs, including the Conservation Reserve Program, government-sponsored agricultural research, and rural development. With most farm bill dollars going to food and farm programs, therefore, it is

Chart 2

## FARM PROGRAM SPENDING PROJECTIONS



Source: Congressional Budget Office and author's calculations based on data from the Senate Budget Committee.

not surprising that a legislative battle is brewing over whether spending cuts will come at the expense of farmers or consumers.

The budget targets now being suggested will require substantial cuts in overall spending in the farm bill. The House and Senate Budget Committees have called for cuts of up to 20 percent over the next seven years. The Budget Committees establish a budget target, but the Agriculture Committees must then decide how the farm bill will be changed to meet that target. Thus, the cuts could come all in farm programs, all in food programs, or in combination.

How severe are the proposed spending cuts? If left unchanged, the farm program portion of

the farm bill is projected by the Congressional Budget Office (CBO) to cost \$10 billion a year, or a total of \$50 billion over the next five years (Chart 2). The Senate Budget Resolution recommends that spending on farm programs be cut \$8 billion (16 percent) over five years, but the only requirement is that combined cuts in farm and food programs total \$29 billion. The House Budget Resolution calls for \$8 billion over five years, and total cuts of \$26 billion. Both the Senate and the House require much bigger cuts in the final two years of the seven-year budget period. Total cuts in farm and food programs during the seven-year period total \$44 to 48 billion, with farm programs accounting for an estimated \$13 billion.

The stage is set, therefore, for substantial cuts in farm bill spending and a pitched battle over how to make the cuts. Although defenders of the current programs will try to hit the budget target through minor adjustments in program parameters, the cuts are big enough to require a more fundamental reworking of the programs.

## THE ECONOMIC IMPERATIVE

Faced with the tough job of balancing the federal budget, policymakers will scrutinize government spending on agriculture more carefully than ever before. While the roughly \$60 billion spent on food and agriculture programs each year is less than 2 percent of the federal budget, the budget imperative dictates a fundamental rethinking of why and how this money is spent. What are the nation's goals for its farm policy? And are those goals still valid for an industry that has undergone such big economic changes over time?

Answers to these questions lead to the conclusion that the old farm policy goals have not kept pace with a changing farm economy. The economic changes call into question not only the nation's policy goals but also the programs built over the past six decades to achieve them.

### *The old goals*

The nation's traditional goals for farm policy hinge on the view that agriculture is a unique industry, deserving of special consideration—and appropriation. The industry's unique status harks back to the days when farmers were largely self-reliant, purchasing relatively little and selling only the small amount produced in excess of farm family consumption.<sup>1</sup> Rather than a business, farming in many respects was regarded as a unique way of life, summarized in the Jeffersonian ideal, "Those who labor in the earth are the chosen people of God, if ever He had a chosen people. . ." (Tweeten).

A review of the past few farm bills produces a list of four main policy goals. In each case, the goals have been part of farm bill preambles for nearly 60 years.

*Provide food security.* The view that agriculture has special status is rooted in the industry's primary endeavor of producing food, one of society's most basic needs. Thus, first and foremost among the traditional farm policy goals has been providing the nation a secure food supply.

Given food's fundamental importance, food security seems an appropriate goal for farm policy. Indeed, food security remains a prominent goal in the current policy debate. Congress has explicitly suggested that one aim of the new farm bill should be to ensure an abundant supply of food for American consumers. The need for stating such a goal is unclear, however, because for a long time U.S. agriculture's chief problem has been managing a chronic surplus of food, not rationing scarcity.<sup>2</sup>

Notwithstanding a stated goal of food security, farm policy has been concerned mostly with curbing surpluses. Farm commodity programs have controlled excess production by idling farmland and have supported market prices by storing surplus grain in government-controlled reserves. Ideally, by astutely managing the number of acres farmers are allowed to plant each year, policymakers can limit excess production and stabilize grain reserves at a comfortable level, thus reducing surpluses while still achieving food security.

Unpredictable weather, however, can foil policymakers' carefully laid plans. For example, after wet weather slashed U.S. crop production and shrank grain reserves in 1993, policymakers encouraged farmers to plant as many acres as possible in 1994 to rebuild inventories. With the bigger acreage—and unexpectedly ideal weather—farmers harvested the biggest crops ever in 1994, swelling

inventories more than desired. To reduce the excess inventories, policymakers reined in acreage in 1995, only to see another wet spring threaten to trim crops and run down inventories again. Thus, the ability of farm programs to stabilize food production and reserves in the interest of food security remains open to question.

*Boost food demand.* Because excess production from the nation's farms is a chronic problem, the second traditional farm policy goal has been to boost food demand to help eliminate excess supplies. An increasingly important way to boost food demand has been to provide food to low-income consumers who do not otherwise have access to high-quality diets.<sup>3</sup> Like programs aimed at food security, programs designed to improve diets of the economically disadvantaged are also motivated by agriculture's excess capacity.

The nation's food and nutrition programs have been assembled over several decades, but the interesting part is that each program has been legislated in the agriculture committees of Congress and administered in the Department of Agriculture. Programs like food stamps, school lunches, and Women-Infants-and-Children all share a social objective of ensuring food security to low-income consumers. Nevertheless, most of these programs were created to boost demand for food in a nation where supply has exceeded demand. To be sure, the social objectives have been given prominence in recent years, but the programs' link to agriculture remains.

*Support and stabilize farm incomes.* Since the 1930s, Congress has believed the federal government must provide some level of income security to the nation's farmers. With a quarter of the nation's population living on farms in the 1930s, shoring up farm incomes was seen as a way to boost the national economy out of the Great Depression. In addition, programs to boost farm incomes were readily justified in the nation's social

conscience since incomes of farm families averaged about a third of nonfarm families (Chart 3). Thus, it is easy to understand how support for farm incomes became part of the New Deal. But the goal has outlived the Depression.

An unwritten but important feature of farm income programs has been the abiding belief that boosting farm incomes will lead to rural development. This was an obvious connection in the 1930s when farmers populated rural America. The connection is much more dubious today when only one in five rural counties has an economy that depends mainly on agriculture.

*Preserve soil and water resources.* The final traditional goal of U.S. farm policy has been to preserve the nation's soil and water resources. Born in the Dust Bowl of the 1930s, this goal is closely related to the food security goal; by preserving soil and water, the nation protects its long-term ability to produce food. A happy coincidence for policymakers is that conservation programs also aid in controlling excess production. Such programs have steered farmers into resource-conserving practices while retiring highly erodible lands. The Conservation Reserve Program, now in its tenth year, is the most recent manifestation of this goal.

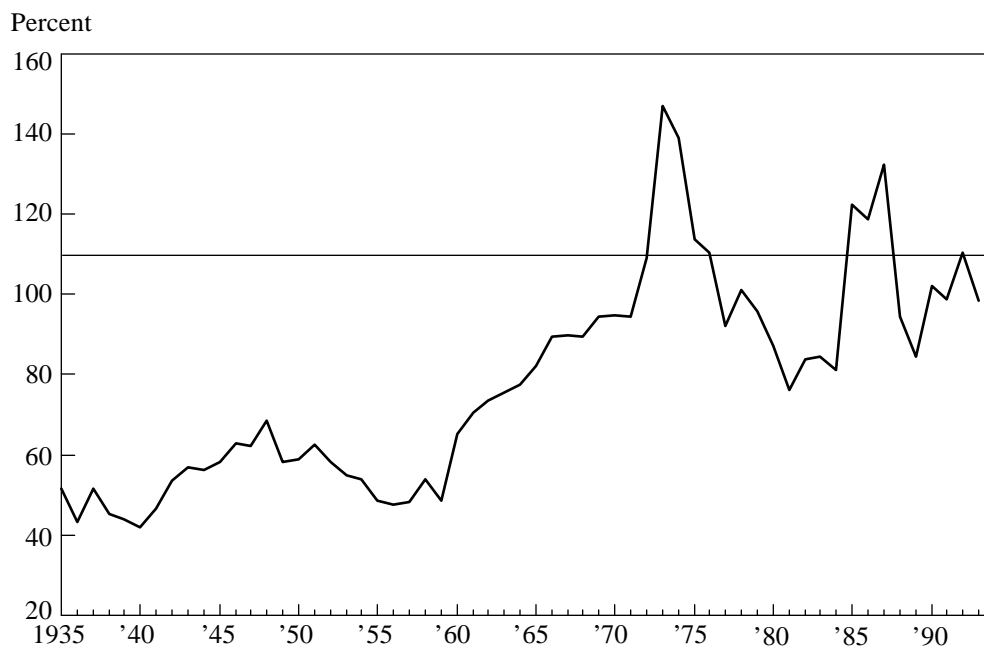
### *The new economy*

Scrambling to find budget savings, Congress will be forced to ask whether the legacy of farm policy goals still holds. This question must be answered in light of how the agricultural economy has changed. Although changes in this dynamic industry have been many, four major developments call into question past policy goals and the policy instruments for achieving them.

*The structure of agriculture has changed.* During the past six decades, farming as a way of life has given way to farming as a business, eroding

Chart 3

## RATIO OF FARM INCOMES TO ALL INCOMES



1935-59: Per capita

1960-93: Per household

Source: Aheam, Mary (1986); and Economic Research Service.

agriculture's unique nature and the justification for its special policy treatment. The structure of U.S. agriculture has shifted steadily toward bigger and fewer farm businesses, with the number of farms declining from nearly 7 million in the 1930s to only 2 million today. As farms have grown bigger, the incomes of farm families have approached and occasionally passed the incomes of nonfarm families (Chart 3).<sup>4</sup> Thus, the industry's need for continued government support is being questioned.

Farm programs aimed at supporting farm income are based on the premise that a rising tide lifts all farm boats. This premise was defensible in

the 1930s when farms were more or less the same across the country. But the premise no longer holds. A close look at who is getting farm payments points out the problem of emphasizing old policy goals in a new farm economy.

Under one of the most expensive farm programs—commodity programs—cash payments (known as deficiency payments) are made to grain and cotton producers to make up the difference between low market prices and specified target prices. In exchange for these payments, producers agree to hold a portion of their land out of production. Thus, deficiency payments simultaneously boost farm income and buy a measure of

*Table 1*  
GOVERNMENT PAYMENTS, 1993

	Farm size		
	<u>Small</u>	<u>Medium</u>	<u>Large</u>
Sales	< \$100,000	\$100,000-500,000	> \$500,000
Equity per farm	\$234,000	\$746,000	\$1,954,000
Percent receiving payments	30%	58%	72%
Average payment per farm	\$5,000	\$24,000	\$51,000

Source: Morehart and Perry; Economic Research Service; and authors' calculations.

supply control, curbing the industry's excess production problem.

Since one goal of the payments is to curb production, they are skewed toward the nation's larger farms, which produce more but generally are not in need of government assistance. A useful way to look at the distribution of government payments is to split today's 2 million farms into three size groups based on annual sales: small farms (sales less than \$100,000), medium-sized commercial farms (sales between \$100,000 and \$500,000), and large commercial farms (sales exceeding \$500,000) (Table 1).

Small farms are by far the most numerous, comprising more than 80 percent of all farms (Chart 4). Most of these farms can be described as "lifestyle" or "hobby" farms that rely primarily on off-farm income. Thus despite their large number, they generate less than a fourth of industry sales. They also garner slightly more than a fourth of all government farm payments, a share that is in rough proportion to their share of industry sales but disproportionately small relative to their number.

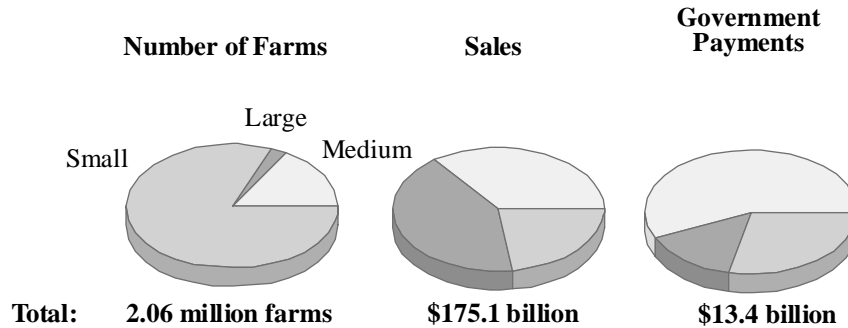
In contrast, medium-sized and large commercial farms, which are far less numerous than small farms, account for the lion's share of industry sales—and government payments. Medium-sized farms, comprising about a sixth of all farms, produce about a third of industry sales, have an average net worth of nearly \$750,000, and claimed well over half of all government farm payments in 1993. Nearly three-fourths of medium-sized farms received government payments, with an average payment per farm of about \$24,000.

Large farms are only 2.5 percent of the total number of farms but produce over 40 percent of industry sales. Moreover, they own an equity base averaging nearly \$2 million per farm. Many of the biggest farms in this group produce livestock or crops such as fruits and vegetables that do not earn government payments. Still, nearly 60 percent of large farms received government payments in 1993, with an average payment per farm of about \$65,000.

Thus, a picture emerges of a distribution of government payments that is tipped toward bigger

Chart 4

## FARM STRUCTURE AND GOVERNMENT PAYMENTS, 1993



Source: Morehart and Perry; Economic Research Service; and authors' calculations.

and financially stronger farms. How far the distribution is tipped, however, varies by farm type. For example, large farms receive a bigger proportion of government payments among cotton farms than among wheat and feed grain farms. In 1993, the average government payment to cotton farms, which are generally larger than grain farms, was over \$39,000, more than double the average payment to grain farms. Only a fourth of the nation's cotton farms were small farms, which collected only 7 percent of government payments to all cotton farms (Chart 5). In contrast, roughly three-fourths of wheat and feed grain farms were small farms, which received more than a third of government payments to all wheat and feed grain farms.

With a larger share of the nation's farm output coming from bigger, financially healthier farms, the changed structure of agriculture casts doubt on

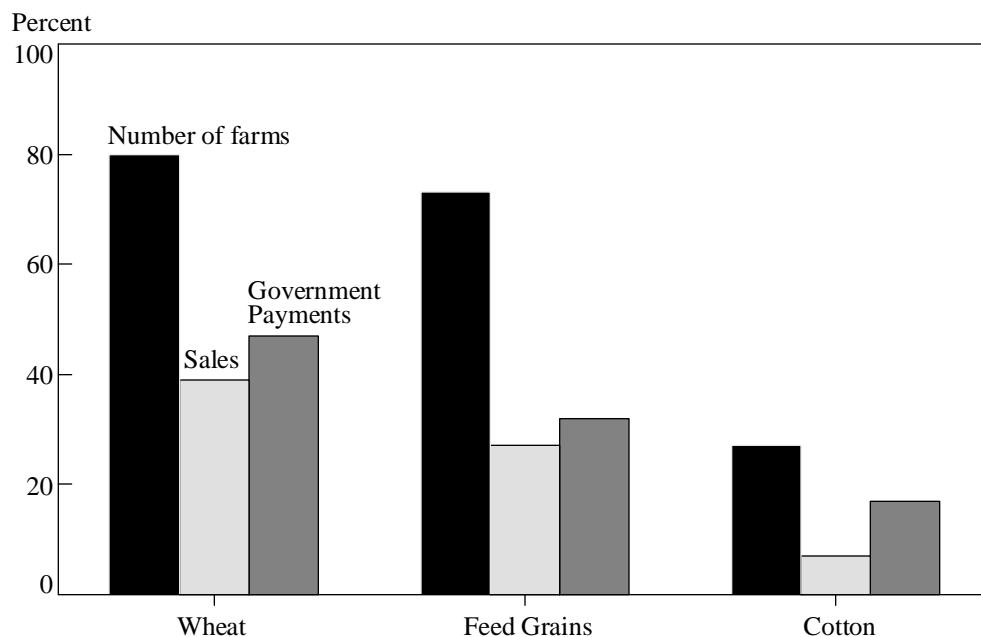
both the need to support all farm incomes and the means of achieving that goal. Are there farms whose income the public still wants to support? Perhaps, but most of these families will benefit far more from rural economic growth than from higher farm prices. This suggests greater emphasis on rural initiatives and less on traditional farm programs.

*Agriculture is more industrial.* The trend to fewer, larger farms began decades ago. In recent years, however, a revolution has taken shape that could have an even greater bearing on the industry's structure and farm policy than the earlier shift to bigger farms. The industry's revolution is sweeping farmers, food processors, seed companies, and other agribusinesses into tighter marketing arrangements, such as contract production and vertical integration, changing the way the industry does business in a fundamental way.



Chart 5

## SMALL FARM SHARE OF FARM NUMBER, SALES, AND GOVERNMENT PAYMENTS, 1993



Source: Author's calculations using unpublished USDA data.

The shift to a more industrialized agriculture affects farm policy decisions in three key ways. First, the focus of the new industrialized agriculture is on value-added products aimed at specific market niches. By following rigid production guidelines, farmers are learning to produce raw food products that meet food processors' and consumers' stringent demands. Thus, traditional farm policy, which retains a focus on generic commodities, is rapidly becoming outmoded.

Second, a more industrialized agriculture promises to add momentum to the long-standing shift toward fewer, larger farms. Larger farms are the most likely to benefit from contractual arrangements to produce specialized products for food companies. In contrast, smaller farms may face a

declining market for their generic production. Thus, policymakers must decide if they wish to continue supporting the incomes of larger farms as their business arrangements with corporate agricultural businesses become increasingly intertwined.

Third, one of the main benefits of an industrialized agriculture is that its tighter marketing arrangements spread between farmers and agribusinesses the traditional risks of marketing farm products. As the industry's risk profile changes, traditional farm policies designed to stabilize farm production and incomes may diminish in value. Instead, policymakers may wish to strengthen the legal framework for negotiating workable contracts between farmers and agribusinesses.

*Farm markets are international.* We now take it for granted that U.S. agriculture is part of a global supermarket. Today, upward of a quarter of the nation's farm output is sold in export markets, three times the amount sold overseas in the 1930s. And the export share is much higher for many commodities, such as wheat and soybeans.

But this clear shift to the world market has been slow to influence U.S. farm policy. The reason lies in the domestic orientation of our goals and the policy instruments that have grown up around them. From the start, farm policy has been a domestic policy. In the wake of the Smoot-Hawley tariffs in 1930, U.S. agriculture turned its attention to the domestic market, much as other sectors of the economy were doing then. It is not surprising, therefore, that a key farm policy development of the 1930s was to erect trade barriers against food imports, special barriers that for some items are still with us.

The domestic bias of farm programs creates three problems for U.S. agriculture in international markets. First, commodity programs can price U.S. farmers out of the world market. Although not a problem recently, in the early 1980s policy-makers pushed crop price supports above world market levels, contributing to the bust in farm exports. Second, commodity programs reduce U.S. agriculture's ability to respond to world market opportunities. By their design, commodity programs create rigid cropping patterns that keep farmers in the same crop—year in, year out. The world market is not nearly so predictable. Thus, U.S. farmers have continued to bet their farms on selling more bulk commodities abroad, even as demand has shifted to value-added products.

Third, commodity programs hinder our competitiveness in world markets. The programs require U.S. farmers to idle productive acres, but when they cut back production, farmers in other nations plant more acres. Moreover, by locking

farmers into traditional production patterns, commodity programs may also discourage production of crops for value-added products, the most promising part of the world food market.

U.S. agricultural policy, therefore, needs a greater international focus. The realities of the world marketplace call into question the goal of supporting domestic prices and the means of doing so—acreage reduction programs.

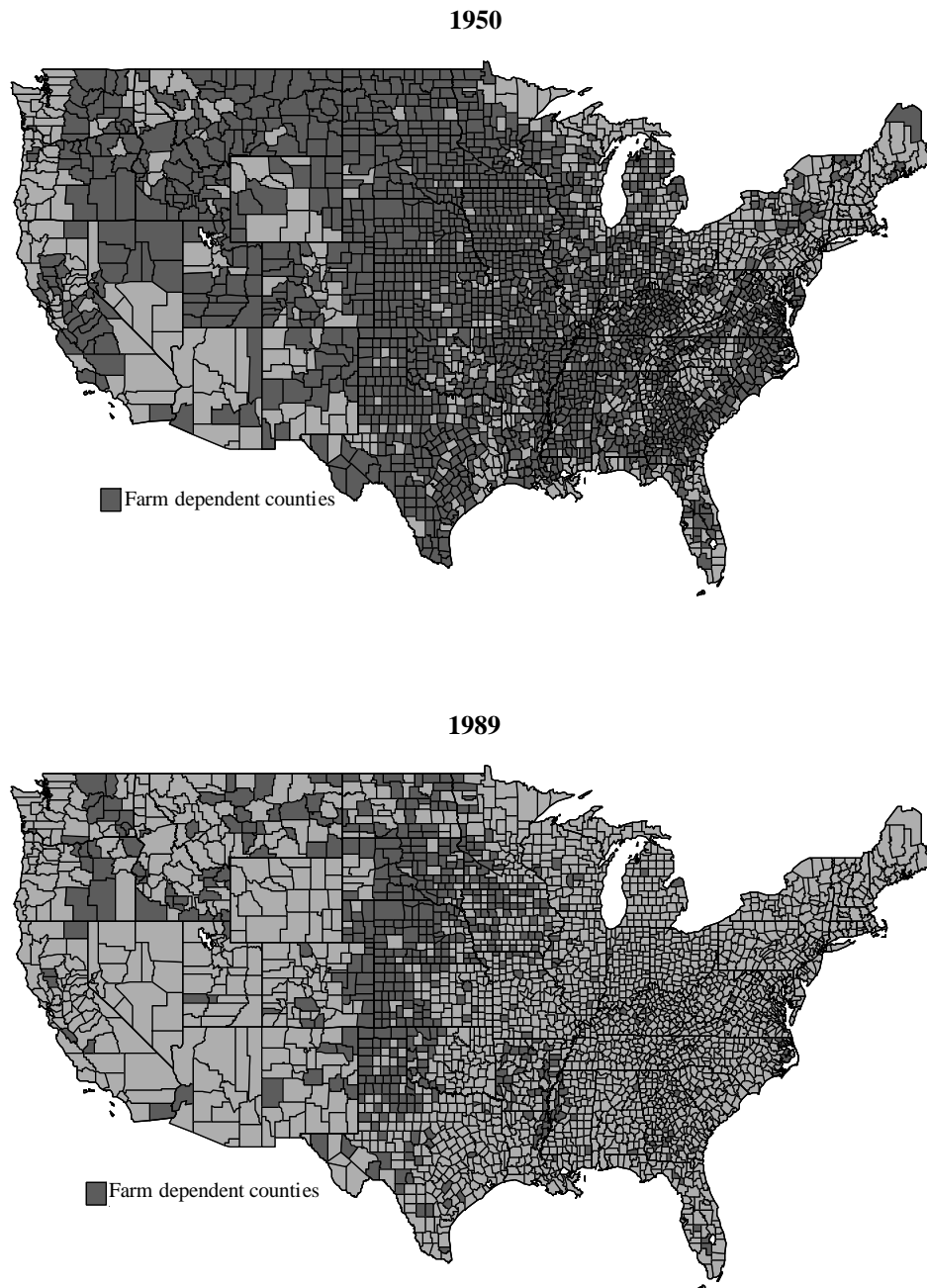
*The rural economy is now more diversified.* A fundamental premise of agricultural policy from the 1930s to the present has been that farm policy is rural policy. In the 1930s, when nearly a fourth of the nation's population lived on farms and produced about a tenth of the nation's GDP, farm policy affected a big slice of the nation's economy. But as the U.S. economy has moved from agrarian, to industrial, to post-industrial, the role of agriculture has diminished. Today, less than 2 percent of the population live on farms and produce less than 2 percent of GDP. The decline in agriculture's role in the economy is clearly reflected in the changing economic profile of rural America. From 1950 to 1990, for example, the number of rural counties that depend on agriculture as their leading industry fell from more than 2,000 to around 550 (Figure 1).

Despite large expenditures on farm programs over the past decade, the rural economy overall has been relatively weak. Since 1980, only a quarter of the nation's 2,400-odd rural counties have had above-average economic performance. Rural economic winners tend to fall into three categories: counties with emerging commercial and financial centers, counties adjacent to metropolitan areas, and counties with scenic amenities.

Almost all farm-dependent counties have had subpar economic growth in recent years. Consolidation in production agriculture and the move toward industrialization have weakened

Figure 1

FARM DEPENDENT COUNTIES



agriculture's ties to the economy of nearby communities. Higher farm income in the late 1980s, for instance, did not spark general economic gains in most farm-dependent communities. Thus, farm programs are bringing few economic gains to most rural counties. To the extent that the nation retains goals for rural America, another approach seems advisable.

## POLICY GOALS FOR THE FUTURE

It is not prudent for the nation to pursue an old-goal policy in a new agricultural economy, especially when such a policy costs more than our federal budget will permit. The question is, what should be our policy goals for the future? Reviewing past policy and the industry's future suggests four goals. Together, these goals have the added benefit of requiring considerably less government involvement than in the past.

### *Enhance international competitiveness*

The first public policy goal should be to enhance U.S. agriculture's international competitiveness. The industry has great potential to widen its presence in foreign markets. Gains made there will help to turn around the nation's unfavorable current account deficit. Three steps will further this goal.

First, current programs that deter competitiveness should be eliminated. Commodity programs should be phased out over a multiyear period. Eliminating the programs will allow agriculture to use its full productive capacity, encourage producers to seek market opportunities, and lower the costs of value-added products. A phase-out period will provide farmers time to adjust their decisions. Export assistance programs, such as export subsidies and credits, should be given a top-to-bottom review to ensure that the programs are aimed at developing market opportunities.

Second, agricultural research programs should be given a thorough review. The nation has an excellent publicly funded agricultural research system. Commodity programs have no doubt influenced the direction of this system, just as they have influenced the decisions of farmers. As international markets have moved away from bulk commodities toward value-added products, it is not clear that the research system has kept pace. Public research should lead U.S. agriculture as it diversifies into more food market niches.

Third, attention should be given to the public's role in providing information on foreign markets. The Department of Agriculture has an enormous information machine. But much of that information is aimed at traditional commodities, and much of it may not be needed anymore. In addition, U.S. agriculture needs more information on the products foreign consumers are buying. In short, an updated mission is needed to guide the Department's information programs, one that can be met with a smaller budget.

### *Improve the nation's diet*

The second public policy goal should be to improve the nation's diet. The public has an overriding stake in the health and nutrition of America's citizens. The links between diet and health have never been more clear. As the price tag of the nation's health care system continues to mount, improving the nation's diet offers one of the best ways to enhance health and cut cost. Public policy should embrace these goals and take steps to ensure that agriculture supports them.

The nation's long menu of food programs should be reviewed to ensure that they provide food *and* nutrition benefits. The Women-Infants-and-Children program, for example, has paid considerable social dividends because it couples nutrition counseling with food benefits (U.S. General Accounting Office). Not all programs do.

The nation's interests in food safety and nutrition need to be balanced. The media encourage a preoccupation with food-borne pathogens. But the far greater public interest lies in encouraging the nation to eat a healthier diet. Medical researchers estimate that approximately 9,000 people die each year from food-borne pathogens such as salmonella and E. Coli (McGinnis and Foege). By comparison, the Surgeon General reported in 1988 that poor diet contributes to an estimated 35 percent of the nation's 400,000 to 500,000 deaths from cancer each year (U.S. Department of Health and Human Services).<sup>5</sup> Thus, while the nation's dated food inspection laws clearly need an overhaul, the need for an effective nutrition education campaign is paramount.

Improving the nation's diet will also require sending the right signals to farmers. Market grades and standards, the rules that govern many farm product markets, will need to match the improved diets that many consumers are now choosing. Instead, many current grades and standards are still aimed at a more traditional diet.

### *Conserve the nation's natural resources*

The third public policy goal should be to further encourage agriculture to conserve its natural resources. This goal endures and, if anything, has gained support with time. While the support is widely voiced, it remains unclear how much Americans want to spend on conservation programs.

The Conservation Reserve Program is a good case in point. Established in 1985 at the depths of the 1980s farm recession, the program has retired more than 36 million acres at a cost of roughly \$20 billion. The nation was willing to spend that amount when farm bankruptcies were commonplace. Indeed, the goal of supporting farmers' income may have overridden conservation goals. Many productive acres ended up in the program while many erodible acres did not. Now, the pro-

gram is up for renewal at a time when a \$2-billion-a-year price tag stands out; no one expects expenditures to continue at this level. In the main, however, the willingness to pay for conservation programs when agriculture is not in crisis is largely untested.

### *Increase rural economic opportunity*

The fourth goal of public policy should be to increase economic opportunity in rural America. Although market forces will ultimately determine how much and where the rural economy grows, the public has an abiding interest in making sure that rural resources are used to their full capacity. In some cases, this may require efforts to help those resources relocate elsewhere. In other cases, it may mean making investments in rural America similar to investments we make in our cities. In all cases, it will mean broadening our approach to rural America beyond farm policy alone.

Three topics will dominate the rural economic discussion in the period ahead. Public investments in rural education will take on greater interest, as steps are considered to help rural schools broaden their curricula and access distant information and resources. Public spending on infrastructure will be hotly debated, as issues like fiber optic networks test whether we will emphasize investments in people or places. Finally, new programs may be considered to enhance capital markets for rural businesses. Historically, public attention to rural credit has been dominated by agriculture. The result is that most farmers have more credit choices than their rural business neighbors. While the rural credit market does not need an infusion of subsidized credit, it would benefit from steps to enhance competition and enlarge access to capital markets—the same steps that have worked well for agriculture.

### *Reconciling past and future goals*

The list of four goals outlined above omits two

prominent traditional goals—guaranteeing a secure food supply and supporting and stabilizing farm incomes. Having been policy mainstays for so long, does deemphasizing them pose any policy problems?

As already noted, food security has been a farm policy goal more on paper than in practice. With a highly productive agriculture and well-established agricultural markets, it is difficult to argue that food security remains a serious risk to U.S. consumers. Moreover, U.S. consumers can readily tap what has become an efficient global food market. Shortages in one part of the world quickly elicit additional supplies from other parts of the world.

What may be a greater risk to U.S. consumers is the prospect of less stability in food prices. In the past, the government held grain stocks because they were the natural consequence of the commodity programs aimed at supporting farm income, not because there was an explicit strategy of stabilizing food prices. Over time, these stockpiles helped stabilize commodity and food prices. Looking ahead, the government will accumulate fewer grain stocks as farm program budgets are cut. This will happen during a period when scientists believe that greater fluctuation in global weather patterns could make agricultural production more volatile. In short, consumer food prices could be more volatile in the period ahead than over the past decade.<sup>6</sup> Thus, it would be wise to reexamine the nation's grain reserve policy, the primary goal of which should be to maintain prudent buffer stocks.

The new structure of agriculture greatly diminishes the need for income support programs, but some may argue the government should continue programs that stabilize farm incomes in light of the risks of uncertain weather in agricultural production. While such an argument may have been convincing in the past, today there are manifold

market mechanisms that enable farmers to manage such risk, a conclusion confirmed by a national summit conference on risk management held last year (Commodity Futures Trade Commission). Farmers can hedge price risk through many futures and options contracts, and a newly traded contract may provide a tool to manage fluctuations in crop yields.

One of the greatest challenges in reconciling past agricultural policy with a new vision will be managing the transition from old goals to new ones. The end of traditional farm commodity programs will clearly hurt some farmers. One of the most closely watched impacts will be possible declines in farmland values. Farmland values will not fall uniformly across the nation, and the size of the decline will depend on many factors beyond the level of government payments—world export demand and long-term interest rates, in particular. Agriculture's balance sheet appears to be strong enough to withstand the modest to moderate reductions in land values that might occur. Given the potential impacts of a policy transition on farmers, it would be prudent to phase out commodity programs over a multiyear period to give farmers time to adjust.

Encouraging U.S. agriculture to take full advantage of market opportunities will be critical to a successful policy transition. It is worth noting that some of the most profitable segments of U.S. agriculture have not relied on government programs. Many producers of fruit, vegetables, and livestock products have prospered by growing what consumers want, not what government programs require. Removing program restrictions, therefore, could unlock new market opportunities for producers of traditional program crops. Public information and education programs could play a useful role in highlighting such opportunities.

The adjustment to market opportunities will not

be uniform across the nation. Producers in some regions, such as the eastern Corn Belt, will have many production and marketing choices and may adjust quickly. Producers in some other regions, such as the Great Plains, will have fewer options and may face a longer transition period. These regional differences will pose a nettlesome problem for policymakers, perhaps requiring greater attention to regional disparities than in the past.

While there will be transition costs from moving to a new agricultural policy, there will also be substantial benefits. In the long term, consumers, producers, and rural residents all stand to gain from a policy focused on international markets, nutrition, natural resources, and the rural economy. Agricultural exports will increase. Improved diets will reduce health care costs and boost the productivity of workers. Agriculture's resource base will be used in a sustainable, efficient manner. And rural economic growth will improve. Short-run costs of adjustment should not prevent a policy that holds the promise of such long-term dividends.

## CONCLUSIONS

The chances for major reform in agricultural policy are greater now than they have been in many years. Although many in agriculture may prefer the status quo, a new budget imperative is forcing a rethinking of what should be spent and why. Economic changes also point to revolution—if not in 1995, then in the not-too-distant future. Pursuing a policy of outdated goals for a new agricultural economy is simply not prudent, and no such policy can continue indefinitely.

U.S. agriculture has a bright future, but public policy needs to support that future. Policy should enable the industry to compete effectively in the world food market. It should try to improve the nation's diet, bringing the interests of farmers and consumers into full alignment. Policy should continue to encourage wise conservation practices. And finally, it should create new opportunities in rural America, recognizing that rural economic challenges transcend agriculture alone.

## ENDNOTES

<sup>1</sup> Paarlberg suggests that agriculture's unique character "manifested itself in many ways, not least in the political process. Farmers were the most numerous group in the economy. Their spokesmen held the political initiative and controlled the farm policy agenda," p. 6.

<sup>2</sup> For example, some 30 years ago, Earl Heady, one of the nation's foremost agricultural economists, and his colleagues wrote, "But after 30 years the problems of United States agriculture remain basically unchanged. The supply of farm commodities is still large in relation to how much consumers desire; it is still large in relation to what consumers are willing to pay for it."

<sup>3</sup> Some analysts argue, for example, that food and nutrition programs for the economically disadvantaged have taken precedence over government grain reserves as a means of

promoting food security (Zulauf).

<sup>4</sup> Several factors account for the relative gain in farm family incomes, including agriculture's technological gains, enlargement of farm businesses, and increased off-farm earnings of farm families.

<sup>5</sup> Although no similar estimates are available for coronary heart disease, a significant portion of the nation's 700,000 to 800,000 deaths due to heart disease are believed to be linked to poor diet.

<sup>6</sup> A study by the Council for Agricultural Science and Technology concluded that the future climate is more uncertain than in the past, and that a grain stocks policy is an effective tool in managing any resulting changes in production (Council for Agricultural Science and Technology).

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