

## **Echoes of the Past: Lessons We Soon Forgot\***

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The end of the 2002 Farm Bill marks 75 years under a national food and agriculture policy, which was a radical idea in 1933. Although the farm policy legislation during much of this period was shaped by the Agricultural Adjustment Act of 1938, the entire period has been characterized by legislation designed to bring a modicum of stability to the agricultural sector by focusing heavily on the so-called program crops.

During the last dozen years, under the 1996b and 2002 farm bills, stability was sought by drawing upon the U.S. Treasury to replace part of the lost income from low prices, which proved to be costly. Indeed, the cost is now widely viewed as politically and fiscally unacceptable against a backdrop of \$425 to \$500 billion deficits and a serious WTO challenge.

For the period of more than half a century before that dramatic shift, stability was sought by commissioning the Secretary of Agriculture, within statutory authority, to be the surrogate CEO of the agricultural sector with powers to seek a balance in demand and supply of program crops by idling land, administering on-farm and commercial commodity storage programs and participating in various commodity disposal programs on a reduced cost or no-cost basis.

Before turning to a discussion of the lessons we should have learned from the past 85 years, I want to shift our sights slightly and look ahead a few decades and attempt to make the case for a global food and agriculture policy for the next century.

### **A Global Food and Agriculture Policy**

Eighty years ago, the Congress and the country were locked in a rancorous debate; is there a place for a national food and agriculture policy in this country? It was a pressing matter at the time—the prosperity of the pre-World War I era had given way to sharply lower commodity prices, leading to the 1919 crash in land values. Congress in 1921 had moved cautiously to enact legislation cracking down on futures trading abuses; to pass the Packers and Stockyards Act in 1921 which addressed anti-competitive practices in meat packing and processing; and to adopt the Capper-Volstead Act in 1922 which, for the first time, provided a framework for farmers to bargain collectively in producing and marketing their products.

But efforts to raise commodity prices and stabilize the sector were fruitless until the 1930s. By that time, the well-known head of the Bureau of Agricultural Economics, H.C. Taylor, had been fired for speaking out on the need for a new farm policy and the country had been through lengthy and boisterous debates about the McNary-Haugen bill and other proposals to raise commodity prices domestically.<sup>1</sup>

The 1930s brought a sea change in thinking about farm policy. The desperate economic

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<sup>1</sup> See Taylor, H.C., *A Farm Economist in Washington: 1919-1925* (1992).

state of the country (as well as the decade-old economic problems of the agricultural sector) generated enough political support for a bold shift in farm policy. The Secretary of Agriculture, Henry A. Wallace, was given unprecedented power to attempt to balance demand and supply, soil conservation legislation was passed, bills to provide credit for agriculture were enacted and rural electrification was given a huge boost.

U.S. agriculture was at a crossroads in 1932 and the country chose to move aggressively toward a national food and agriculture policy.

### **Need for a global food and agriculture policy**

Today, U.S. agriculture and the agricultural sector around the world stand at a different crossroads. The pressing question now is whether there is a place for a global food and agriculture policy. It is our firm belief that the answer to that question must be yes. The most pressing reason is that the United States (and the world), having grown much wealthier over the past century, now have the means at hand to move toward ending the biggest problem facing the human family since the beginning of time—death from starvation and malnutrition. To achieve that goal, which has eluded every generation since the dawn of civilization, will require an enormous effort.<sup>2</sup> The place to begin is with adoption and implementation of a global food and agriculture policy. The Seattle, Doha and Cancun World Trade Organization (WTO) meetings are markers in what can be a long march toward an era of adequate diets for everyone on the planet.

Also, not only has the world become wealthier in the past half century, it has become dramatically more integrated through trade, the emergence of transnational firms involved with input supply and output handling and processing and a burgeoning capital market that tends to knit the world together through a myriad of commercial transactions on a daily basis.

### **Components of a global food and agriculture policy**

To be assured of any measure of success, a global food and agriculture policy should address several key policy problems.

*Third World economic development.* The three greatest barriers to eliminating starvation in the world are income, income and income. Inadequate food production has not been a problem for several decades. The problem now is that food, understandably, is produced and distributed almost universally in a market economy and those without an adequate income cannot access the market for available food. If food production were doubled, there would be substantial numbers of poor families that still could not afford an adequate diet.

Studies have shown that in Third World countries as much as 70 to 75 percent of additional income is spent on food. It is truly the last frontier for increasing food demand. That's why boosting Third World development makes sense for the major food producing countries as well as for the low-income peoples of the world.

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<sup>2</sup>International Policy Council on Agriculture Food and Trade, *Attaining Global Food Security by 2025*. Position Paper No. 3, November 1996.

For these reasons, strong support for Third World economic development is viewed as the most critical of the components for a global food and agriculture policy. It is in the interests of First World countries, as well as Third World developing economies, for global attention to be focused on Third World economic development. Unfortunately, some countries, notably those in Central Africa, are unable to position themselves in the development queue that has allowed several other countries to make better use of their scarce resources, particularly labor, to boost incomes and move to a higher level of nutritional adequacy.

In a *New York Times* article examining the causes of hunger, "Why Famine Persists" (July 13, 2003), Barry Bearak noted that "Families starve because families lack money. In most cases, it is that simple."

*Food safety.* Even though food supplies have probably never been safer, there is more concern today about food safety than at any time in the modern era. Much of the concern in the United States relates to imported food.

But, globally, concerns about mad cow disease (BSE), hoof and mouth disease, *E. coli*, dioxin, pesticide and herbicide residues and feed additives for livestock have all registered with consumers. In countries where there is a high level of confidence in regulatory agencies, the concerns have been relatively less. It is in the global interest for food production and handling practices to be consistent with a policy of providing a safe and nutritious food supply for everyone. Clearly, we need a global reach to assure that foodstuffs are safe regardless of where they are produced.

*Food security.* The United States has not suffered periods of food inadequacy for a very long time. The nation's food producing potential and the presence of rational food distribution policies have allowed us to sidestep the food security issue.

But other parts of the world have not been as fortunate. Many areas have known food shortages, sometimes exacerbated by interruptions in food imports at times of reduced production. Indeed, there are numerous countries in the world that have faced food shortages within the memories of the living. An even greater number of countries have experienced periods of food scarcity to the point of widespread hunger within the past century and a half.

Clearly, political and economic instability have caused many countries (including some that have not experienced serious hunger problems in recent decades) to pursue food and agriculture policies with food security in mind.

*Sharing germ plasm.* Some countries, mostly in the tropics, are concerned about loss of germ plasm to the rest of the world. That problem is complicated and amplified by the concentration occurring among firms producing improved varieties of seed. Moreover, the concerns also relate to the ability of aggressive commercializing firms to seek and obtain intellectual property rights protection which may have the effect of denying access to germ plasm except on a licensing basis.

*Conservation and the environment.* Concerns are voiced regularly over the impacts of

industrial food production on the environment. The effects of the use of commercial fertilizers on water supplies (such as hypoxia in the Gulf of Mexico) are a highly visible example of that problem. The consequences often spread well beyond the country in which the farming practices in question are carried on. Farming practices are helping to drive deforestation, air and water pollution, ocean degradation and species loss which some characterize as a serious long-term environmental threat.

*International trade.* The gradual demolition of trade barriers, which is far from complete, has contributed to the "globalization" of economic activity on the planet. There are sound, widely accepted reasons for encouraging the reduction of trade barriers with each country pursuing the production of foodstuff and fiber products for which that country has the greatest comparative advantage. While there are unquestioned economic gains from freer trade, there are pressing issues relating to the economic adjustments necessitated by freer trade, compensation for those displaced in the process and the question of whether the gains are absorbed disproportionately by firms that dominate commodity trading worldwide.

An economic theorem holds that if capital can flow freely across national boundaries, if goods can pass without limitation or restriction across national boundaries and if technology is equally available everywhere, the returns to labor and land (of the same quality) should be the same everywhere. This "leveling" in terms of returns to labor and land is profoundly disturbing, particularly to countries seeking to maintain a premium standard of living.<sup>3</sup> Many concede that a premium standard of living is only possible by-(1) generating a steady stream of technology that is "milked" for its income-boosting features (which is becoming increasingly difficult as commercializing firms seek to maximize their worldwide revenues from new technologies as soon as possible); and (2) investing in education for their population such that the quality of the labor force justifies premium compensation.

*Coping with excess supply.* Occasionally, production worldwide exceeds the market demand for food products. The predictable result is low world prices. Part of the problem contributing to the breakdown of discussions in Cancun was that all-out production in the United States, coupled with a robust stream of technology, boosted production and dropped commodity prices well below the cost of production not only in the United States but worldwide. Generous subsidies replaced part of the lost income for U.S. producers but in food producing countries where the government is unwilling or unable to provide such subsidies, land values decline and returns to farm workers drop to the point where farm families cannot subsist. Workers then leave the land and exacerbate social problems in the large cities, often stunting the economic development which frequently begins with improved agricultural productivity. The U.S. market share increases, but partly at the expense of Third World development.

*Other reasons.* There are numerous other reasons for a global food, agriculture and energy policy. Much of modern agriculture is dependent on fossil fuels, yet these fuels are in limited (even dwindling) supply and their use has been linked to environmental problems, including global climate change. Agriculture in many areas relies on water supplies that could be threatened with rationing or restrictions. Many countries have trouble not only with the quantity, but also the quality of existing water supplies. Finally, recently there have been

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<sup>3</sup> Learner, Edward, *Sources of International Comparative Advantage: Theory and Evidence*. Chapter 1, 1984.

disturbing signs of an increase in infectious diseases. This includes an increase in the incidence of such diseases as well as a rise in resistance to common treatment methods and added examples of the transfer of diseases from animals to humans.

### **Summing up**

Food is clearly the most basic need for survival and social stability. Assuring an opportunity for access to an adequate diet is in everyone's interest and should be a win-win for food producers as well as those who would benefit through better diets. Moreover, it is a critically important security issue. Peace and stability rarely coexist in areas of chronic food shortage.

The surest way to success in addressing food availability, food safety and stability in the world is a global food and agriculture policy. It generally has been believed that a country that is well fed, prosperous and populated with individuals who see a brighter future in the decades ahead is far less likely to be a mischief maker in the world.

The challenge of this generation, perhaps the first generation to have the means and the inclination in terms of political support to implement such a global food and agriculture policy, is to begin now by laying a foundation for international support for a global food and agriculture policy.

The authors of this paper do not presume to propose agricultural policy changes for every country. That task falls to those who are familiar with the conditions that exist in each nation. We only offer suggestions for changes in U.S. policy that might become part of a larger global dialogue. But we do believe that the objectives and components outlined above offer food for thought within the global agriculture community. These components might be the basis for international policy actions that coincide with what we will propose for future U.S. policy. These thoughts could provide the impetus for a summit to develop a truly global food and agriculture policy for the planet.

## **II. Lessons We Should Have Learned (and Soon Forgot)**

Permit me now to identify a half dozen lessons we should have learned during the past 85 years, and to examine the relevance of those lessons for the next farm bill and beyond.

Lesson 1: It has been painfully obvious that farmers, acting individually, do not adjust to low commodity prices as neoclassical economics would suggest. This was clear in the 1920s, when the prevailing view was that there was no room in the pantheon of federal policies for a national food and agriculture policy. It was also clear in the late 1990s and the early years of the twenty-first century under a farm bill that assumed exports would boost demand sufficiently so that there was no need for downside protection. We learned a very important lesson in 1998 and 1999 – in Congress, low commodity prices trump ideology every time. The result was ad hoc funding to replace part of the lost income, boosting federal spending for agriculture to record levels.

Lesson 2: If an objective is to replace part or all of the lost income of producers when commodity prices fall to low levels, it is exceedingly responsive for commodities with an inelastic demand, where an increase in supply rewards the producers with a disproportionate drop in price and in profitability.

Lesson 3: Any attempt to stabilize the sector runs the risk of distorting resource allocation, but stabilizing the sector through replacement of part of the lost income is massively distortive as the outcome in some years is production and sale of commodities well below the cost of production.

Lesson 4: We have learned that all-out production coupled with a commitment by government to replace part or all of the lost income with tax dollars lowers world commodity prices, puts pressure on land values in countries that cannot or will not match the largess of the U.S. government, reduces returns to labor in those countries, and enlarges the U.S. market share but at a cost of stunting economic development in other countries and at a cost to the U.S. taxpayer.

Lesson 5: We have learned that the agricultural sector in this country is vulnerable to unstable fiscal and monetary policies. In the 1970s and early 1980s, the problem was instability in monetary policy which resulted in sharp increases in interest rates, especially for short-term credit, which jeopardized about one-third of the producers. Going forward, the greatest risk factor is in an unstable fiscal policy as a high and growing federal budget deficit and a large and growing trade deficit could eventually result in significantly higher interest rates to keep non-U.S. creditors in a happy and cheerful state. Loss of confidence by non U.S. creditors in the United States as a debtor nation could have devastating consequences.

Lesson 6: The experience with massive subsidies under the 1996 and 2002 farm bills indicates that the benefits of federal farm programs (to the extent such programs continue) should be shaped to eliminate the advantage of the largest operations in using their economies of scale to bid up cash rents and land values, to the detriment of midsize and smaller operators. Gains from efficiency from the largest operations are not passed along to consumers. Gains from bigness go heavily to acquire additional land. Thus, federal funds are being used to help the largest operators become even larger, and there's little public interest in that.

### **III. Conclusion**

The pressing task for interest groups and the Congress is to seek a modicum of agreement on the precise objectives to be served by the next farm bill. The architecture of that legislation should reflect a clear, transparent message to the non-farm world as to why commodity programs should continue to merit \$10 billion or more per year.

Calls are being heard for Congress to pull the plug on spending, with land values declining to a new plateau well below current levels. Some argue that would make U.S. producers competitive with South American producers. That is clearly wrong-headed. The lesson was learned a century and a half ago that land values are price determined, not price determining. In every country, producers bid available profits into cash rents with capitalization ultimately into

land values. U.S. land values are higher because of expected profitability from production plus the net present value of expected government payments.

A key issue that should help shape U.S. farm policy is how best to achieve a modicum of stability in an unstable world and avoid massive economic losses in times of great instability.