

## Major Developments of Significance to Agriculture in the 1970s and Prospects for the 1980s: COMMENTS

John E. Lee, Jr.

In the final year of an eventful decade, it is appropriate to take stock of where we are, what the events of this decade really mean, and what the next decade holds in store. What really happened in the 1970s? As for any other decade, that question is not easy to answer. It will be easier to answer a few decades hence when we are better able to see the events of lasting significance in historical perspective, and to distinguish them from the short-lived phenomena that cloud both our vision and our understanding because we are still too close to them. Furthermore, decades are simply 10-year units in a continuum of events and are not necessarily logical units of time to study.

The 1970s have been a kaleidoscope of events, major and minor—food crises, inflation, oil embargoes, declining value of the dollar, tandem 4-wheel-drive tractors, farmer strikes, reversed migration patterns, environmental concerns, energy crises, climate scares, 55-mile-per-hour speed limits, détente, and test tube babies—none of which are totally irrelevant to agriculture. These events and their interactions with each other and with ongoing trends are difficult to evaluate. Their cumulative impacts will not be known until more time has passed. However, I do believe that the decade of the 1970s, like the 1930s, will come to be regarded as a watershed—a period of new directions—in American agriculture.

The following developments of the 1970s are ones that I believe will have lasting significance.

### THE FOOD CRISIS OF 1972-73

When pondering whether this was truly an event of lasting significance, I came up with a yes and no and yes answer. In the midst of that crisis, many people believed we had turned the corner into a period of permanent scarcity and increasing real food costs. How fast we have forgotten those days of the Rome World Food Conference, the Kansas City Food Conference, export embargoes, the call for all-out production, the plowing up of marginal lands in the Plains that we had worked 40 years to get into soil-conserving uses, “pasture fed” beef in the

grocery stores, outrage at the “wasteful” practices of using grain to fatten cattle when it could be used to feed hungry people, and so on. Yes, the food crisis was an important event.

But suddenly, in 1976 and 1977, set-aside programs were once again in effect, grain prices were depressed, and farmers were marching on Washington. These developments supported the view that the food crisis was an aberration from the norm, a random occurrence off the trend lines. Things were “back to normal.”

That, of course, is too simple a view. The food crisis “shocked” the system and the system did not return to the old equilibrium. New institutions are in place. We have a managed grain reserve with rational operating rules. Some patterns of trade appear permanently altered. We have export monitoring systems in place and a trade agreement with the USSR.

Unfortunately, the main story is not that we became lastingly aware of the thin margins between plenty and scarcity. Though three years of good crops at home and around the world have lulled us into complacency, the underlying potential for a world food crisis of disastrous proportions continues to increase. If we exclude the United States and the Soviet Union, the gap between world consumption and world production continues to grow. In other words, the rest of the world becomes daily more dependent on the United States to provide its food needs. This is no small responsibility and has more subtle policy implications than can be explored here. The world food crisis, though not signaling a new era of permanent scarcity as we thought it might in 1973, has had lasting, if yet unclear, impacts.

### ENERGY CRISIS

It is not likely that we will run out of petroleum soon. Major new discoveries in Mexico suggest there is enough oil for several more decades. World supplies, however, are very limited in relation to the growing demand and, though new discoveries will postpone the inevitable, the end of the petroleum age is inevitable. Moreover, the realization by oil-rich

countries that they have a scarce resource enables them to dictate the terms of trade. Those societies, like ours, find themselves addicted to high levels of petroleum energy consumption and now realize they have a very expensive habit. We have not yet demonstrated the political will for gradual withdrawal, so we will probably go "cold turkey" someday. Meanwhile, the cost of oil imports is adding to our trade deficit and increasing the significance of agricultural exports. Now not only farmers have a stake in the level of agricultural exports. Maintaining these export levels must be of higher priority on the national policy agenda than would be the case with low oil imports and no trade deficits. The energy crisis has other implications for agriculture.

1. Continued inflationary pressure on the general economy and thus on retail food costs.
2. Continued upward pressure on costs incurred by farmers—thus more potential for severe cost-price squeezes.
3. Differential impacts on the most energy-intensive aspects of agriculture—including irrigated production, grain drying, and heavy nitrogen-using crops—which in time could affect the location of production, factor mix, and the shape and makeup of the aggregate production function.
4. New initiatives and pressures for use of agricultural resources to produce energy, although there will be much disillusionment here and the prospects for substantive progress are unclear.
5. The cumulative impact of all of the foregoing factors on the organization of farm production and the structure of the sector.

## INFLATION

Inflation could be the single most significant—and dangerous—development of this decade. The effects are pervasive and not always immediately clear. The significance for agriculture is twofold: inflation affects agriculture, and agricultural and food developments affect inflation in the general economy.

Inflation in the general economy increases the cost of things farmers buy and reduces the purchasing power of net farm income. In the short term, inflation tends to increase the prices of inputs farmers buy more than the prices farmers receive. The question of whether farmers gain or lose in the longer run is less clear, and depends on the relative demand elasticities of what farmers buy and sell.

One of the more serious consequences of general inflation is the impact on land prices. Land price inflation is attractive to present land-

owners, especially those new purchasers who are highly leveraged and counting on repaying their loans with inflated dollars. Land inflation has also bailed out more than a few lenders. From a societal point of view, however, land price inflation is a major cause for concern. Resources are shifted from productive investments to land ownership. As income flows are capitalized into land values, the distribution of benefits of farm commodity programs shifts from farm producers to landowners. The impacts are uneven. New entrants face more difficulty in becoming landowners. Farmers and nonfarmers in higher tax brackets have a competitive edge in terms of what they can pay for land. Established owners of larger farms can afford to pay more than newer and small-farm owners, and so on. Moreover, to the extent that higher land prices are reflected in the justifications for higher price supports, we have the basis for a built-in inflationary spiral. These and other consequences of land price inflation must be addressed in the 1980s.

Inflation in the food system exacerbates the problem of inflation in the general economy. Food prices have risen more rapidly than the overall CPI in most recent years and thus have been a direct contributor to inflation. More important, food is a "bellweather" item that is very visible and affects the inflation psychology of the nation. Many union wage contracts have built-in cost-of-living escalators, and food is an important component of that index. Though farm-level prices are responsible for only a part of higher retail food prices, higher farm prices are transmitted through the system and fluctuating farm prices may even have a ratcheting effect on the general price level via wage contracts that are indexed up with the cost of living but not down.

The overall implications of inflation for agriculture need much more attention by agricultural economists than we have given them to date.

## EMERGENCE OF "FOOD POLICY" CONCEPT

The goals of traditional farm commodity policy, formulated in the 1920s and 1930s and modified in the decades that followed, were mostly oriented to improving the lot of the farmer. An underlying premise was that improving the wellbeing of farmers was one and the same as the public interest.

In recent years, we have come to realize that the accumulated results of past policies have brought us to a world much different from that of the 1930s. Farmers are relatively fewer and truly commercial farmers even fewer. Today many other actors influence the farm policy process. The goals have been broadened from

farm and commodity policy objectives to a set of societal objectives folded into what is now called "food and agricultural" policy. The change is more than cosmetic.

Food and agricultural policy is defined to include all those policies and programs which provide the economic and institutional framework within which the food and fiber industry serves the public interest. It is broader than traditional farm commodity policy. Food and agricultural policy starts with the premise that a basic purpose of the food system is to provide for the nutritional wellbeing of the population. The main objective is to assure adequate supplies of safe, wholesome food at prices that are affordable to consumers and yet provide a fair return to all necessary participants in the production and distribution process. Other objectives include an industry structure which promotes efficiency and innovation and which provides an equitable distribution of economic power and benefits. Also included are policies for use of land and water resources, protection and enhancement of the environment, and improving the quality of life in rural communities. Clearly these goals are sometimes in conflict and tradeoffs are required. Herein lies the case for a comprehensive food policy. Treating the many individual goals within one policy package can minimize the conflicts and inconsistencies and maximize the complementarities.

#### **BROADENING OF THE CONSTITUENCY OF AGRICULTURAL INSTITUTIONS**

The agricultural establishment is no longer the "good old boys" club of commercial agricultural interests. Though some people are still cynical about USDA's claim to be truly a "peoples' department," it is nonetheless true that the Department has embraced a broad new clientele having a legitimate interest in the functioning of the food and fiber system. Likewise, the state institutions have been affected by the emergence of advisory groups, challenges to traditional services, and new programs oriented to environmental concerns, nutrition education for the poor, urban youth, and alternative lifestyles. Actually this development goes hand in hand with the emerging concept of a broad food and agricultural policy.

#### **END OF DOMINANCE OF THE DOLLAR IN WORLD FINANCIAL MARKETS**

This development is very much a part of several other developments noted here, but it has significance in its own right. The direct impact has been to increase agricultural exports. When one looks at the longer term and indirect impacts, the net result is less clear. This development is closely interrelated with our grow-

ing interdependence with world markets, energy deficits and the flow of petro dollars, and domestic inflation. The differential strength of the dollar in relation to other currencies will have much influence on patterns of trade as well as the levels in the decade ahead.

#### **INCREASED INTERDEPENDENCE OF THE U.S. ECONOMY WITH THE WORLD ECONOMY**

This trend involves more than just the dramatic increase in our agricultural exports. Agricultural exports are certainly important and, though considerable fluctuation in the levels of exports is likely during the next decade, they have been and will remain very important both as a market for United States farmers and as an offset to our expensive energy imports. What is of greater long-term significance is the growing and pervasive interdependence of our economy with that of the rest of the world. It has implications for agriculture here and abroad. It also affects our work as economists. Many issues can no longer be examined effectively by analyses that focus primarily on domestic agriculture with the "rest of the world" treated as an appendage to the models.

#### **STRUCTURE OF AGRICULTURE**

While we were preoccupied with world food crises and energy crises, agriculture continued to change. When supply and demand were back in balance, we turned once again to matters other than how to increase production. We began to realize that the gradual but persistent year-to-year structural changes had added up to an agriculture today very different from that 30, 20, and even 10 years ago.

In the late 1970s we finally, as a nation, began to be conscious that the farm sector was no longer characterized by large numbers of modest-size farms. The nation began to worry officially about that fact. By 1977, only 50,000 farms produced more than one-third of the value of all production and the largest 200,000 farms produced nearly two-thirds of all production. The top 1 million farms accounted for more than 93 percent of all farm receipts. Thus, the remaining 1.7 million farms accounted for less than 7 percent of all receipts. These distributions have changed dramatically since as recently as 1960.

#### **INCREASED CONSCIOUSNESS OF INTERRELATEDNESS OF INDIVIDUAL POLICIES AND THEIR CUMULATIVE IMPACTS**

We are now more aware that policies and programs have unintended side effects. We

now also realize that we know too little about the cumulative impacts of numerous individual programs and policies. The emergence of requirements for comprehensive economic impact statements for policy actions is very significant and will influence policymaking in the future. It will be more difficult for single-interest groups to get programs adopted until secondary and tertiary impacts have been studied.

## DISCUSSION

Perhaps other developments also could be described as significant. For example, some people suggest that the turndown in real growth of research funding is one of the most significant and threatening developments of the 1970s. However, I see it as part of the dawning realization that as a society we cannot have everything—that we have to make some choices.

In fact, if I had to state one generalization that encompasses all of the foregoing points—a generalization as glib as calling the 1950s “the age of tranquility” and the 1960s “the decade of turbulence”—I would say that the 1970s was the decade of the “sobering of America.” It was in this decade that we finally accepted the facts that our frontiers were gone, our resources were limited, that there were limits to the abuse we could inflict on our environment without serious consequences, that not all our problems could be solved with bigger programs and bigger budgets, and that maximizing the near-term wellbeing of all the various special interests did not necessarily add up to maximizing the public interest. This unsettling but sobering confrontation with reality may come to be regarded by future historians as the single most important development of the 1970s, and will certainly condition the environment for agricultural policies and programs in the 1980s.

Despite all the difficulties of looking backward, predicting the significant developments of the future is harder. As in the 1970s, events in the 1980s will likely be affected by some “shocks” coming from unpredicted sources. Decades, however, represent a continuation of forces and interactions of forces already underway. Thus, the following developments can be predicted.

1. The structure, organization, and performance of agriculture—indeed of the entire food system—will be high on the nation’s policy agenda in the 1980s. Growing concern will focus on land price inflation, the ultimate distribution of costs and benefits of policies and programs once assumed to serve farmers, and the appropriateness of different policies to serve the very different needs of the several “populations” within the farm sector. I foresee that early in the 1980s, perhaps when the next farm bill is debated, we will begin to hear explicit reference to a “structure policy,” and some attempts certainly will be made to incorporate elements of such a policy into federal legislation. If we as economists want to be useful in this matter we had better get moving or the decisions will be made without our input.
2. Further maturing and refinement of the concept of a broad, integrative “food policy.”
3. Major concern and attention to land and water policies, with some further integration of them into the broader food policy framework.
4. Major attempts to resolve the energy problem.
5. The continuation of inflation and attempts to cope with it (including tight budgets and limited research funds).
6. Recurring food problems but no repeat of 1972-73 unless we forget the lessons of the past and, for short-sighted budget or political expediency, let our reserve program drift into disarray or mismanagement.

With respect to the Rudd and Breimyer articles, I believe that a discussant is one who challenges the biases of the discussee by testing them against his own biases. Rudd and Breimyer expose their biases. So do I. The reader can make comparisons and draw conclusions.

I do agree with Rudd’s point that, aside from some unique differential impacts, the developments of lasting significance, past and future, will be much the same for the South as for the nation. Perhaps that is the most significant development of all.