AGRICULTURAL POLICY

Consultation with the United States of America

Reproduced below, for the information of the Committee, is the text of the opening statement made by the representative of the United States of America at the consultation with that country.

"In introducing the presentation of US non-tariff measures for agriculture, I shall give a summarization somewhat different from that contained in the papers that are before you. There are four distinct groups of measures that stand out as the main segments of our policy: (1) The price support and market programmes mainly affecting commercial agriculture; (2) The Rural Development Programme designed primarily to assist the million and a half rural families with very low incomes, whose market share is relatively insignificant and who, therefore, need assistance in addition to that given by the price support and marketing programmes; (3) programmes for the use and conservation of resources; and (4) a complex of special services for agriculture such as farm credit programmes, education and research.

"It is difficult to say anything about the objectives of agricultural policy that is not commonplace. In industrialized countries a main objective of agricultural policy is to bolster or sustain incomes and living standards of the farm population, in order to contribute to general stability and prosperity; this is, of course, our objective as well.

"Much has been said and written about parity concepts and their application in agricultural programmes. Such concepts are also included in our legislation. While the terms 'parity of income' and 'parity prices', as used in our legislation, may be variously interpreted, it is quite clear that they imply the notion of farm incomes more nearly comparable to those prevailing in the more favoured segments of the economy. And this improvement is measured in terms of prices for commodities sold in relation to prices of commodities bought by the farmer.

"This may not be a very clear-cut way of defining an income goal, but it does indicate roughly what the objective is and how it is to be measured. Concessions to realism are to be found not only in the
avoidance of a precise quantitative definition of a desired 'parity of income' but also in the fact that the parity aimed at for prices is not a rigid 100 per cent; price supports actually range anywhere from 90 per cent down to approximately 60 per cent and, in the case of corn, now are linked to market price averages during recent past years. Incidentally, price supports in US agriculture cover commodities making up less than half the total value of all market sales.

"Still with reference to our policy in general I should also mention subsidiary goals that supplement and implement the income objective. We strive for a better conservation of resources and for the general adaptation of production to market requirements - which means future avoidance, and orderly liquidation, of surpluses.

"Price Support and Marketing Programmes

"This leads us to what I termed the first segment of our policy, the price support and marketing programmes. Our basic legislation with respect to farm price supports and production control was enacted in 1933 to meet the problems in agriculture created by the Great Depression, although that legislation was modified in 1938, a strong element of support was continued. In 1941 and 1942, after our entry into the war, price supports were raised to high levels and a statutory guarantee was given to the effect that these supports would be maintained for two years after the war. It was in this manner that my country tried to call forth, and continue, the extra production effort that seemed needed to fill the large national and international requirements of the war and postwar emergencies.

"When these emergencies ended, price supports at wartime levels were maintained despite repeated legislative and administrative efforts at adjustment. There was a reluctance to recognize that in a peacetime economy high prices would stimulate production beyond needs. Acreage control measures, inoperative during the war and postwar period, were implemented only after surpluses began to accumulate. Following this, acreages of some crops have been considerably reduced. As a result of the acreage allotment programmes, planted acreage between 1953 and 1958 was reduced by fully 25 per cent for wheat, and by over 50 per cent for cotton.

"Reduction in acreage did not, however, suffice to bring production into balance with requirements. In the first place, farmers had the possibility of shifting acreages to other crops that were not controlled, with the result that the problem of surpluses spread to other commodities. Second, increases in inputs were encouraged by support prices that did not adequately take into consideration the great technical progress in agriculture. Increased production became remunerative even at prices considerably lower than those that had obtained in earlier years.
"It is recognized that there is much greater elasticity in production when prices rise than there is when prices fall. Yet, if a lower price does not, in all circumstances, significantly reduce the output of a particular product, it does in any case decrease the incentive for further expansion. A lower price also tends to reduce expenditures on variable cost and input items. Lower prices, for example, do reduce the input of fertilizer on the more advanced commercial farms where fertilizer is used in near-optimum proportions. Higher input of fertilizer has been a major factor in the increasing output that US agriculture has been obtaining from a decreasing acreage.

"Be this as it may, it is now recognized that price supports must be reasonably related to production policy. If prices are to be kept high, thereby stimulating output, stricter production controls are necessary. If production policy is to be less restrictive, then there must be greater flexibility in the price system so that support prices can be adjusted as necessary.

"Our rice support and marketing programmes, in addition to support prices implemented by the purchase and loan transactions of the Commodity Credit Corporation, include other measures as well. We have deficiency payments for wool and producer payments for sugar-products which are on a net import basis. We make producer payments for cropland taken out of production and placed into a Conservation Reserve or Soil Bank - serving at once the goal of long-term conservation of resources and the goal of downward adjustment of current crop production. For some commodities, particularly perishables, we have marketing agreements or marketing orders, largely intra-industry affairs, which provide a measure of price support by concerted industry action; this support is accomplished through regulation of marketing. In some of these cases, as well as for certain other commodities, some financial assistance from government funds is provided for diversion of surpluses into such channels as the school lunch programme and donations to the needy.

"Our support programmes embody certain subsidiary measures to assure their effective operation. These currently include export subsidies on cotton, feed grains, rice, and wheat, including flour, as well as quantitative restrictions on the importation of some of the commodities for which there are support programmes. Finally, there is our programme of foreign assistance and surplus disposal under which commodities are exported on special terms, mostly to low-income, less-developed countries.

"The documentation that is before you gives brief references to measures taken which should tend to reduce the future need for non-tariff protection or support. I have mentioned such measures in what I said a while ago. Acreages for some of the crops for which price supports are mandatory have been reduced to the minimum levels permitted by existing legislation. Payments to farmers for putting land into the so-called conservation reserve, under application of appropriate
conservation practices, have taken an estimated 23 million acres out of crops in 1959. This is about 6 per cent of our total crop land. Moreover, price support levels have been significantly reduced: from 1953 to 1959 price supports were reduced for wheat from 90 per cent of parity down to 75 per cent; for rye from 85 per cent to 60 per cent; for corn from 90 per cent to 66 per cent; for butter fat and manufacturing milk from 90 per cent down to 75 per cent; and so on.

"A variety of measures are in effect to increase the consumption of agricultural products, through school feeding programmes, programmes for the needy, and specific market development work both at home and abroad. We also have an extensive programme of scientific research calculated to develop new industrial uses for agricultural commodities.

"Under our surplus disposal legislation, the so-called P.L.480, we believe that we have had reasonable success in complying with a basic principle: not to displace ordinary commercial exports, either our own or those of other friendly countries; in other words, to dispose of our surpluses for additional consumption. An effort is being made to promote economic development in less-developed countries and thus, at once, to create and satisfy additional demand that would not exist without this programme. This effort has been further strengthened by the recent 'Food for Peace' initiative under which the United States proposes to co-operate with other countries in further developing new markets and additional consumption of farm products so that the abundance that exists in some commodities and in some parts of the world can be more rationally used to alleviate need elsewhere.

"We know that, despite these efforts, we have not been fully successful in bringing about adjustments that seem to be required to get agriculture back on a sound economic basis. A fundamental solution of the income problem in agriculture can come only through further improvement in the efficiency of resource utilization. Such improvement is tantamount to a further reduction in the resources employed to bring about a given level of output. For all practical purposes, this means a further reduction in the farm population.

"Since 1947, the proportion of farm residents in our total population has declined from 18 per cent to 12 per cent. In absolute terms, the decline is even more startling since our total population, as you know, has grown rapidly in that period. Over the past 13 years total population in the United States has increased by 34 million while the farm population has decreased by 6 million. This development has been the result of changes in the economic and social structure of the country. However, the Government's policy of promoting growth, while at the same time preserving stability, has played its part, along with the fact that the farm people retain a free choice to make use of the opportunities that general economic growth offers. Despite its
extraordinary extent, the movement away from the farm has not been sufficiently extensive to adjust agricultural output to requirements, nor to bring agricultural income up to the level prevailing in other segments of the economy. This is perhaps a measure of the dimensions of the problem that agricultural policies face in many areas.

"Before I leave our programme for commercial agriculture I would specifically like to refer to the issues that have arisen with regard to the type of farm support called deficiency payments, or producer subsidies. We have taken note of the advocacy of producer subsidies on the part of the four experts who wrote the Report on Trends in International Trade. The experts indicated that, if there must be agricultural support (protection as well as stabilization), producer subsidies are generally to be preferred in place of direct support prices. This preference was, of course, based upon the argument that total demand will be greater with a system of producer subsidies than with a system of support prices; the former permits free price formation in the markets, which benefits consumers and increases consumer demand. And since total demand will be greater with the deficiency payments system this system requires a smaller degree of protection in order to achieve a given income goal for agricultural producers.

"On the theoretical plane this argument is unassailable. I would like to acknowledge specifically that the economists of the Department of Agriculture are well aware of it. I say that because I think that our doubts about a generalized application of producer subsidies in the United States has often been misinterpreted. The difficulties that we see arise in the practical consideration of the varying circumstances in different countries.

"In the first place, the advantage of free market price formation, in its possible effect in stimulating demand, is largely lost in the case of commodities with a low price elasticity of demand. A large share of agricultural production on which we have price supports falls into this category; to this extent, the argument on the consumption side in favour of deficiency payments is weakened.

"Second, on the production side, deficiency payments induce excessive supply just as much as does any other system of price support. Hence there re-appears the problem of how to deal effectively with restricting output stimulated by such producer payments. We have had only limited success with efforts to obtain acceptance of production controls stringent enough to be effective. Yet in the case of a deficiency payments system in a surplus producing country like the United States, production controls must be completely effective if a breakdown of the system is to be avoided.

"We must consider whether there would be any likelihood of dependable and consistent annual appropriations running into billions of dollars to be paid directly and visibly to a vocational group
numbering about 12 per cent of the voting population. And we must contemplate what might happen to domestic and world market prices if this system were to break down, either because of an unwillingness of the Congress to continue to support it by such large payments, or because of an impossibility of controlling production rigidly to the extent required to prevent excessive output.

"It is obvious that the virtues and drawbacks of the deficiency payments system vary a great deal, depending upon whether a country is a small producer or a large producer; whether it is an agricultural importer or an agricultural exporter; whether its products have a high or a low price elasticity of demand; and whether or not the direct and clearly visible subsidization of a segment of the population would command sufficient long-term support on the part of the budget-making authorities.

**The Rural Development Programme**

"Programmes to assist the low-income farmer are doubly necessary because of the great importance of the share of these farms in our total farm population. There are a million and a half low-income farmers who, it is estimated, receive from all sources of income less than $1,000.00 a year. These farmers have been almost untouched by price support and production control programmes. Their market share is small. The technological revolution has largely passed them by. For these farmers we have the Rural Development Programme. This programme aims primarily at improving the economic status of small inefficient farmers by providing opportunities to shift to other occupations or to take up supplementary work outside agriculture without having to leave their farms. The movement of industry to rural areas is encouraged and abetted as a means of providing greater employment opportunities.

**Conservation of Resources and Special Services for Agriculture**

"Finally, I come to the third and fourth segments of our farm policy, which are programmes for the use and conservation of resources, and a complex of special services for agriculture such as farm credit programmes, education, and research.

"Our policy has encouraged long-term soil and water conservation. Local leadership is provided by soil conservation districts organized and controlled by the farmers. These districts develop conservation programmes to fit local conditions and receive technical assistance in the conduct of such programmes from the Soil Conservation Service, the Forest Service and other agencies. Farmers are assisted, through payments, grants-in-aid, and services, in carrying out approved soil and water conservation measures. We also have a Conservation Reserve Programme in which farmers voluntarily enter into contracts with
withdraw land from crop production for periods up to ten years. The land is established in permanent vegetative cover. This programme supplements our regular soil conservation measures and assists in our general policy of reducing the total volume of farm production, thus leading to a general improvement in farm prices.

"The special services for agriculture in respect of farm credit, education, and research are, for the most part, historic services which have a long tradition in most developed countries. Such programmes are not without effect upon agricultural output and, therefore, do have a bearing upon questions related to productive efficiency, the emergence of unsaleable surpluses, and the like.

"Attention is sometimes called to the strength of efforts on the part of governments to develop and promote intensive research, paid from public funds, leading to improvement in the production, marketing, and utilization of agricultural products. The point has been made that the results of this research are much more effective in the stimulation of production than they are in the stimulation of consumption, and that these techniques are placed cost-free at the disposal of farmers who already produce more than is saleable in regular commercial markets.

"This is a problem that requires consideration. It should be recognized, however, that research contributes to increased efficiency of production as well as to increased volume of production. Thus, in commodities having an elastic demand, consumption as well as production may be stimulated. Research addresses itself to the basic long-term need of humanity for knowledge, including knowledge as to how our material and cultural requirements can be filled with less effort so as to provide a greater diffusion of the amenities of life. The question must, therefore, be weighed in this context as well. But I thought I might mention the problem in order to point up once more the extraordinary range of the issues that arise when we contemplate, in greater depth, the seemingly narrow problem of agriculture.

Conclusion

"Mr. Chairman, I hope I have given a general idea of the various categories of measures which United States farm support policy employs. I believe the Committee will find, in the papers we have submitted in preparation for these consultations, all the information required for an understanding of our agricultural policies and support measures. As we go through the various chapters of our submission I shall be glad to answer questions and provide additional information where that is desired."