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Alternative Policy Tools for U.S. Agriculture

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ALTERNATIVE POLICY TOOLS FOR U.S. AGRICULTURE

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Foreword

This document summarizes policy tools in U.S. agriculture. In the past 50 years, since the Agricultural Adjustment Act of 1933, a wide array of farm programs has evolved. It is important for the public to recognize that, due to numerous factors, wide variations in agricultural production create income instability for farmers and ranchers as well as uncertainty in supplies and prices for processors and consumers. Consequently, farm policy is an important function for the U.S. government. Individually, farmers and ranchers are not able to control the numerous variables that affect agriculture. The form and degree of government involvement in policy is the subject of considerable debate.

In this document, government policy tools impacting agriculture are individually reviewed, with regard to implementation, procedures, and the impacts on prices and supplies. The purpose is not to advocate particular farm programs or policies, but rather to summarize the array of techniques and methods which have been utilized or considered for improving economic equity and stability in agriculture. This publication should be a useful guide and reference for those individuals or organizations involved in agricultural and food policy development, for those considering the broader domestic and international dimensions for U.S. agriculture, or for those who are interested in the alternatives that could be used singularly or combined.

Keywords: Domestic Farm Policy, Commodity Programs, International Trade Policy, Market Development Programs

Introduction

Agricultural policy is a broad term used to encompass government programs that directly affect the prices and incomes received by farmers. In developing agricultural policy, producers and agribusiness leaders, their organizations, and government policy makers must sort through a myriad of potential policy tools.

Each policy tool or government program is intended to deal with a specific farm problem in a specific way. For example, target prices raise farm income through direct payments from the government while support prices raise income by setting a floor on market prices. Some policy tools are more effective than others in accomplishing the objectives for which they are intended. For example, quotas that dictate the volume a producer can market are more efficient than acreage reduction programs in controlling production. Often policy tools have side effects that need to be considered before selections are made. For example, when price supports are set above world market prices, exports fall.

This publication provides descriptions of individual policy tools that most directly affect agriculture. The report is designed to be a comprehensive list of those policy tools that are used currently, have been used in the past, are used in other countries, or have been proposed for use in the United States. These tools are divided into four general categories:

- **Domestic farm programs** -- designed to raise or stabilize farm prices and incomes.
- **International trade policies** -- designed to create a more favorable trading environment for farm products.
- **Marketing programs** -- designed to improve farmers' position in domestic and foreign markets.
- **General economic policy tools**, that have had a significant impact on the prices received and paid by farmers.

A single-page summary describes each policy tool with respect to the following:

- The policy area in which the tool falls.
- What the policy tool is.
- The primary objective of its use.
- When it has been used.
- Experience with its use.
- Consequences of its use.

The following publications offer comprehensive discussions of the policies described here.

Armbruster, W. J., D. R. Henderson and R. D. Knutson. *Federal Marketing Programs in Agriculture: Issues and Options*. Danville: The Interstate Printers & Publishers, Inc. 1983.

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Policy Tool: **Marketing Quotas (and Certificates)**

Policy Area: **Domestic Farm Policy, Supply Control**

What It Is: A marketing quota is a mandatory mechanism which determines the quantity of a commodity that can be marketed. The national quota, set by the Secretary of Agriculture, is based on expected domestic and export demands. It is usually below normal production levels but high enough to satisfy the Secretary's estimate of expected market needs. Each producer is given a portion of the national quota based on his past production. Marketing quotas are the most effective means of controlling production.

Objective: To restrict production by controlling the quantity farmers are allowed to market.

When Used: Since marketing quotas are mandatory for all producers growing the quota crop, a two-thirds majority of farmers voting in a referendum must approve the quota. Once approved, the quota is effective for only one crop year. To be continued for a second year, it must be approved, in a second referendum. Farmers historically have approved a quota only when a crisis existed. Quotas are generally used in conjunction with relatively high price supports to encourage producer acceptance. Marketing quotas have been used regularly for peanuts and tobacco.

Experience: Marketing quotas have effectively reduced production and stock levels but only when the national quota was set at levels consistent with demand at politically acceptable prices.

Consequences: ● Once a quota is in place, there is pressure to increase the national quota, thus con-
tracting its purpose.
● Like other supply control programs, marketing quotas usually reduce the vol-
ume of exports for the quota crop.
● Marketing quotas are more efficient in reducing supply and raising price than
acreage reduction programs because there is almost zero slippage. (Slippage is
that portion of reduced acreage which does not result in correspondingly lower
production; e.g., due to removing the poorest land.)
● Marketing quotas are associated with low treasury costs unless the quota is so
high that CCC stocks accumulate.
● Because of the annual referendum requirement, marketing quotas create
uncertainty for producers. This could be changed by legislative action making
quotas effective for 4 years.
● Marketing quotas tied to a land base tend to be capitalized into the land and
result in increased land prices.
● Single crop marketing quotas for major crops (e.g., wheat) adversely affect
prices of crops planted on the idled acres (e.g., corn and sorghum).
● Increased prices for commodities increase cost of production for livestock pro-
ducers and food prices over time.

Policy Tool: Acreage Reduction (Set-Aside and Diversion)

Policy Area: Domestic Farm Policy, Supply Control

What It Is: Acreage reduction consists of an acreage set-aside and/or acreage diversion that is generally voluntary. Acreage set-aside programs require that participating farmers idle a percentage of their crop base acres to be eligible for other program benefits, while acreage diversion programs pay producers a given amount per acre to idle a percentage of their base acres. A farmer's base acres are determined by the production history of the crop.

Objective: To reduce the quantity produced and thus the supply of a given commodity.

When Used: Acreage set-asides and diversions were used extensively during the 1960s and intermittently since 1977. These programs are generally used when prices are depressed due to a build-up of stocks.

Experience: Acreage reduction programs have been only modestly effective in reducing supply over the long run. These programs have usually been used when high loan rates, or target prices, or even temporarily high market prices encourage producers to increase production. Except for cotton and rice, acreage reduction programs have usually had relatively low producer participation. To encourage participation, diversion payments to supplement other farm program benefits may be added.

Consequences:

- To the extent that they reduce production, acreage reduction programs reduce supply, stocks, and raise prices domestically.
- Effective acreage reduction programs reduce the volume of supply available for export.
- Slippage, reduces the effectiveness of the program.
- Diversion programs can result in large treasury outlays.
- Payment limitations and offsetting compliance discourage participation by large-scale operators who farm large acreages for several landlords.
- Failure to require cross compliance encourages producers to participate for one crop but not for others--reducing the effectiveness of the overall program.
- Benefits from acreage reduction programs get bid into the price of land.
- Acreage reduction programs tend to restrict ability of farmers to shift acreage in response to changes in relative crop prices.
- Increased prices for commodities increase cost of production for livestock producers and food prices over time.

Policy Tool: Long-Term Land Retirement

Policy Area: Domestic Farm Policy, Supply Control

What It Is: Long-term land retirement is a multiple year voluntary program that removes cropland from the production of farm commodities.

Objective: To remove from production cropland that is devoted to crops in surplus or is subject to erosion.

When Used: The program was first authorized in the Agricultural Act of 1956 as the Soil Bank program. In 1965 Congress re-established a land retirement program and called it the Cropland Adjustment Program. Funding was authorized for continuation of a long-term land retirement program in 1970. Land retirement is acceptable to consumers and producers only when surplus stocks and low prices are a chronic problem. If needed, the land can readily be put back into production, as it was in the early 1970s.

Experience: Land retirement programs removed large quantities of cropland from production in the Great Plains. Cropland under long-term agreement was put into a conserving use (usually grassland) and was considered a national food reserve. Only the least productive lands were enrolled in the program. Because of the regional concentration of enrollment, the program was blamed for the demise of numerous rural communities. Sealed bids for long-term land retirement can be used to remove cropland from production without over- or under-paying operators to remove their land.

Consequences:

- Long-term land retirement is a supply control and conservation strategy that costs less than paying storage and interest for grains already produced.
- Long-term land retirement programs can adversely affect local agribusiness and rural communities.
- Treasury costs are lower than they would be for annual diversion of the same acreage for the same number of years.
- Increased prices for commodities increase production costs for livestock producers and food prices over time.
- Land retirement can be used to encourage conservation of cropland and enhance wildlife preservation practices.
- Long-term land retirement reduces farmers' flexibility.
- Retired land, properly cared for, results in greater productivity when put back into use, thus possibly exacerbating the excess supply problem.
- Slippage is generally high because least productive land is removed from production. Slippage may be reduced somewhat if whole farms are removed from production.

Policy Tool: Acreage Allotment

Policy Area: Domestic Farm Policy, Supply Control

What It Is: Acreage allotment is a mandatory mechanism to reduce quantity supplied. Acreage allotments require that producers plant within a specified amount of land. The number of allotment acres for each farmer is set at a given percentage of the farmer's production history. The percentage is set to achieve the desired reduction in production and thus in quantity supplied.

Objective: To reduce the quantity produced and thus the supply of a given commodity.

When Used: Acreage allotments were used extensively during the 1950s and 1960s for the basic commodities. Allotments still exist in tobacco and for peanuts eligible for price supports. Allotments have also been used as a means of allocating target price benefits (e.g., with rice from 1976 through 1981).

Experience: When acreage allotments were used alone (in the absence of marketing quotas) farmers responded by farming the allotment acres more intensely, thus raising yields. The result was a tendency for production to return to pre-allotment levels, therefore necessitating further restrictions on allotment size. In some commodities, such as tobacco, marketing quotas were imposed to obtain firmer control over production.

Consequences:

- Acreage allotments raise domestic prices by reducing production and supply.
- Benefits from acreage allotment programs are bid into the price of land and/or allotments.
- Acreage allotments restrict ability of farmers to shift acreage in response to changes in relative crop prices.
- When allotments are imposed on one crop, surpluses tend to arise in other crops as farmers utilize non-allotment acres to produce those other crops. Thus allotments are often imposed on those additional crops.

Policy Tool: Payment in Kind (PIK)

Policy Area: Domestic Farm Policy, Supply Control

What It Is: Payment in kind is an acreage diversion program with the diversion payment in commodity rather than in cash.

Objective: To reduce both production and stocks of grains in the farmer owned reserve and cotton in the CCC loan.

When Used: Payment in kind was used in the early 1960s for one year; in 1983 for wheat, cotton, corn, sorghum, and rice; and again in 1984 for wheat. The program has been used when government controlled stocks reach such unacceptably high levels that a PIK program is feasible.

Experience: PIK is one way to reduce stocks controlled by the government and to move these stocks out of government storage. The result is an overall reduction in stocks and an increase in domestic prices. Problems occur when the government is required to pay out more PIK commodity than it owns, as was the case for cotton and rice in 1983. A decision that PIK commodities were not subject to the payment limit encouraged large volume producer participation. Question remains, however, regarding the legality of this decision.

Consequences:

- PIK provides an off-budget method for paying producers to divert cropland.
- PIK increases domestic prices and food costs while reducing stocks.
- PIK helps maintain market supplies while curtailing production which results in a price stabilizing effect.
- Program effectiveness in increasing prices depends on farmer participation, slippage, and initial level of stocks.
- PIK reduces the supply available for export.
- Local communities, agribusiness firms, and livestock producers are adversely affected if signup is high.
- Instead of adjusting excess resources out of crop production, PIK's artificially high prices may actually encourage them to stay.

Policy Tool: Commodity Credit Corporation (CCC) Loan

Policy Area: Domestic Farm Policy, Price Stabilization

What It Is: The Commodity Credit Corporation (CCC) makes nonrecourse loans at established loan rates to farmers for wheat, feed grains, cotton, sugar, wool, tobacco, and honey. The loan, plus interest and storage, can be repaid within 9 to 12 months and the commodity sold on the cash market. If it is not profitable for the farmer to repay the loan even after 9 to 12 months, the CCC accepts the commodity in full payment of the loan. Commodity loans are frequently referred to as a price support since national season average prices generally do not fall below the loan rate. Local prices, on the other hand, can fall below the loan for part of the marketing year.

Objective: To add price stability to the market by releasing CCC stocks when prices were high and withdrawing stocks from the market when prices were low. A second objective was to encourage orderly marketing of commodities throughout the marketing year by preventing a market glut at harvest.

When Used: The CCC loan program has existed continuously since 1938 for cotton, wheat, and feedgrains. During World War II, the loan rates for basic commodities were set at 100 percent of parity to encourage production of crops already in surplus and to encourage exports. In other years, the loan rates were set low to avoid encouraging production.

Experience: CCC loans were effective at stabilizing prices of feed grains during the 1960s when the price of corn was bounded by the loan rate and the CCC release price (110 percent of loan). At various times political pressure has caused loan rates to be set above equilibrium market prices; as a result (a) the loan rates acted as a supply incentive for producers, (b) the CCC acquired large stocks of grains and cotton, and (c) the volume of exports declined as commodities were priced out of the world market.

Consequences:

- Loan rates with reasonable release levels act as a *price stabilizing force in the market* and thus reduce price risk for producers and lead to greater production.
- The CCC loan program extends the marketing period for producers 9 to 12 months.
- The CCC loan reduces price risk for farmers thus encouraging excess resources to remain in agriculture.
- High loan rates can effectively price our commodities out of the world market necessitating an export subsidy or direct aid to export surplus CCC stocks.
- Loan rates based on the cost of production tend to increase without regard to the marketing clearing price and thus can become a production incentive.

Policy Tool: Farmer Owned Reserve (FOR)

Policy Area: Domestic Farm Policy, Price Stabilization

What It Is: The farmer owned reserve is a 3-year CCC loan for wheat and feed grains. The Food and Agriculture Act of 1977 established the FOR as a 3-year extension of the CCC loan after grain had been in the regular loan for 9 months. Reserve stocks remain in the producers hands until the Secretary of Agriculture authorizes release.

Objective: To stabilize grain prices and provide producers a longer time period to sell their grain. A secondary objective was to establish a food reserve of grains, thus stabilizing grain supplies and making the United States a more dependable supplier.

When Used: The FOR has been in use since 1978 for wheat and feedgrains. The program was modified in 1980 to allow direct entry, thus avoiding the 9 months in the regular CCC loan. In addition, producers were given a direct entry loan price higher than the regular loan rate in 1980, 1981, and 1982. Stocks in the reserve are eligible for release when cash prices reach a level determined in advance by the Secretary of Agriculture.

Experience: The FOR attracts large quantities of stocks when the entry price is set above the equilibrium market price. Since its inception in 1977, corn prices have reached the FOR release level twice. When that happened corn stocks were released and prices stabilized at the release level. Research has shown that the FOR reduces the quantity of stocks held by the private sector and causes season average prices to be at either the entry price or the release price depending on the supply-demand balance.

Consequences:

- FOR often results in the accumulation of stocks resulting in substantial storage and interest costs.
- FOR provides farmers 3 years to sell their grain out of the reserve at the release level price.
- Political pressure groups attempt to set the FOR entry price above equilibrium market price, thus creating, in effect, an income support program.
- In the face of declining export demand, there are no provisions to reduce the FOR entry or release price.
- FOR works best when there is a relative supply-demand balance, thus allowing prices to move in a range between the entry loan rate and the release price.
- High loan levels and release prices encourage foreign production and discourage U.S. exports.
- FOR supports prices only when producer participation is high and adequate storage is available.

Policy Tool: Target Prices and Deficiency Payments

Policy Area: Domestic Farm Policy, Income Support

What It Is: Deficiency payments are paid to farmers to make up the difference between a price determined to achieve a politically acceptable income level (target price) and the average market price. Deficiency payments are made on each farm's actual production acres and farm program yield. The farm program yield is based on each farm's yield history. Target prices were set initially to reflect an average cost of production.

Objective: Deficiency payments were initiated to raise and stabilize farmer incomes to the level of the nonfarm population, while allowing farm prices to be competitive in the export market.

When Used: Target prices were authorized for cotton in 1970 and for cotton, wheat, corn, sorghum, and oats in the Agriculture and Consumer Protection Act of 1973. Deficiency payments are paid for wheat and feed grains if the average cash price in the first 5 months of the marketing year is less than the target price. In the case of cotton, the deficiency payments are made if the average cash price for the calendar year is less than the target price. The payment rate is the difference between the target price and the relevant average price received by farmers or the target price and the loan rate, whichever is smaller.

Experience: Initially, target prices were set to reflect changes in the cost of production and yield. Much debate ensued over what constituted the cost of production. A 1977 change in the target price formula removed the possibility of reducing target prices to reflect yield increases. The 1981 farm program set target prices for cotton, wheat, and corn for 1982-85 without regard to inflation, crop yields, or production costs. Excess production and high government costs resulted.

Consequences:

- Target prices set above market clearing levels stimulate production, reduce market prices, and thereby reduce food costs.
- By reducing market prices, target prices allow U. S. farm products to be more competitive in the world market while supporting farm income, e.g., an implicit export subsidy. This gives them a major advantage over support prices for raising producer income.
- Arbitrarily setting target prices above the expected market price can result in large treasury outlays.
- Deficiency payments provide income support up to \$50,000 to large-scale producers and little support to small-scale operators because payments are based on production.
- Deficiency payments reduce income risk for producers and increase their ability to obtain financing.

Policy Tool: Disaster Program

Policy Area: Domestic Farm Policy, Income Support

What It Is: Low yield and prevented plantings payments are paid to producers who, through no fault of their own, are unable to plant their crop or harvest a normal yield.

Objective: To reduce yield and planting risk faced by producers by providing them a relatively free (program compliance necessary) crop insurance program.

When Used: Disaster payments were first authorized by the Agriculture and Consumer Protection Act of 1973. Disaster payment benefits were available from 1973 to 1981 to producers who were in compliance with other program provisions. Low yield payments were made to producers who were prevented from harvesting less than 66 percent (75 percent for cotton) of their normal yield. The provisions of the disaster program were dropped in 1982 to reduce government costs and encourage participation in the FCIC all-risk crop insurance.

Experience: The disaster programs were very expensive and encouraged expanded production of crops in high risk areas. Low yield and prevented plantings payments were received mainly by dryland producers in the Great Plains and producers in the Delta States.

Consequences:

- High treasury costs were associated with disaster programs.
- Disaster programs provided producers income assistance when they needed it the most, namely, after a natural disaster.
- Availability of the disaster program increased producer participation in voluntary acreage reduction programs.
- Disaster programs encouraged the production of high risk crops in low rainfall and floodplain areas and the use of marginally productive land.
- In latter years, disaster payments were subject to a \$100,000 payment limitation, thus discouraging program participation by large-scale operators.
- Benefits from the program were bid into the market value of marginally productive, high-risk cropland.

Policy Tool: Federal All Risk Crop Insurance (FCIC)

Policy Area: Domestic Farm Policy, Income Support

What It Is: Federal all risk crop insurance is a subsidized low-yield insurance program for farmers.

Objective: To provide federally subsidized crop insurance to producers unable to obtain adequate crop insurance on their own; also to replace the low-yield and prevented plantings disaster program for grains and cotton with an insurance program available to all producers of major crops.

When Used: FCIC for wheat was first authorized under the 1938 Federal Crop Insurance Act. Federal crop insurance was available only for wheat from 1938 through 1941 when it was expanded to cotton. The program was suspended in 1943 because of low producer participation but revived in 1945 with a reduction in counties insured. After 1948 the program was extended to more counties and crops, including vegetables and fruits. The program was substantially modified in a 1980 farm bill to provide a 30-percent federal cost subsidy. In 1981 the program was expanded to all counties in the United States and to most major crops.

Experience: Federal crop insurance has not garnered high levels of producer participation. Participation has been the highest in high-risk, nonirrigated, low-rainfall areas. Problems have been encountered in developing an actuarially sound premium structure and in adequately marketing the program to producers. Experience indicates FCIC has a high cost of administration relative to commercial insurance.

Consequences:

- Limited acceptance by farmers leads to adverse loss experience.
- Low participation by producers results in high loss ratios and high treasury costs.
- The program provides more extensive coverage than commercial hail insurance at subsidized rates.
- High premiums discourage widespread producer participation and low participation requires high premiums to make the program actuarially sound.

Policy Tool: **Income Insurance**

Policy Area: **Domestic Farm Policy, Income Support**

What It Is: Income insurance would be an expansion of the FCIC all-risk crop insurance. It would insure both a producer's yield and price risk; i.e., total crop receipts.

Objective: To stabilize farm incomes from the adverse effects of natural disasters and low prices and thus replace all supply control and price support programs with a comprehensive farm income insurance program.

When Used: An income insurance program for farmers has not been used in the United States. The 1981 farm program authorized an investigation into the feasibility of a federally subsidized income insurance program for farmers.

Experience: None

Consequences: ● An actuarially sound farm income insurance program may reduce current treasury outlays.

● Producers' premiums would likely be unacceptably high, and since the policy replaces a "free" risk protection program, producers would likely oppose the program.

● Participation by farmers would likely be very low, as is the case with federal crop insurance.

● Political pressure to reduce premiums below their actuarially sound levels would be substantial. Premiums set too low would lead to excessive government costs and could cause the program to act as a supply incentive even in the face of surpluses.

● The program is flexible enough to be used for both expanding and contracting supplies and for shifting production (acreage) from one crop to another.

● The program would discourage production in high risk areas.

● Research indicates that the high correlation between crop prices and yields among regions would cause the program to fail since losses caused by either low yields or low prices would be widespread and catastrophic for the treasury.

Policy Tool: Cost Sharing Programs

Policy Area: Domestic Farm Policy, Income Support

What It Is: A cost-sharing program is a means by which the costs of farm programs are shared between producers and the government. The producers' share of the cost is covered through a checkoff per unit of product marketed. The magnitude of the checkoff per unit depends on the degree of cost sharing -- 50-percent cost sharing would involve a higher checkoff than if producers shared only 30 percent of the cost -- and the size of the commodity surplus. The higher the checkoff, the lower the effective level of price support for the commodity.

Objective: To make the level of income support more responsive to the magnitude of the surplus and to help defray a portion of government program costs.

When Used: The 1981 farm bill provided a cost sharing program for tobacco. A 1982 farm bill amendment provided for a cost sharing program in dairy. Cost sharing programs were implemented for both tobacco and milk, but only after a serious political threat that the whole government price support program for these commodities might be withdrawn.

Experience: It is too early to tell how either program is working. Producer resistance has been substantial to the "tax" under each program. However, with high government costs for virtually all commodity programs, producer cost sharing could be a required feature of all future farm policy legislation.

Consequences:

- The checkoff provides an automatic adjustment of the level of income support for farmers as government expenditures rise.
- The political hassle of adjusting income support downward when supports are initially set too high is avoided.
- The checkoff reduces government costs and, thereby, increases the political acceptability of farm programs by urban congressmen and taxpayers.
- The checkoff makes the level of income support more responsive to market forces.

Policy Test: Cost Sharing Programs
Policy Area: Domestic Farm Policy, Income Support

When the government provides an income support program to farmers, the cost is shared between producers and the government. The magnitude of the cost is covered through a checkoff per unit of product marketed. The magnitude of the checkoff per unit depends on the level of the cost. The higher the cost, the higher the level of the checkoff. The higher the checkoff, the lower the effective level of price support for the commodity. To take the level of income support more responsive to the magnitude of the cost, the government should consider a checkoff program.

INTERNATIONAL TRADE

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Policy Tool: GATT (General Agreement on Tariffs and Trade)

Policy Area: International Trade, Trade Barrier Reduction

What It Is: GATT is a multilateral United Nations treaty among more than 80 governments, including the United States. GATT contains a code of principles and provides a forum for consultation and dispute settlement. Five principles govern GATT:

1. Trade must be nondiscriminatory.
2. Domestic industries should be protected mainly by tariffs as opposed to nontariff barriers (quotas).
3. Tariffs agreed upon are binding, with provision for compensation if violated.
4. Consultations are provided to settle disputes.
5. GATT procedures may be waived on agreement of the members with provision for compensation. Barriers in existence when GATT was established are legal until negotiated away.

Objective: To liberalize and expand trade among nations through negotiated reductions in trade barriers. These actions are designed to prevent the development of rounds of retaliatory trade barriers.

When Used: GATT came into existence after World War II. Trade barrier reductions have been accomplished in three rounds of negotiation -- the Dillon Round (1960-61), which provided assured European Economic Community (EEC) duty-free entrance for soybeans and cotton; the Kennedy Round (1963-67), which resulted in tariff reductions on a wide range of farm products; and the Tokyo Round (1973-79), which reduced nontariff barriers on a limited number of commodities.

Experience: While experiencing substantial initial success, the most difficult problems that remain in securing trade barrier reductions are those rooted in the domestic farm policies of the participating countries. Classic examples include the EEC Common Agricultural Policy (CAP) and U.S. price supports for dairy products.

Consequences:

- GATT increased overall trade among nations, thus expanding opportunities for exports.
- GATT provides a forum for settling disputes.
- GATT establishes a code of fair trade.
- GATT restricts the latitude of the participating countries in subsidizing exports and engaging in other practices. Thus in the short run GATT places participants at a disadvantage.
- It is hard to enforce the GATT principles against the major country members.

Policy Tool: Monetary Export Subsidies

Policy Area: International Trade, Export Subsidies

What It Is: Monetary subsidies to exporters are direct dollar subsidies per unit of commodity sold.

Objective: To make the U.S. commodity price competitive in the world market and thus expand markets.

When Used: Export subsidies are necessary to export agricultural commodities when U.S. price supports are above world prices. Overt monetary subsidies of exports are seldom made because they clearly violate the provisions of GATT. Under those provisions the United States could be required to pay damages to the countries injured by such subsidies. EEC subsidies do not violate GATT since they were in place as a part of the Common Agricultural Policy at the time GATT was negotiated. The last major U.S. direct monetary export subsidy was in the 1972 Russian grain deal when a subsidy of approximately \$.60 per bushel of wheat was provided. Political considerations are obviously involved in the use of such subsidies.

Experience: Export subsidies are overt methods of subsidizing exports. As such, they are readily determined to be a violation of GATT and invite retaliation from competitors if they increase market share. There is more pressure to use export subsidies when the dollar is overvalued with respect to other currencies.

Consequences:

- The effective export price is lowered to make U.S. commodity prices competitive in the world market. The result is to expand exports.
- Monetary subsidies run a high risk of inviting retaliation.
- Monetary subsidies run a high risk of violating GATT.
- CCC stocks are reduced.
- Long-run price relief is provided for U.S. producers in the face of low world prices.
- Monetary subsidies can be expensive in terms of both money and image.

Policy Tool: Two-Price Plan

Policy Area: International Trade, Export Subsidies

What It Is: A two-price plan discriminates between the domestic and the foreign market by charging a higher price for domestic sales than for foreign sales. Exports are, therefore, indirectly subsidized by the higher domestic price.

Objective: To raise the level of producer returns while preventing the accumulation of large surplus commodity stocks.

When Used: Before World War II and the negotiation of GATT, two-price plans were used extensively to support farm income. Since the negotiation of GATT, the operation of two-price plans has been restricted largely to marketing orders.

Experience: Two-price plans, in essence, make the world market a residual and largely unprofitable market. Advocating reduced trade barriers and operating two-price plans are obviously inconsistent.

Consequences:

- Producer income increases if the demand in the domestic market is more price responsive than in the export market.
- Surplus stocks do not accumulate in the face of high domestic price supports.
- Lower export market prices create the potential for price warring conditions.
- The world market tends to become unprofitable when two-price plans are used extensively.
- Controversial method of being competitive would draw public media attention.
- Domestic market is placed at a disadvantage relative to the foreign buyers.
- In the case of cotton the use of man-made fibers is encouraged.
- Imported textiles are made even more competitive with domestic production.
- Feed grain costs are increased to livestock producers and food costs are increased to consumers.

Policy Tool: Blended Credit

Policy Area: International Trade, Export Subsidies

What It Is: Blended credit is a form of export subsidy which combines government export credit and credit guarantees with commercial credit in a single package to reduce the effective interest rate. Government export credit is provided in a program known as GSM-5. The credit guarantee program is known as GSM-102.

Objective: To make U.S. credit terms competitive with those offered by other exporting countries.

When Used: Blended credit is available only when appropriations are provided by the Congress. Tight budgets have made blended credit available only to a limited number of countries and commodities. Countries are selected based on magnitude of surpluses and competitive need, as well as on diplomatic and domestic political considerations. The blended credit program was most recently initiated in October 1982.

Experience: During the period used, blended credit facilitated the opening of markets for U.S. commodities in competition with other countries. It is particularly useful for those developing country markets where credit and credit guarantees are critical. The pressure for a blended credit program increases when a strong dollar reduces exports.

Consequences:

- The United States is made more competitive in the face of other countries' subsidized export credit programs.
- A basis is provided for penetrating new export markets -- particularly in developing country markets.
- Compared to other forms of export subsidies, blended credit runs less risk of creating retaliatory trade war conditions.
- Expansion of subsidized credit encourages other countries to expand their programs, thus creating the potential for larger programs (treasury costs) over time.
- The potential for high government costs is created by blended credit programs.
- If successful in expanding exports, blended credit raises domestic food costs and production costs for livestock producers.

Policy Tool: P.L. 480 (Food for Peace)

Policy Area: International Trade, Export Subsidies

What It Is: Public Law 480 provides for concessional sales of commodities involving price or credit terms that contain substantial U.S. subsidies. Exports are made under three P.L. 480 programs:

- Title I involves sales for dollars under low interest rates with up to 40 years repayment.
- Title II involves emergency food relief directed to nutritionally vulnerable groups.
- Title III involves commodity aid as part of a development package. Multiyear commitments are tied to specific development actions.

Objective: To dispose of surplus commodities, develop markets, provide emergency food aid, and assist friendly nations in development.

When Used: Authorized by the Agricultural Trade Development Act of 1954, P.L. 480 was used to export as much as one-third of export sales during the 1950s and 1960s when loan rates were generally maintained above world prices. Since then P.L. 480 sales have generally been in the \$1-2 billion range. Countries are selected for assistance based on diplomatic and political considerations as well as need. Commodities selected are influenced by the magnitude of surplus stocks. The Secretary of State makes the final decision on who gets P.L. 480 aid.

Experience: P.L. 480 is credited with having built such important commercial markets for farm products as Japan, South Korea, Taiwan, Brazil, and Spain. The need to get commodities moving through P.L. 480 is frequently frustrated by foreign policy considerations. Title III aid is considered by recipients to be worth 10 cents on the dollar, thus an economically inefficient method to provide aid.

Consequences:

- A government alternative is provided for exports when the United States is priced out of the world market.
- Commodity aid is combined with development assistance thus being more politically acceptable.
- Government stocks of commodities are reduced.
- Long-term development of markets is promoted.
- If used extensively, it becomes too costly and the U.S. is subject to the charge of dumping commodities on the world market.
- P.L. 480 provides the State Department with a diplomatic tool that can be used in foreign policy negotiations.
- P.L. 480 sales may displace commercial sales.
- Too much commodity aid can be a disincentive for production in developing countries and can make them overly dependent on imports.
- Hunger and starvation assistance is provided.

Policy Tool: Export PIK (Payment in Kind)

Policy Area: International Trade, Export Subsidies

What It Is: Under export PIK, the government provides an in-kind export commodity bonus in return for a regular commercial purchase of an agreed upon magnitude. For example, if a country purchases a million metric tons of wheat, it might receive an additional 100,000 metric tons of PIK wheat from CCC stocks. The 100,000 metric ton bonus is the export PIK.

Objective: To make the United States commodity price competitive in the world market and thus expand export markets.

When Used: Export PIK was first used in a 1983 flour sale to Egypt. Legislation is currently pending in Congress that would make export PIK a more permanent part of U.S. international trade policy. Export PIK would be available only to a limited number of countries and for a limited number of commodities that are in surplus.

Experience: Export PIK was used to virtually capture the 1983 Egyptian flour market for the United States. Other flour exporting countries, such as France, were upset, although no overt retaliatory steps were taken against the United States.

Consequences:

- The United States is kept competitive in the world market, even in the face of reduced demand and loan rates that may be above the world market.
- Export PIK is less overt than direct monetary export subsidies and thus not as likely to invite either retaliation or GATT sanction.
- Government stocks of commodities are reduced.
- An export alternative is provided by export PIK as long as the CCC owns sufficient stocks.
- Export PIK is a violation of at least the spirit of GATT.

Policy Tool: Import Quotas

Policy Area: International Trade, Quotas

What It Is: Import quotas are quantity limits placed on the amount of individual commodities that can be imported into the United States. Limits are generally allocated among potential importing countries. Specific limits are frequently negotiated in the form of voluntary restraints to avoid more restrictive limits. The specific size of quotas may be either legislated, negotiated, or determined by executive action. Those determined by executive action under Section 22 as interfering with the operation of the price support program are recommended by the International Trade Commission and are imposed by the President.

Objective: To prevent unrestricted quantities of certain commodities from entering the United States and unduly suppressing prices or interfering with the operation of the price support program.

When Used: Beef import quotas have been mandated by the Congress. Cheese import quotas imposed to protect the price support program established in 1949 have been the subject of negotiation and agreement under GATT. Import quotas are also imposed on sugar under Section 22. Import quotas exist on textile imports as a means of avoiding irreparable harm to the domestic industry.

Experience: The imposition of import quotas is highly political. Even though the International Trade Commission recommendations to the President are based on objective criteria, the ultimate Presidential decision is highly political. The existence of U.S. import quotas has made it difficult to get other countries to reduce trade barriers. Japan argues that its beef import quotas are no different from the beef import quotas of the United States.

Consequences:

- Import quotas restrict available supplies and raise domestic prices.
- Textile import restrictions reduce export demand for U.S. cotton lint but may increase sales of domestic mills. Less overall demand is likely because of higher ultimate consumer product prices.
- Without import quotas on price supported commodities, the CCC would acquire a larger quantity of commodities under the price support program.
- Import quotas result in windfall profits to licensed importers.
- Supply control aspects of import quotas result in greater price fluctuations than would occur in a free market.
- Efficiency of production plays no role in determining competitiveness under a system of quotas.

Policy Tool: Export Embargoes

Policy Area: International Trade, Embargoes

What It Is: Export embargoes set absolute limits on quantities that can be exported. An export embargo does not have to involve zero exports. It may state, for example, that up to 8 million metric tons (MMT) of grain may be exported. At 8 MMT the embargo goes into effect. Embargoes may be either general and apply to all countries or specific and apply to only one country. They may apply to one commodity or to all commodities.

Objective:

- To hold down U.S. commodity prices,
- To prevent shortages of commodities,
- To achieve a foreign policy objective, or
- Any combination of the above.

When Used: Since 1970 export embargoes have been imposed three times:

- In 1973 an embargo was placed on the export of soybeans to provide assurance that poultry and hog producers would have a sufficient supply of soybean meal to continue efficient production.
- In 1975 an embargo was placed on exports of grain sales to the Soviet Union after concern spread about increasing food prices and the rumor that bread prices would rise to \$1 per loaf.
- In January 1980 an embargo was placed on all exports to the Soviet Union after the Soviet invasion of Afghanistan and the subsequent tensions in Poland. This embargo was not lifted until April 1981.

Provisions of the 1981 Farm Bill require that the loan rates for grain and cotton be set at 100 percent of parity if only agricultural exports are embargoed.

Experience: Embargoes have been a major factor in reduced confidence in the United States as a dependable supplier. Therefore, the U.S. share of world trade has declined. Serious questions also exist concerning the effectiveness of embargoes as a policy tool or the willingness of the United States to enforce an embargo.

Consequences:

- Embargoes reduce U.S. export sales and lower prices.
- Embargoes reduce confidence in the United States as a dependable supplier.
- Embargoes encourage other countries to increase production as a means of achieving self-sufficiency.
- Embargoes encourage competitive exporting countries to increase production.
- It is difficult to prevent the intended embargoed country from importing the commodity from another source.

Policy Tool: Sanctity of Contracts

Policy Area: International Trade, Embargoes

What It Is: Sanctity of contracts provides that if an embargo on exports is imposed, exporters will still be able to fulfill their contract obligations for a period of 270 days after the imposition. Sanctity of contract provisions were included as an amendment to the extension of the Commodity Futures Trading Commission Bill in 1983.

Objective: To assure importing countries that the United States is a dependable supplier and will deliver on the contract terms. A secondary objective is to reduce the impact of export embargoes on exporting firms and producers.

When Used: After lifting the Soviet grain embargo in April 1981, producer organizations and exporting firms applied increasing pressure on the Reagan administration for sanctity of contracts. In 1982 President Reagan provided assurance that he would allow increased purchases by the Soviets with sanctity of contracts. This principle was written into law in early 1983 and applies to all agricultural export sales.

Experience: The abrupt imposition of the Russian grain embargo in January 1980 left U.S. producers and exporters with delivery commitments that were disallowed. While the U.S. government provided compensation to exporters for losses incurred, long-term injury ensued to the reputation of the United States as a reliable agricultural exporter. This was one of several factors leading to a decline in the U.S. share of total world trade in the early 1980s.

Consequences:

- The United States is viewed as a more reliable supplier of agricultural exports.
- Importers know that when they sign a contract for delivery of U.S. agricultural products, there will not be governmental interference with performance on it.
- Exporters are assured their sales will be allowed.
- Producers are shielded from the immediate effects of embargoes.

Policy Tool: Long-Term Bilateral Trade Agreements

Policy Area: International Trade, Trade Agreements

What It Is: A long-term bilateral trade agreement is a contract between two countries specifying the quantity of a commodity to be traded over a certain time period. Bilateral trade agreements normally run for a period of 3 to 5 years, although they may be simple 1-year agreements that are renewed annually. The agreements normally specify the minimum quantity to be purchased and the maximum quantity to be supplied. Generally no provisions exist with regard to the price to be paid.

Objectives: To provide supply assurance for the importing country and market assurance for the exporting country. In addition, trade agreements are utilized to normalize trade, develop markets, and retain markets for farm products.

When Used: Trade agreements have become increasingly common since a world food shortage was experienced in the early 1970s. The most publicized agreement was the 5-year contract negotiated with the Soviets in 1975 which contained an agreement to purchase a minimum of 6 million metric tons of grain with the United States agreeing to supply at least 8 million metric tons. In the early 1980s the United States became cool to the trade agreement concept while Australia and Canada signed agreements with several countries including the USSR and China. In 1983, the Reagan Administration changed policy and renegotiated a new long-term trade agreement with the Soviets requiring purchases of between 9 and 12 million metric tons of grain.

Experience: Trade agreements are a means of getting a foot in the door of a market on a long-term basis. The quantities specified in the agreement have generally been less than the normal trading levels. Unwillingness to sign trade agreements in the early 1980s probably reduced the U.S. market share in export markets such as the USSR.

Consequences:

- The total volume of trade tends to be increased and stabilized between the parties to the agreement.
- Importing countries outside of the agreement may be denied a source of the commodity if supplies become short.
- Exporting countries outside of the agreement may be denied market outlets when supplies are plentiful.
- Trade agreements are, in essence, barriers to trade in that they tie up markets over long time periods.
- Trade agreements cause greater fluctuations in pricing since they effectively reduce the world supply which can be traded.

Policy Tool: International Commodity Agreements

Policy Area: International Trade, Trade Agreements

What It Is: An international commodity agreement is a multilateral agreement among countries to affect the terms of trade. The terms of trade affected by an international commodity agreement may include the price level, quantity sold, quantity produced, or quantity held in reserve. Legally, commodity agreements are treaties among the participating nations.

Objective: To raise the world price above the equilibrium levels, to stabilize price, and to provide increased supply assurance.

When Used: Commodity agreements have been used most extensively on wheat, being first established in 1949. Currently they are used extensively among developing countries on commodities ranging from tin to sugar and coffee. Interestingly, OPEC might also be looked upon as an international commodity agreement.

Experience: Commodity agreements have had a reasonably good history of stabilizing prices as long as burdensome surpluses or shortages do not exist. Commodity agreements designed to raise prices have a tendency to fall apart because of a lack of control over production. To be truly effective, commodity agreements require close coordination of domestic farm programs with the activities of international commodity agreements.

Consequences:

- Commodity agreements provide increased price stability.
- Domestic prices are raised.
- Exchange of information among countries on market conditions is increased.
- When prices are raised, excess supplies frequently accumulate.
- Unless commodity agreements are well coordinated with the domestic farm programs of the participating countries, they tend to breakdown.

Policy Tool: Barter

Policy Area: International Trade, Trade Agreements

What It Is: Barter is trade among two or more countries or firms involving the exchange of goods and/or services of equal value instead of currency or credit transactions as payment for a commodity.

Objective: To facilitate trade with developing countries experiencing short-run financial difficulties which make traditional commercial trade impossible. To obtain sources of supply of other commodities that might not otherwise be available.

When Used: The first U.S. experience in a barter agreement in 15 years took place in 1982 with an exchange of surplus powdered milk to Jamaica for bauxite.

Experience: Barter has limited ability to expand exports. Rather, it is more of a temporary measure to maintain an existing market during periods of adverse economic conditions. Its greatest potential appears to be as a market development tool for developing countries with mineral or strategic metals of importance to the U.S. defense and industrial sectors. The biggest problem in barter is matching needs with products.

Consequences:

- Barter helps maintain export levels.
- Barter provides increased potential for developing commercial markets for agricultural products.
- Barter has limited applicability because of the required coincidence of need.
- Barter may displace commercial sales.
- Barter value generally approximates relative world market value of the commodities bartered.

MARKETING PROGRAMS

Policy Tool: Commodity Distribution

Policy Area: Marketing Programs, Demand Expansion, Food Assistance

What It Is: Commodity distribution programs provide primarily staple food products direct from the government to needy households. Commodities provided are generally in surplus, although nonsurplus food products have been provided in times of high unemployment. Commodities are distributed to those households who qualify according to specific eligibility standards--normally participation in some welfare program or unemployed.

Objective: To expand the demand for farm products, utilize surplus commodities, and improve nutrition of needy consumers.

When Used: Commodity distribution was a forerunner of the food stamp program. Such direct distribution programs date back at least to the Great Depression era. However, even after widespread adoption of the food stamp program in the 1960s, commodity distribution has from time to time resurfaced either to dispose of surplus government stocks or to deal with problems of unemployment and poverty.

Experience: Commodity distribution programs are costly because of the necessary network of qualification, processing, storage transportation, and distribution systems. With the advent of food stamps in the 1960s, the direct distribution system was dismantled. In the 1980s when surpluses and unemployment reappeared, pressure grew to once again distribute commodities--beginning with cheese. Rather than establishing a distribution system, the Reagan administration provided the commodities to volunteer welfare groups such as churches. It was found, however, that under this system many unqualified recipients received the products.

Consequences:

- Product movement is expanded to the extent that the quantities given away exceed normal recipient consumption levels. Reduced expenditures for distributed products results in purchases of other foods and/or nonfood items.
- The commodities given away displace retail sales of the commodities and their substitutes. If people are given commodities, they certainly will not buy them or the substitutes for them. Food processors and retailers thus tend to be opposed to direct distribution programs.
- For commodities in surplus that are acquired under price support programs, such as dairy products, the government will end up actually purchasing more products to the extent that those receiving the products, buy less of them through grocery stores.
- Nutrition levels of recipients are improved to the extent of the nutritional value of the additional quantities or items consumed.

Policy Tool: School Lunch

Policy Area: Marketing Programs, Demand Expansion, Food Assistance

What It Is: The school lunch program provides assistance to schools through direct commodity distribution, cash subsidies, and, at times, subsidies for the purchase of equipment. Over time this program has been expanded to encompass both breakfast and lunch. Free or subsidized meals are given to children from low-income households.

Objective: To improve the nutritional levels of school-age children and assure that they have at least one nutritionally balanced meal on school days.

When Used: The school lunch program has been in existence since the 1930s. Over time it has gradually put increasing emphasis on cash as opposed to commodity distribution. Schools have had increasing impact on the specific commodities obtained under the program. In the early 1980s, the program fed nearly 30 million students at a federal cost of \$5 billion.

Experience: The school lunch program began as a depression measure to support prices and to improve nutritional levels for all school children. From its inception through much of the 1960s, emphasis was placed on distributing surplus commodities in a nutritionally balanced relationship. Schools, however, gradually wanted more to say about what was received. In addition, increasing costs of in-school preparation, relative to institutional and fast-food preparation, led to increased pressure to provide a larger proportion of cash subsidies relative to commodities. Increasing cost of meals, led to school lunch and breakfast subsidies being restricted to children from low-income households. One of the main problems with the program has been complaints about the quality of meals served. Pressure always exists to provide a larger proportion of cash assistance.

Consequences:

- The demand for food used in the school lunch program is increased.
- Nutritional levels of school-age children are increased--particularly of lower income households.
- While commodities distributed are a less important proportion of the total food used, the school lunch program continues to provide an important outlet for surplus dairy products, meat, fruits, and vegetables.
- The development of a large institutional food service sector designed to serve this very large program has been fostered.

Policy Tool: Women, Infants, and Children (WIC) Program

Policy Area: Marketing Programs, Demand Expansion, Food Assistance

What It Is: The WIC program combines direct commodity distribution with nutrition education. Most WIC recipients probably are also on food stamps or aid to families with dependent children. Nutrition education programs teach the recipients how to combine commodities with food expenditure dollars most effectively to improve nutrition and family living standards. Many of the recipients are single mothers with very low incomes and pre-school children.

Objective: To provide low-income mothers with a complete assistance program designed to improve nutrition levels for the family as a whole.

When Used: The WIC program began on an experimental basis in the early 1960s and has experienced almost continual expansion since. Participation in the program has a tendency to increase in times of recession and increased unemployment.

Experience: Although WIC has been criticized for its predominantly unwed mothers constituency, studies demonstrate it to be one of the most effective programs in improving nutrition levels. This results largely from the combination of monetary, commodity, and nutrition education assistance. Attempts to cut back on the WIC program (as a cost reducing measure) have consistently failed under the weight of studies showing the positive impact on nutrition and resulting broad based "hunger lobby" support.

Consequences:

- Nutrition education programs result in increased consumption of foods normally considered to be part of a nutritionally balanced diet--particularly poultry, milk, cereals, fruits, and vegetables.
- Commodities distributed tend to be in surplus and/or have particular nutritional value.
- Commodities distributed partially displace commercial retail sales of these products and their substitutes.
- Overall recipient nutritional level is demonstrably improved.

Policy Tool: Food Stamps

Policy Area: Marketing Programs, Demand Expansion, Food Assistance

What It Is: The food stamp program provides eligible recipients with stamps having an equivalent cash value. Eligibility is determined on the basis of income levels in relation to established poverty guidelines. Level of assistance is based on a USDA "thrifty food budget" covering the cost of commodities needed to achieve a balanced diet. Higher levels of assistance are provided for lower incomes and larger family sizes.

Objective: To provide income assistance for the purchase of food by low-income households and thereby expand the demand for food as well as improve nutritional levels of recipients.

When Used: The food stamp program, while first used in the 1930s, began in earnest as a long-term food assistance program in the early 1960s and has since mushroomed to a social program with more than 20 million recipients and costing about \$12 billion in the early 1980s. Food manufacturers and retailers actively supported the conversion from direct commodity distribution to food stamps because food stamps do not displace commercial sales (see Commodity Distribution).

Experience: The merits of the food stamp program have been extensively debated. Major concerns regarding the program involve who should be eligible, the level of assistance, the commodities allowed to be purchased with stamps, and the potential for program abuse. Among the advocates of change are some who would prefer going back to commodity distribution and others who would prefer giving recipients cash (referred to as "cashing out"). Some advocate moving food stamps out of USDA.

Consequences:

- Consumption of food is increased. The largest increases occur in the demand for meat, milk, and poultry.
- Some farm-state congressmen argue that the food stamp program helps them to get farm legislation through the Congress because major farm bills with food program components invariably attract urban interest.
- Nutritional levels of recipients are improved, although not as much as under such programs as WIC.
- Food retailers realize direct benefits--particularly those in lower income neighborhoods.

Policy Tool: Cashing Out, Welfare Reform

Policy Area: Marketing Programs, Demand Expansion, Food Assistance

What It Is: Cashing out would provide food assistance in cash rather than commodities or food stamps. All food and income assistance programs would be consolidated into a single cash payment.

Objective: To provide income assistance to low-income households.

When Used: While cash has not yet been substituted for food stamps, over time there has been gradual but persistent movement in the direction of providing a larger proportion of cash, as opposed to commodity or food stamp, assistance: Food stamps were substituted for direct commodity distribution, and cash subsidies to schools have become increasingly important relative to commodities.

Experience: Cash has provided schools greater flexibility in the ultimate use of the assistance. Thus it is argued to result in a greater increase in student satisfaction. The cost of running several individual programs each having different eligibility standards has become increasingly high. There are those who believe that such consumer-oriented policy changes have come to so dominate USDA, that producer-oriented programs have taken a back seat.

Consequences:

- The total welfare bill would be reduced as program duplications are eliminated.
- Food consumption would fall if the current equivalent level of cash assistance were provided.
- Prices of surplus commodities would fluctuate more as government outlets for surplus commodities are reduced.
- Food assistance programs would be moved out of USDA and would not be part of the farm bill deliberations, thus reducing the potential for obtaining urban support for farm programs.

Policy Tool: Foreign Market Development

Policy Area: Marketing Programs, Demand Expansion

What It Is: Foreign market development activities of the United States government involve assisting firms or producer organizations in selling products abroad. These programs, managed by the Foreign Agriculture Service (FAS) in the USDA, are planned, implemented, evaluated, and financed jointly by the FAS and the cooperator organizations. They emphasize market information and technical assistance in servicing the needs of importing countries to utilize products effectively, enhance buyer awareness, and educate consumers. Producer program costs are generally financed through a checkoff program on commodities sold (see also Checkoff Programs).

Objective: To expand export demand for farm products.

When Used: Foreign market development activities depend heavily on producer, processor, and handler initiative to develop and finance a joint FAS-industry cooperator program. While FAS through its agricultural counselors has a general responsibility to promote exports, the greatest effort is devoted to those products where cooperator programs exist.

Experience: Cooperator programs that are well conceived and financed are effective at expanding the demand as long as the commodity is available at competitive prices. It is difficult, if not impossible, to expand export markets for U.S. farm products when our prices are higher than the world price.

Consequences:

- The quantity of products exported is increased.
- Increased producer understanding of international markets is developed.
- Cost of operating the market development program is shared by a large number of producers, making it more cost effective (see also Checkoff Programs).

Policy Tool: Domestic Market Development

Policy Area: Marketing Programs, Demand Expansion

What It Is: Domestic market development programs assist producers in raising funds required to carry out generic promotion and advertising programs. In addition, provision is made for refunds to producers desiring not to participate and audits of the use of funds (see also Checkoff Programs). Such programs are authorized on an individual commodity basis under either Congressional or state legislative authority.

Objective: To expand the domestic demand for farm products.

When Used: Domestic market development programs develop only on producer initiative. Producers have to be organized to obtain the checkoff legislation or marketing order programs needed to implement a market development program. Market development programs have been most extensive in milk, cotton, and oranges, although programs have existed also in wheat and potatoes. Several of the marketing orders contain provisions for the collection of funds needed for market development activities.

Experience: Most producer domestic market development programs are generic -- promote the product in general as opposed to a particular brand of the product. In a limited number of instances (e.g., cotton), significant resources are devoted to joint advertising -- subsidizing the advertising of innovative new uses of the product even though it is branded. Research indicates brand promotion and joint advertising programs are more effective than generic advertising.

Consequences:

- A well-conceived and well-researched producer-oriented advertising program has the potential for raising producer returns through demand expansion.
- Promotion and advertising programs are high cost and difficult to evaluate.
- Promotion and advertising programs must be geared to the product available and the size of the market.

Policy Tool: Checkoff Programs

Policy Area: Marketing Programs, Demand Expansion

What It Is: Checkoff programs deduct a given amount per unit of product marketed by the producer to finance market development programs. Such programs exist under either special individual commodity legislation or general authorizing legislation, such as marketing orders. Such legislation may allow for refunds which reduce the programs' effectiveness and equity.

Objective: To finance foreign and domestic market development programs and research.

When Used: Checkoff programs are used when the necessary legislation exists and the required majority of the producers approve it in a referendum. In special commodity legislation at the federal level, refund provisions have generally been required.

Experience: Voluntary checkoff programs have proved difficult to maintain. Mandatory checkoff programs with refund provisions have sometimes encountered problems with relatively high redemption experience. Congress has generally been unwilling to allow a mandatory program without refund provisions.

Consequences:

- Without refund provisions, checkoff programs provide an equitable means of financing costly market development programs.
- With refund provisions, checkoff programs offer the potential for having inequities.

Policy Tool: Cooperatives, Capper-Volstead

Policy Area: Marketing Programs, Market Organization and Control

What It Is: The Capper-Volstead Act gives producers the right to act together in marketing their products, therefore providing cooperatives limited exemption from the anti-trust laws. It prohibits cooperatives from unduly enhancing price, however. The Secretary of Agriculture is responsible for enforcing the provisions regarding undue price enhancement.

Objective: To assist producers in jointly marketing their products by providing a means for increasing prices, lowering costs, stabilizing market flows, expanding markets, or improving communication.

When Used: The Capper-Volstead exemption is limited to farmers and to marketing functions. Farmers are those involved in actual growing functions; therefore, agribusiness corporate integrators are not farmers. Likewise, joint, otherwise illegal, activities between cooperatives and noncooperatives are not covered by the Capper-Volstead exemption. Marketing functions are interpreted broadly to include bargaining, information, pricing, processing, and so forth. Cooperatives appear to have virtually unlimited rights to merge with one another. They cannot, however, engage in predatory or coercive practices with regard to either members or nonmembers.

Experience: Cooperatives have effectively organized to market their products in a number of ways. The cooperative market share is about 33 percent overall, but as high as 65 percent of the market in milk, fruits for processing, and vegetables for processing. Cooperatives are most effective when they are integrated and there is a firm producer commitment to market through them. Marketing orders are frequently used to augment cooperative market power and influence. Proposals have been made to eliminate the Capper-Volstead exemption or to transfer it to the Federal Trade Commission for enforcement.

Consequences:

- Suspending provisions of the Capper-Volstead Act would render pricing activities among farmers a violation of the Sherman Act and the Federal Trade Commission Act.
- Cooperatives have the potential for raising producer returns if well organized, well managed, and producers have a commitment to market through the cooperative.
- Cooperatives' influence is frequently eroded by so-called "free riders" who obtain the benefits of the cooperative but pay none of the costs.
- Substantial producer investment is generally required for successful cooperative activity.
- Cooperatives have been important to the functioning of marketing orders because cooperative members have been allowed to vote as a bloc.

Policy Tool: Marketing Orders

Policy Area: Marketing Programs, Market Organization and Control
Domestic Farm Policy, Price Stabilization

What It Is: Marketing orders are joint industry - government programs regulating the quantity and/or quality of specified products entering the market channel. Marketing orders are authorized for specific commodities under the Agricultural Marketing Agreements Act of 1937.

Objective: To create more orderly marketing conditions for farm products and thereby stabilize supplies, prices, and producer income.

When Used: Marketing orders are available only for commodities designated in the Agricultural Marketing Agreements Act. These include specific fruits, vegetables, nuts, and milk. Orders for fruits, vegetables, and nuts emphasize the establishment of minimum quality, grade, size, or maturity standards for products entering the market. Reserve pools exist for some commodities in which stocks are held over the marketing season or into the next marketing season. Milk prices are set by the marketing order in terms of the milk's end use. Higher prices are charged for milk used for fluid purposes. Orders are put into effect after a commodity hearing, the concurrence of the Secretary of Agriculture, and the approval of two-thirds of the affected producers in a referendum.

Experience: Marketing orders have been highly effective in stabilizing markets where they have been used. Over time, however, the Secretary of Agriculture has been less inclined to utilize orders as strict supply management tools. Emphasis has thus been placed on orderly marketing and price stabilization. Strict marketing quotas have been limited to minor commodities such as hops and peppermint. All marketing orders with market flow provisions are under attack by the Office of Management and Budget as well as consumer advocate groups.

Consequences:

- Increased price stability is provided throughout the marketing season by strict marketing controls.
- Commodities available for sale are of more uniform quality.
- Commodities are more readily available throughout the year.
- Producer prices are increased.

Policy Tools: Crop and Livestock Production Reports

Policy Area: Marketing Programs, Market Facilitators

What It Is: Crop and livestock production reports provide detailed estimates (predictions) of crop production from before planting (intentions) through harvest.

Objective: To improve the quality and quantity of available information on production prospects and thereby make markets more competitive.

When Used: Crop and livestock production reports have their origin in a series of laws enacted between World War I and the late 1940s. They are used by the private sector as an aid to production and marketing decisions, by economists to forecast, and by government officials to develop policy and aid in program decisions.

Experience: The USDA's goal is estimates within 1 or 2 percent of actual production. Its record in achieving this degree of accuracy has been outstanding. USDA crop reports are frequently charged with having the effect of lowering farm prices. A bias one way or the other is impossible to confirm. Extensive steps are taken to protect the integrity of the reports. Government cost cutting measures have reduced the quantity (and maybe the quality) of available information. Efforts to charge for access to crop and production reports have come under considerable fire.

Consequences:

- Crop and livestock reports make markets more competitive.
- Without crop and livestock reports, this information would be available only to those firms that can afford this service from private information sources. This would be mainly agribusiness firms and large-scale farmers.
- Crop and livestock reports increase the accuracy of both public and private sector economic outlook and situation analysis.
- Crop and livestock reports are needed for informed policy decisions. They provide the data base on which economic analyses are conducted.

Policy Tool: Export Sales Reporting

Policy Area: Marketing Programs, Market Facilitators

What It Is: The USDA presently requires that export sales involving more than 100,000 MT of major grains and oilseeds be reported to the USDA within 24 hours of sale. For other commodities, weekly reports are required.

Objective: The policy is designed to provide information for the government to use in developing export policies and programs, to provide producers with information to help in their marketing decisions, and to improve performance of U.S. commodity markets by making timely information on export sales transactions available to the public.

When Used: Following the impacts of the unanticipated large grain sales to the USSR in 1972, the government instituted the export sales reporting system in September 1973 under Section 812 of the Agriculture and Consumer Protection Act of 1973. It has been in operation since that time. Modifications to the system were made in 1980 to shorten the public reporting lags of 11 to 18 days to approximately 7 to 14 days.

Experience: The export sales reporting system has had moderate success in achieving its goal of increased access to timely information. The system still suffers from substantial lag time in reporting information and limited detail on contract specifics. A number of alternatives, including specific contract terms and prenotification, have been considered.

Consequences:

- Overall quality and quantity of information concerning export transactions is increased.
- USDA is provided with prior warning of sales that could jeopardize supplies available in the United States.
- More information on supplies reduces the probability of an embargo resulting from commodity shortages.
- Prices are more responsive to export market conditions.

Policy Tools: Grades and Standards

Policy Area: Marketing Programs, Market Facilitators

What It Is: Grades and standards classify units of a commodity according to quality so the variation or range in quality is smaller within groups than it is over the whole range of the commodity.

Objective: To develop homogenous groups by quality to facilitate orderly marketing of a commodity.

When Used: Grain grades are established under the U.S. Grain Standards Act while other grades are established under several different pieces of legislation, including the Agricultural Marketing Act of 1946. Grades and standards exist for virtually all agricultural commodities. Most grades are primarily designed to facilitate trading at the wholesale market level although grades such as those on beef have a definite consumer orientation.

Experience: Once grades are established, they are very difficult to change. In addition, there is resistance to the establishment of consumer oriented grades because opportunities for product differentiation (advertising) are reduced. Questions exist regarding the extent to which grades should reflect the end use of the product. Frequently, private grades and USDA grades reflect a different set of factors. Over time, grades and standards tend to become unresponsive to consumer preferences, probably because of resistance to changing the grades.

Consequences:

- Grades increase the quantity of information available to buyers and sellers.
- Grades increase the accuracy of pricing within different quality classes of the commodity.
- Grades reduce the opportunity for abuse and misunderstanding between buyers and sellers of commodities that are sold without buyer inspection.
- Grades force the quality marketed to the lowest acceptable level of each grade.
- Grades reduce the opportunity for product differentiation.

GENERAL ECONOMIC POLICY TOOLS

Policy Tool: Monetary Policy

Policy Area: General Economic Policy

What It Is: Monetary policy involves managing the supply and demand for money as a means of regulating the general economy. The primary impact of monetary policy is on the quantity of money available for lending and thus on the rate of interest. Managing the money supply is the primary function of the Federal Reserve System.

Objective: To maintain stable economic growth and control inflation through the management of the money supply.

When Used: Primary reliance on monetary policy to manage the economy has largely been associated with Republican administrations. The Reagan administration has placed unusually heavy reliance on monetary policy to control inflation.

Experience: Considerable debate exists among economists and policy makers regarding the extent to which monetary policy can be effectively utilized to obtain stable economic growth without inflation. Reagan economic policies restricting monetary growth have resulted in high interest rates and fostered a strong dollar. This combination has had adverse effects on exports, housing, automobile industries, and real growth. Additionally, this policy has compounded the cost-price squeeze and cash flow problems suffered by commercial farmers who are under capitalized and/or beginning farmers.

Consequences:

- Monetary restraint, meaning relatively slow and stable money supply growth, results in relatively high interest rates and a strong dollar.
- High interest rates reduce incentives to invest in plant and equipment while encouraging savings and investment in dollars to gain both interest income and any appreciation in value relative to other currencies.
- When the dollar increases in value, U.S. farm products become more expensive in terms of foreign currencies. As a result, exports decline.
- A decline in exports hurts the U.S. balance of trade, meaning imports increase relative to exports. When imports are greater than exports, it is referred to as an unfavorable balance of trade.

Policy Tool: **Fiscal Policy**

Policy Area: **General Economic Policy**

What It Is: Fiscal policy involves the federal government using its power to tax and spend as a means of stimulating or curbing the overall level of economic activity. The primary impact of fiscal policy is on the aggregate demand for goods and services. The President and the Congress have direct control over fiscal policy.

Objective: To maintain economic growth and control inflation through tax and spending policy.

When Used: Primary reliance on fiscal policy to manage the economy has largely been associated with Democratic administrations. The Kennedy and Johnson administrations became particularly strong advocates of using the power to tax and spend to "fine tune" the economy.

Experience: The impact of fiscal policy on economic growth appears to be more direct and has less adverse impact on particular sectors such as agriculture. However, since tax increases are always politically unpopular, deficits in government spending have had a strong tendency to widen. Questions then arise as to how the deficit should be financed.

Consequences: ● Tax cuts (investment tax credits, accelerated cost recovery, first year expensing and lower tax rates) increase disposable income and thus stimulate the economy.
● Government spending increases the demand for goods and services and thus stimulates the economy.
● Slowing down economic growth requires an increase in taxes or a reduction in government spending.
● Fiscal restraint is more difficult to implement politically than monetary restraint.

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