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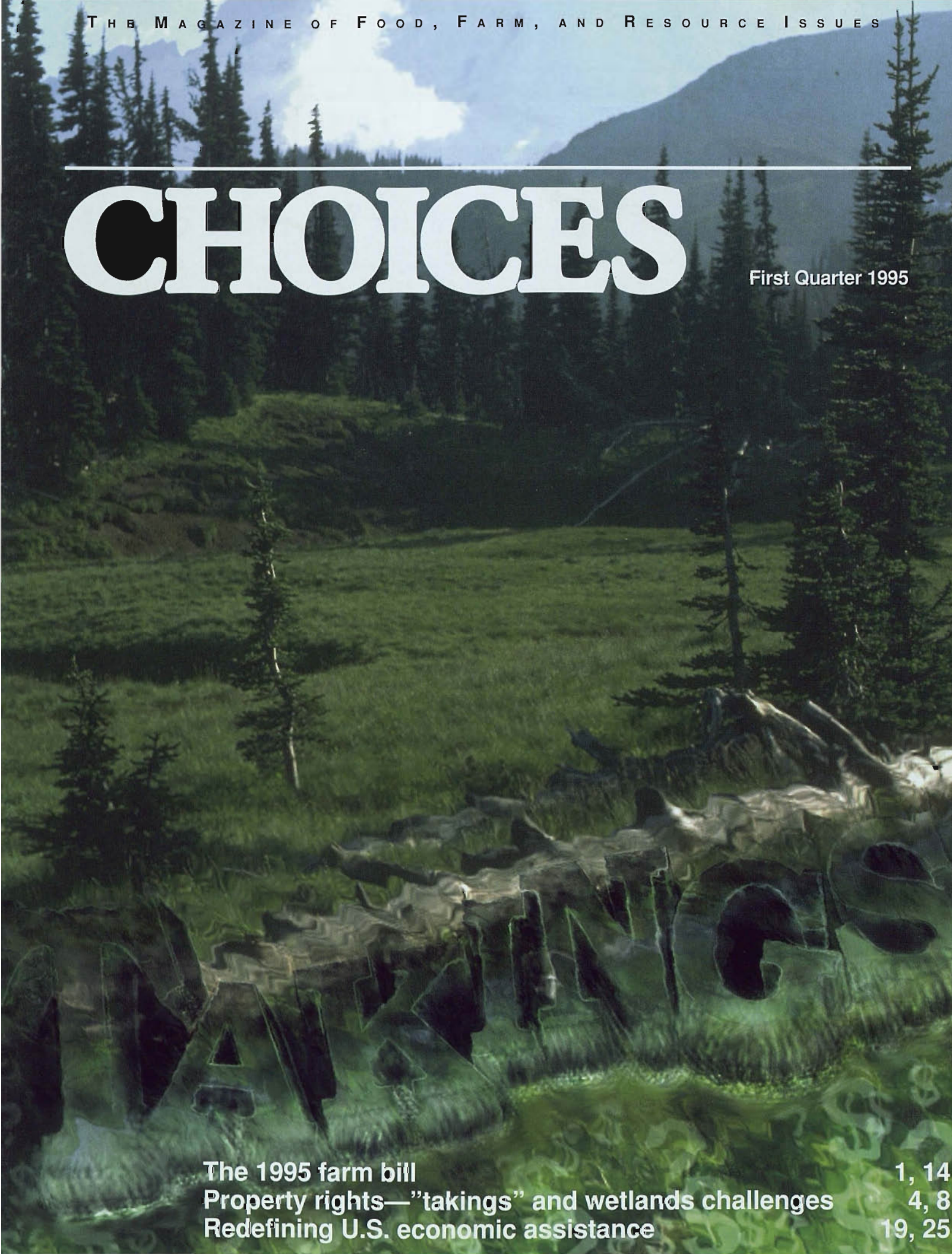
THE MAGAZINE OF FOOD, FARM, AND RESOURCE ISSUES

CHOICES

First Quarter 1995



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Findings

What agricultural and resource economists are finding about food, farm, and resource issues.*

- A vast majority of consumers find bST milk acceptable, but a strong preference for bST-free milk by a small share of consumers offers a potentially profitable niche market—says Fox.
- For a representative farm in the Southern High Plains, environmental goals can be reached at less cost to society through public support of voluntary farming practices than through regulation—say Teague, Bernardo and Mapp.
- East Asia will be the fastest growth market for U.S. agricultural exports over the next decade—say Gehlhar, Hertel and Martin.
- In New Zealand, protection for the beef/sheep industry from 1975–85 reduced productivity, and market liberalization beginning in 1985 increased productivity substantially—says Kalaitzandonakes.
- Food aid increases domestic food subsidies in recipient countries—say Hoffman, Gardner, Just, and Hueth.
- In comparison to formula funding, competitive grants and earmarked funds for land-grant universities reduce the productivity of agricultural research, or shift its focus away from research which raises agricultural productivity—say Huffman and Just.
- Nutrition should be combined with the more commonly promoted limited breeding season of beef cows to shorten the calving period and increase cow-calf profits—say Frasier and Pfeiffer.
- Because of voluntary adoption of water-conserving irrigation systems and the distribution of soils within subregions, policies targeted to reduce nitrogen on more permeable soils may not produce the anticipated results—say Mapp and coauthors.

*Findings are taken from recently or soon-to-be published research in the *American Journal of Agricultural Economics*, *Journal of Agricultural and Resource Economics*, *Review of Agricultural Economics*, *Journal of Agricultural Economics Research*, *Journal of Agricultural and Applied Economics*, *Agricultural and Resource Economics Review*, *Land Economics*, *Journal of Environmental Economics and Management*, *Agribusiness- an International Journal*, and other journals which publish the research findings of agricultural and resource economists. Abbreviated citations are found on page 44.

ON OUR COVER—*Takings*, the limitation of uses and value of property through government regulation, often centers on the regulation of land use to preserve environmental quality, such as that shown on our cover. A huge debate rages over the economic and legal justification of takings and when compensation must be paid, as discussed in our lead essay and a subsequent article on wetlands policy.

A 1995 Farm Bill to Improve the General Welfare

Bruce L. Gardner is a professor of agricultural and resource economics at the University of Maryland. He served as assistant secretary for economics in the USDA during the Bush administration and senior staff economist on the President's Council of Economic Advisers in the Ford and Carter administrations.

The victorious Republicans believe the 1994 election sounded the trumpet for governmental retreat. Farm price support programs are a great place to start. These programs are not plausible either as welfare policy or as a provider of other public goods. Commodity programs fail as welfare because the benefits go predominantly to people who are far from poor. And while there are many poor people in rural America, farm programs help these people little because they produce little. About 80 percent of farm sales come from farms with $100,000 or more in receipts, which have an average net cash income from farming of about $150,000 and farm equity (net worth) of over $900,000.

What public goods can price support programs provide? Market stabilization has long been claimed as a benefit, along with the idea that farm programs provide a kind of insurance policy for consumers, assuring an adequate food supply. Now proponents of "green" payments want to use commodity programs to induce farmers to provide more environmental amenities and less environmental damage.

The issue in these cases is whether the benefits exceed the costs. The evidence and analysis available make it hard to accept that stabilization or assurance benefits have exceeded costs. With respect to "green" policies, suppose we convert $1 billion in government commodity payments to induce farms to undertake practices costing an extra $1 billion. If the social benefits are much less than $1 billion, we have made our already wasteful policies worse—we only add to the existing losses of taxpayers by inducing farmers to spend the money wastefully. In the absence of benefit/cost analysis that provides a plausible case for net gains, we ought to proceed with phasing out rather than recasting farm commodity programs.

Details of a phaseout could take a number of forms. Key elements should be maintaining market-oriented loan and price support levels; continued withdrawal on a multilateral basis from import restrictions and export subsidies; an end to supply control efforts through production quotas, acreage idling, or marketing orders; and steady reduction in deficiency payments and other program outlays. Some say commodity programs have already taken cuts, but these have been just sufficient to keep outlays from growing above their long-term trend. The $12 billion Commodity Credit Corporation (CCC) outlays of 1994 are still above the average level of the 1950s and 1960s in real terms (and much higher on a per-farm basis). We can't expect the agriculture committees of Congress to take the lead in these cuts. They should occur as part of the overall budget process in which a wide range of government expenditure is reduced.

In the 1994 act reorganizing USDA, Congress required a benefit/cost assessment for any proposed USDA regulatory action having economic effects amounting to $100 million in the area of human health or safety, or environmental protection. This kind of institutional reform is a good way to ensure that regulations affecting agriculture are examined more carefully than they have been in the past. Any extension of the Conservation Reserve Program, for example, should have to pass a benefit/cost test. The approach should be broadened in the 1995 farm bill to cover USDA research, market development, and commodity program provisions. For proposals where our information does not permit meaningful benefit/cost analysis, policies should be undertaken in experimental ways or as a pilot program which will permit subsequent analysis. Even if policy choices are not made on the basis of such analysis, we have a strong interest in knowing what our government believes it is doing.

Bruce Gardner

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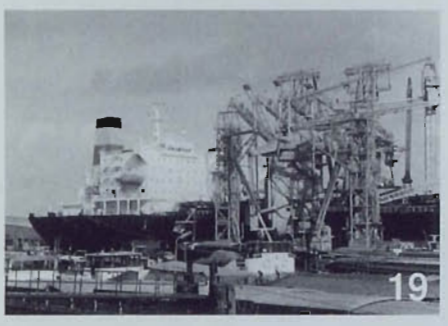

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