

How to Conduct a Supply-Management Program

R. O. Stelzer
Retired

United States Department of Agriculture

ISSUE

When this topic was assigned to me, I was reminded of a conversation with my uncle. This occurred many years ago. He stated that a salesman came to his home selling a book on "how to raise boys". My uncle asked this salesman if he had three books on this subject. The salesman said, "no - only one." My uncle replied that this would not do since he had three boys and he needed a separate book for each.

I think this is applicable to "supply-management" since many different approaches may be necessary to accomplish their objectives.

One of the basic objectives of a supply-management program is to remove some of the "risk" from the farm structure, that is, to stabilize prices and income.

Another key element is to aid producers in making the necessary adjustments in production to meet domestic and export requirements. As such, it is an effort to assist producers and others in channelling limited resources to their best use. Many other objectives could be listed but each should be evaluated in terms of their costs and benefits to the country involved.

To achieve the desirable objectives, means must be developed by which production and sales can be closely adjusted to market demands at acceptable prices.

This is no simple task. It may require several approaches as well as requiring the cooperative efforts of the government working with farmers, industry representatives and consumers.

This should not discourage anyone from attempting a supply-management program, as the rewards fully justify such programs. The success of a program must be measured by its accomplishments to the land, farmers and all people.

One of the first requirements is to obtain the legislation needed to carry out the objectives of the program.

The proposed legislation should include consideration of the following factors: (a) Whether it will make an important contribution to farmers income and well being? (b) Whether it will be acceptable to the majority of the farmers and the general public? (c) Whether it will permit continuing adjustments to changes in market demands and technology? and (d) Whether it will aid in developing economic use of natural resources?

Here in the U.S., the first efforts to influence price and income was through buying at fixed prices excess production of selected commodities in surplus. Such purchases were to be withheld from the market until needed. The program was unsuccessful because it had little influence on price and did not result in any adjustment in production.

This experience brought ^{people} several important lessons, that to be successful (a) adequate funds are needed; (b) the problem needs to be attacked on several fronts; and (c) the cooperation of all concerned with the problem is needed.

Today in the U.S. we do have most of the legislative tools needed to carry out a successful supply-management program. In some cases, the legislation is of short duration and must be renewed from time to time or needs to be refunded each year. Such limitations have the advantage of permitting changes which may be necessary to improve

operations. However, they ^{have} the disadvantage of not permitting long range planning which may be necessary to provide for long range economic and technical development.

The current U.S. legislation results from many years of experience and searching for and trying new approaches. In many cases these are modifications of previous programs. Currently U.S. Legislation includes the following authorities:

1. Soil conservation and cropland adjustment and acreage diversion programs.
2. Marketing quotas and acreage allotments.
3. Price support through wheat certificates, payments, loans and purchases.
4. Export subsidies (including PL 480) and other surplus removal operations.
5. Marketing agreements and orders.
6. Import controls.

The authority to conduct these programs is vested by the Congress in the President and the Secretary of Agriculture and the Commodity Credit Corporation.

Each of the programs may be used separately or together so as to bring production into reasonable balance and thereby assist in (a) stabilizing farm income, (b) increasing the efficiency of agriculture and (c) contributing to the general welfare and economy.

Mandatory Programs

An important decision to be made is determining whether the programs should be voluntary or mandatory. Both methods are used. In the U.S. mandatory marketing quotas and acreage allotments

(item 2 above) are currently being used for such commodities as peanuts, tobacco and rice. Mandatory allotment and quota programs such as those used for these commodities depend on penalties for compliance with program provisions. That is, producers who exceed the acreage allotment or quotas established for the farm are subject to penalties sufficiently high to prevent any wide-spread "non-compliance". Such mandatory provisions are usually not imposed unless the majority of producers have approved the acreage allotment and marketing quota provisions in a referendum.

Price support (loans and purchases) programs may also be mandatory with the legislation specifying the level or range of the support level.

Voluntary Programs

Acreage diversion programs currently in effect for cotton, wheat and feed grains are generally voluntary and compliance is obtained through various incentives. These include eligibility for price support loans or purchase, wheat certificates and payments. The extent of the payments is sometimes related to the required diversion as well as to maintain farm income. The acreage diversion program is based on obtaining the desired adjustment in production needed to balance the supplies with domestic and export requirements. The payments are geared to obtain relatively large participation. In the case of wheat and cotton such payments have resulted in participation near 100%, while in the case of feed grains it has been about 75%.

In other cases where no adjustment in production is needed, price support (loans and purchase) is available to all producers

without regard to participation in any conservation or diversion program. In the U.S. soybeans and milk are examples of this type of activity. However, in these and other similar cases the support prices are at levels which will assist in obtaining the desirable production. Price support is mandatory when producers are required to comply with acreage limitations or land use programs.

There are a number of programs in the U.S. that are developed for the purpose of increasing production. In such cases, price support and incentive payments are made to producers. The more important programs of this type include sugar and wool. In these two cases, production in the U.S. is below requirements and the legislative authority for these programs indicates that it would be in the best interest of the U.S. to encourage production of these commodities. Similar type programs can be used to encourage production to meet export demand.

Price support (loans and purchases) may also be permissive with the Secretary of Agriculture determining the commodities to be supported.

Marketing Agreements and Orders are also an important feature of supply-management. In the U.S. their purpose is to establish and maintain orderly market conditions for the commodity and to insure obtaining the desired price level. The orders usually are the most effective for those commodities where they can be applied by areas and where a secondary use is available for excess production. In the U.S. they are primarily used for fluid milk, fruits and vegetables. In these cases, acreage or production controls do not appear feasible or would be unacceptable to producers. Three types have been used in the U.S., those that regulate the (a) rate of flow; (b) grade and size; and (c) surplus management. Marketing agreements, when approved by producers, become

binding on all persons when an order is issued by the Secretary of Agriculture. Surplusses that cannot be sold, because of the order, into the major outlet are diverted to lower priced use such as milk diverted to butter or cheese.

Administration

Supply-management programs to be successful, should strive to bring the administration and control of the program as near to the producer as possible. In the U.S. this is accomplished by the use of State Committees and elected community and county committeemen. These committeemen are farmers that administer the program on behalf of the Government. It makes it possible for such committeemen to fully inform their neighbors of the program benefits and program provisions. It is one of the major reasons for the programs being accepted and successful in the U.S.

Individual producers, in many cases, may have difficulty in meeting all the terms and conditions necessary to take advantage of all the program provisions. This is particularly true from the standpoint of price support loans and purchases. One means of enabling all producers, particularly those of small and limited resources to participate, is through the use of cooperative associations. In many cases in the U.S. individual producers do not have the means or facilities (storage for example) to become eligible for price support programs. Cooperatives provide the opportunity for farmers banding together to obtain the full benefits of such programs. In the U.S. cooperatives have been very effective in assisting producers to obtain full program benefits

for such commodities as peanuts, rice, tobacco and cotton. In fact, in some cases such as tobacco, practically all the price support activities involving the making of loans on the commodity, storing, handling and marketing the commodity are carried out through cooperative associations. Such cooperative associations have agreements with the Government to carry out some of the program provisions, generally storing, financing, marketing, under the supervision and direction of the Government.

The provisions described above are all primarily for the purpose of carrying out the commitments made by the Congress. In the U.S. this is generally accomplished by providing loans and purchases and in making arrangements with established private or cooperative marketing agencies for the handling, storing or marketing of the commodity. When this has not been possible the government Commodity Credit Corporation has provided the personnel and facilities to carry out the programs. In some cases, the Commodity Credit Corporation has purchased storage facilities, such as bins, to store the surplus.

One of the decisions that needs to be made in a supply-management program is the extent to which marketing should be left in the hands of private trade or be carried out by the government. In Canada, for some crops, government "Marketing Boards" are the only marketing agencies that buy and dispose of the commodity with the net returns being paid to producers. This is in sharp contrast to the U.S. where the main emphasis is placed on private sector marketing of the commodity.

Developing Markets to Assist Supply-Management

Another important function relating to supply-management is the assistance a government can give to finding new or expanded outlets for production. In the U.S. the Government has developed subsidy and donation programs for the purpose of expanding exports. In addition, many programs have been developed to channel surpluses in production to needy people at home. Donations are made to schools, institutions and individuals of surplus commodities which cannot be sold at support prices into domestic markets.

Price Support Relationship

National farm commodity programs need to give careful consideration to avoiding adverse effects on competing products. Some compete for the same production inputs (land, labor, capital). Corn and soybeans are competitive in the U.S. In other cases, the products compete for the same market. Soybean oil and cottonseed oil is an example. Adverse affect, on farmers in some areas by price support distortion, could result in discrediting the programs.

This paper has attempted to outline, only briefly, some of the points that need to be considered in developing a supply-management program. It lists some of the methods used in the U.S. This does not mean that they are those recommended for use in other countries. Each country must decide for itself which of the methods available should be used.

Selected Reading

1. Agriculture Handbook Number 361
"Compilation of Statutes Relating to Soil Conservation
Acreage Diversion-----and Related Statutes"
2. Agriculture Handbook Number 345
"Farm Commodity and Related Programs"
3. Agriculture Policy: A Review of Programs and Needs Vol.V
"National Advisory Commission on Food and Fiber"
4. Food and Fiber for the Future (July 1967)