to U.S. farmers. During the recent recession, the Reagan Administration tightened import restrictions on a range of products including autos, steel, textile products, and motorcycles. Since buyers of U.S. farm products must obtain dollars to make these purchases, such restrictions on imports, whether "voluntary" or involuntary, are especially damaging to U.S. agriculture. The conclusion is that much of the market instability for U.S. farm products during the past decade can be traced to government policies.

Indirect Effects of Farm Programs

Restrictions on competition inevitably reduce the efficiency of resource use. In current wheat, feed grain, and cotton programs, the government pays U.S. farmers not to till some of the world's most productive farmland. The higher prices for bread, milk, sugar and other products resulting from price support programs are especially harmful to those with low incomes and create increased pressures for food stamps and other income transfer programs.

There is a cost of production "trap" associated with the operation of all agricultural price support programs. Any effective price support will increase cost of production as increases in product prices are capitalized into prices of land, production rights, and other specialized resources. Thus, if the price of wheat were doubled or tripled to (say) $10 per bushel, prices of land and other specialized resources in wheat production would be bid up so that the expected cost of production, including the return to entrepreneurship, would tend to equal product price.

Since the benefits of farm programs are largely capitalized into higher prices of inputs (especially land), it is the owners of these inputs at that time who benefit. Producers who enter production later receive little benefit from such programs unless price support levels are further increased. Later entrants into production receive higher product prices, but they also have higher costs. Moreover, the increased prices of land and other inputs creates a trap that makes it difficult to abolish farm programs. If price support levels are reduced or abolished, prices of land and other specialized assets decrease—imposing huge losses on current farmers, particularly landowners. The windfall losses would not necessarily be incurred by those who received the gains since many farmers bought land and other farm assets after prices of these assets had already increased and, therefore, did not receive the original windfall.

There is a great deal of public concern about the viability of the small farm. Thus, it is ironic that interest rate subsidies of the FmHA and the CCC (Commodity Credit Corporation) promote the trend toward fewer

and larger farms by encouraging the substitution of machinery and other capital inputs for labor. When credit is allocated on the basis of opportunity cost, credit is used by those producers who best accommodate consumer demands. If credit is subsidized, some less productive producers are kept in business, thereby increasing output with lower product prices. Thus, another indirect effect of subsidized credit is to harm those producers *not* receiving preferential treatment in capital markets.

Schizophrenic Nature of Programs

Farm programs are incredibly complex and there is no way to determine the net impact of the network of price supports, marketing orders, credit subsidies, conservation subsidies, food stamps, and other programs financed through the U.S. Department of Agriculture. However, the programs are often inconsistent, having opposite effects on farm product prices. For example, price support programs for milk, sugar, feed grains, wheat, cotton, and tobacco along with food stamp and other subsidized food assistance programs *increase* product prices. On the other hand, government-financed research activities and credit, land, and water subsidies tend to increase output and *decrease* farm product prices.

Expenditures to "stabilize farm prices and income" by reducing output totalled about $20 billion in fiscal 1983. During the same period, expenditures that increase output totalled about $15 billion. If the dollars spent on these programs were equally efficient in achieving their conflicting objectives, some $30 billion may have been spent in 1983 on activities having little (or no) net effect on food costs, farm prices, or farm incomes. That is, because of their opposite effects on product prices, a substantial part of farm program expenditures merely cancel out each other. However, there are important gainers and losers associated with the operation of farm programs as indicated below even if the expenditures, on average, are self-defeating.

The fundamental problem in agriculture, as in other areas, is to achieve the most productive pattern of resource use. There are only two ways of securing economic cooperation—the market system and central direction. There is, in general, a strong case for decentralized competitive markets as the most effective means of coping with constantly changing economic conditions. The competitive entrepreneurial market process is fully as applicable in agriculture as in other economic sectors. The market in agricultural production and marketing activities can do what central planning cannot do: it can utilize the detailed informa-