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## **POLICIES TO ASSIST AGRIBUSINESS ADJUST TO FINANCIAL STRESS IN AGRICULTURE**

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Surprisingly, it took the discussion group considerable time to really come to grips with the issue of policies to aid agribusiness. It was difficult to entice participants to go beyond extension's traditional role, which at most land grant universities consists of management assistance programs for cooperatives and relatively small proprietary farm input and marketing firms.

This hesitation to dig into the heart of the matter leads to perhaps the most significant conclusion coming out of this session. Our conclusion was considerably reinforced by William Browne's paper in the conference. Browne touched at length on the important role agribusiness firms and their trade associations play in the policy process in an effort to protect their vested interests.

Despite that important role, the truth is that the agribusiness sector is usually given brief attention or slighted entirely when state level policy specialists discuss agricultural problems, policy alternatives and probable consequences. The discussion in our group was symptomatic of this omission. This oversight hurts our potential input into the development of sound farm policy. At the minimum, the impact of farm level programs on the agribusiness sector needs to be given considerable thought because of the important role the sector plays in political decisions. Further, we may need to consider trade-offs with the sector to help achieve needed farm level adjustments. By doing so, we may be better able to deal with what Dennis Henderson aptly termed the current "perverse nature of agribusiness influence on the policy process." At a time when economic signals call for the need for resources to exit the farm sector, most agribusiness is lobbying hard for policy alternatives that will maintain its level of volume and output. This phenomenon tends to lead to policies that retard the adjustment process.

There are several questions that need to be addressed in focusing on programs that assist agribusiness to adjust:

1. Should we have programs that aid agribusiness?
2. If so, toward what types of firms should assistance be targeted?
3. What are the program alternatives?
4. Which programs offer the most promise?

### **Should We Have Programs That Benefit Agribusiness?**

In addition to the above argument that such programs may be practically necessary, there are several other points that merit consideration. First, the sector in general is in economic trouble. Further, there is precedence for assistance, even of the most direct nature. The bailout of Chrysler and even the Farm Credit System are examples. Finally, we need to remind ourselves that the future structure of the agribusiness sector will affect the future structure of the farm sector and the face of rural America. All of these facts appear to be necessary, but not compelling, conditions for assistance.

### **What Types of Firms Should Be Helped?**

The diversity and enormity of the agribusiness sector raises real questions about targeting the impact of programs. On the one hand, there are farm supply firms (including farm finance). On the other are marketing firms. The former group in general has been much more severely impacted by the current farm crisis than the latter, the chief exception being marketing firms that are primarily export oriented or import sensitive.

The sector consists of cooperatives and private firms. Cooperatives, at least in the theoretical view, are the input supply and/or marketing arms of millions of farmers' businesses. Farmers have billions of dollars of capital invested in their co-ops. Given the current crisis in the farm sector, is special attention warranted for farm cooperative versus other agribusiness?

U.S. agribusiness includes multinational and conglomerate corporate giants as well as small proprietary feed, equipment and farm supply dealers. If we have programs that help agribusiness adjust, should they focus on the local implement dealer, the manufacturer or both?

The fact may be overlooked that agribusiness is not only suffering, but it is also evolving. While a general contraction of traditional firms is occurring, new firms dealing with new enterprises and new technology are springing up. Any program aimed at agribusiness

should not only be aimed at existing firms, it should recognize this change and help the sector adapt.

Last, the group ultimately agreed wholeheartedly with Harl's thesis that current problems involve the entire agricultural sector, not just farmers. However, Harl himself did not really focus on the entire breadth of the agribusiness sector. The problem goes far beyond the farm credit aspects of the situation, which complicates the issues.

### **What Are the Alternatives?**

In the broad sense, there are two alternatives. 1) Indirect assistance and programs that would address the sector directly. Programs that help the farm sector recover economically will indirectly benefit agribusinesses. 2) Direct aid could include loans, grants, management assistance and tax policies, as well as a host of alternative programs such as counseling, job information, job training and general community development programs.

### **Conclusions**

Although the discussion group concurred that agricultural policy is much broader than just farm policy, there was little enthusiasm for direct "bailout" type programs beyond that already expected for the Farm Credit System. A very relevant consideration is that resources in the agribusiness sector tend to be much more flexible than those in the farm sector. Therefore, much of the structural readjustment may have occurred already.

Four major policy options, by no means mutually exclusive, emerged from the discussion:

1. Sound general economic policy should be pursued. Not only is agribusiness dependent on the health of the farm sector, it tends to be interest rate and internationally sensitive itself. For example, many agribusiness firms must carry large inventories.
2. The agribusiness sector's pursuit of programs that keep farm output at high levels is understandable. An alternative that could be pursued is demand enhancement. It would seem that there could be considerable long-term payoff to the sector from economic development strategies for less developed countries.
3. Speeding up the farm sector adjustment process would benefit agribusiness. Policies that retard adjustment and keep producers barely hanging on would seem to ill serve the sector. Such producers are poor credit risks and are subject to capital rationing, reducing potential profits and sales for agribusiness.

4. Extension has a continuing role to play in management education programs, timely outlook information and help with long-range planning, feasibility analysis for "new" agribusiness ventures and rural economic development programs. Extension is also the only organization in most states that can mobilize the resources to educate agricultural leaders, agribusiness and community leaders about the interdependence of rural economies.

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