



AgEcon SEARCH

RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

mo

1987-6

Paper AEW 1987-6

THE STATE OF FARM AND FOOD SYSTEMS TODAY:
THE DOMESTIC SCENE

Harold F. Breimyer
Professor and Extension
Economist Emeritus
University of Missouri-Columbia. *Dept of agricultural economics*

GIANNINI FOUNDATION OF
AGRICULTURAL ECONOMICS
LIBRARY

JUN 7 1988

WITHDRAWN

THE STATE OF FARM AND FOOD SYSTEMS TODAY:
THE DOMESTIC SCENE

Harold F. Breimyer
Professor and Extension
Economist Emeritus
University of Missouri-Columbia

The late James Thurber is known for witticisms many of which were more biting than funny. A familiar one is his answer to a question asked during casual pleasantries, "I'm glad you are well. And how is your wife?" Thurber's reply was, "Compared to what?"

My assignment is to report on the state of U.S. agriculture today. It is not frivolous to ask, compared with what? Are we interested in historical comparisons, always instructive? In how agriculture is faring today relative to other parts of the economy? Or perhaps we ask how the situation in agriculture is judged against our aspirations for it and its people.

I will assume that our primary interest is the third. But I warn that this way of viewing agriculture -- of matching it against our standards for it -- is tricky. For it means that our judgment is formed equally as much by our mental vision of how things ought to be as by empirical observation. Empirical data on agriculture are readily at hand. It will not take me long to report the more significant information. The test lies in the criteria for judgment.

If the first obstacle to describing agriculture today lies in the evaluative criteria, the second is the make-up of the sector itself. Thurber's wife was at least a unitary personality. U.S. agriculture is anything but that. It is a big blob, a heterogeneous collection of all sorts and sizes of farmers and farms and many institutional arrangements. The recourse is to take refuge in visualizing a typical farm or farmer. It's politically strategic to think in terms of the full-time, moderate-sized, family farmer, inasmuch as that image enjoys wide sympathetic acceptance.

Farmers themselves respond in chameleon fashion as each declares himself to be just that ordinary bib-overalled family farmer. As is well known, the model is a minority that is giving way further before an emerging dual agriculture. The irony is not innocent; structural considerations enter into any design of a farm program. There is a concern for what kind of agriculture is being defended or supported, or sought for the future. Moreover, the wide divisions within agriculture should disabuse us of any notion that the principal obstacle in the making of policy is a cleavage between agriculture and the rest of the economy. The biggest impediment is factional fights within agriculture.

A last stage-setting comment takes off from theology. If our clergy warn against miniaturizing our God and admonish that we make Him big enough, even

Keynote Address, Consultation on Agriculture and Food Policy, Interfaith Action for Economic Justice, Washington, DC, March 30, 1987.

so do I beg that we not miniaturize our approach to policy issues in U.S. agriculture. When addressing policy for agriculture and the rural community we ought not bog down in debates about the parity standard, the merits (or lack thereof) of a particular farm bill, or the insolence of the European Community in dallying with a tax on imported oils. Granted, all these are parts of the picture. But they are small parts. They should not be allowed to obscure our consideration of the big issues in agricultural policy. We should make certain that our view of farm affairs, even as our God, is big enough.

The Social and Economic Setting

In asking this orientation I make it incumbent upon myself that I offer a macro view of agriculture today.

The basic relationships are accepted readily. Agriculture is an integral part of the U.S. economy. Farmers and their families are intrinsic to our social culture. Agricultural policy is not made in isolation from economic policy generally. These points are not in dispute.

A more contemporary observation on which agricultural economists are agreed is that, more than at any time since the Great Depression, agriculture has been subject the last few years to forces, developments, and policies that lie outside it -- that are not strictly agricultural in origin or impact. Two random examples in this decade are the dramatic change in our nation's monetary policy from loose to tight, with its excruciating impact on hundreds of thousands of farmers; and the shrinking of world demand for our nation's export products, industrial as well as agriculture. These are not exclusively agricultural events. All agriculture can do is adjust. That is what it is struggling to do.

More difficult to sense, identify, and interpret are the subtle changes during past years in the attitudes of our citizens and the operating practices of government. Pundits a-plenty have tried their hand. I find persuasive the comments of observers such as Robert Reich, Kevin Phillips, and even George Will when he is not Soviet-baiting. For my part, having lived through more than a third of our nation's life I am struck by a sea change in the American psyche during the last two decades. Earlier, the cataclysms of the frightfully dangerous Depression and World War II, and our successful conclusion to both, had brought an era of idealistic dedication to making ours a better nation. We embarked on our Golden Age. There came security protection for our elders, unemployment benefits for industrial workers, price supports for farm products, deposit insurance for savers. In the early and mid 1960s we rectified our flaws in civil rights and food programs for the poor. We even addressed rural poverty. Then came two other cataclysms, to which we reacted negatively. One was the quagmire of Vietnam. The other was the oil price shocks of the 1970s that told us we would no longer run our industrial machine on dirt-cheap raw materials. Our economic growth slowed to an erratic, unsteady pace. Our people, perplexed, turned inward-looking. In Kevin Phillips' felicitous phrase we Balkanized ourselves, splitting into antagonistic interest groups politically fueled by PACs. In government we moved at the highest speed our leadership could muster toward, on the one hand, renouncing regulatory and personal-welfare activities while, on the other hand, wielding as never before the surreptitiously powerful instruments

of fiscal, monetary, and tax policy -- what I call the secular economic trinity.

Such is my capsule view of the socio-political setting in which agricultural policy is now addressed. I do not find it encouraging.

The Four Farm Problems

I now review the situation in agriculture as it bears on possible courses in the making of policy.

Several years ago I said that there is not a farm problem but two problems. Then I added a third; and now I attach a fourth, although it is not so much a problem of agriculture as of government relative to agriculture.

The first farm problem is often called the problem of debt, or of divestiture. It is that, but a more general term is that it is a problem of decapitalization, of writing down asset values in agriculture. Agriculture as a whole is in the process of losing at least \$300 billion in total assets. This translates to \$200,000 for each moderate sized commercial farm.

A half million or more farmers who were soundly financed in 1980 have either been dispossessed or remain in some degree of stress. I have predicted that at least 200,000 would be forced out of agriculture, or into a lower tenure status. I think now that the figure will not be that high, for reasons I will explain later. But the trauma for the farmers most affected has been extremely severe, even sometimes suicidal.

I make three points about this first problem of agriculture. First, vulnerability to it is determined by the terms of a farmer's financing -- that is, his debt status -- and not by his farming ability. In fact, the farmers who are hurt most are the younger and more aggressive ones, who on the average are the better operators. Let's not ever say that it's just a matter of displacing inefficient farmers.

Secondly, the problem arises primarily outside agriculture, specifically in the inflationary run-up in asset values during the 1970s and the deflation that followed in the 1980s. Two interpretations are possible. One is that farmers were foolish to let themselves be caught in the inflationary boom of the 1970s and pay prices for land higher than earnings would support -- that is, prices that were justified only by anticipation of further inflation. (I was one of the economists who warned against doing that.) The other interpretation, equally valid, is that the asset values of the 1970s reflected accurately the low cost of borrowed money at the time, and that the sharply higher interest rates the Federal Reserve Board brought about in the 1980s is the main cause of the painful devaluation of assets. I have emphasized the monetary-policy role in the situation.

Thirdly, this problem is an asset value and debt problem and can only be dealt with as such. It is not a commodity price problem.

Commodity prices and farm incomes are themselves a problem. They are my second farm problem.

This problem properly directs our attention to the design of acreage, price support, and deficiency payment programs. My only quick comment is that it would be easy to be too critical of the present programs. The hard fact is that the whole world is oversupplied with products relative to a worldwide lag in demand. No easy solution is at hand.

My third problem follows from one and two. It is that not only individual farmers are in trouble. So is our traditional farming system. Stresses of the 1980s will not bring our proprietary agriculture to an end overnight, but they give an impetus to trends underway and raise questions about the future.

Finally, there is a fourth problem, a problem of government relative to agriculture. In my opinion government has acted more responsibly in providing an underpinning to farmers' incomes than in addressing the debt problem. But the acreage and price support programs are encountering very high costs while failing to prevent a further build-up of surpluses. Also, there is public resentment of the size of payment received by some individuals such as the highly publicized Crown Prince of Leichtenstein. And our subsidized cut-rate export prices are causing harm and breeding resentment among other exporting countries who are our political allies.

The Farm Debt Problem

With regard to the farm debt problem, there is something uncivilized about having to break the lives of a quarter million farmers and their families in order to write smaller numbers on balance sheets of farmers and their lenders. I have joined in support of proposals to set up a national mortgage corporation that would use government borrowing authority to assist in scaling down the principal of mortgages to a level that can be carried. The American Farm Bureau Federation has come out in favor of such an effort. The rationale is that the principal of an oversized loan must be reduced in any case. Why should it be necessary to wreck so many farmers in order to do it?

Fortunately, steps are being taken here and there to renegotiate a borrower's mortgage in place of forcing him into bankruptcy. One attraction, apart from humane considerations, is that the lender will usually realize a better recovery in this way than by forcing liquidation. The Federal Deposit Insurance Corporation has pilot projects for renegotiation. Even the Farm Credit System is beginning to wake up and see the merit of renegotiating loans. To date, the FCS has been the "last to know."

The Price and Income Problem

The issue of the moment relative to price and income policy is whether the Food Security Act of 1985 is to be opened up for amendments. Senator Leahy, chairman of the Senate Committee on Agriculture, Nutrition, and Forestry, and USDA Secretary Lyng are opposed to changing the law this year. The Farm Bureau takes the same stand. Yet proposals for new laws are as plentiful as the grain stocks they would deal with.

The policy scene has been marked by catchwords such as decoupling and targeting. It is doubtful that they help much.

Questions mainly at issue will be reviewed briefly.

Loan Rates. Principal feature of the 1985 law was its reduction of loan rates to an unprecedented low level. The object was to recapture our earlier share of world trade. Results to date have been disappointing but not, in my judgment, surprising. Our exports have not rebounded very much. The reason is clear enough. In the world's corn, wheat, and soybean trade we are the price leader. Everyone else is a follower. When we reduce our prices, other exporters follow suit, and relative shares remain about as before. The side effect is that we put other exporters under an intense financial squeeze, which they resent. Our principal object was to chastise the European Community but Canada, Australia, Argentina, and Brazil, and in rice a number of Asian countries, have been caught in the maelstrom.

Target Prices and Deficiency Payments. When loan rates were reduced the target prices were kept unchanged, causing deficiency payments to increase sharply. Those payments now contribute a major part of farmers' net income. They also constitute an implicit subsidy to exports and to domestic feeding.

Because payments are made basically according to a farmer's volume of production, large farmers get big payments -- although payment limits have some effect -- and small farmers get small payments. There is an interest in "targeting" payments more toward the moderate sized farmer who is widely seen as a preferred beneficiary. The problem that arises is that payments also are a reward for a farmer's idling of land. Without that reward, larger farmers will not take part in programs. I have proposed that farmers be paid a rent for idling their land -- the so-called paid diversion. I would then treat a portion of direct payments as an income supplement, to be scaled in favor of moderate sized farmers and confined to operators. I reviewed these issues in testimony given recently before the Senate Committee on Agriculture, Nutrition, and Forestry.¹

Production Control: Mandatory Allotments. In the absence of a sizable recovery in exports our volume of production is excessive. Carryover stocks continue to build up. In my judgment, control techniques have not been tight enough. Paid diversion would likely reduce production further but would be costly. In this setting -- this dilemma -- it has been proposed that farmers be allowed to vote mandatory controls upon themselves.

I am not as opposed to the mandatory route as are some economists. We had such a program for 30 years, and it was workable. If a program objective is to reduce supplies substantially while saving Treasury costs, mandatory allotments are worth consideration. Moreover, there is an element of equity in a mandatory program, as all producers are required to contribute to a strengthening of a market.

On the other hand, the mandatory approach is acceptable only for cash crops such as wheat and cotton. It does not work well for the feed grains, which are an input to the livestock sector. Just now, I regret to say, it is

¹Harold F. Breimyer, "Targeting as a Principle in Farm Policy." Testimony given before the Senate Committee on Agriculture, Nutrition, and Forestry, Washington, DC, March 18, 1987.

being advocated on grounds that prices to farmers would be increased appreciably. The goal is unwise and the promise false. Furthermore, in my opinion any mandatory program must be two-price in nature; exports would carry a lower price than domestic sales.

The Structure of Agriculture Problem

The issue of the structure of agriculture -- who will own the land, and who will farm it and under what terms -- is a long run issue. It is principally a means-of-financing issue and not one of price and income support. It also is an issue on which there is sharp division within agriculture.

If we as a nation really want to enable operating farmers to own at least some of the land they farm, and if we hope to keep the door of opportunity open, that can be accomplished only by means of social action. In a paper of last fall I commented philosophically about the nature of opportunity. I suggested that in our tradition performance is private but opportunity is social. There will be opportunity for capable young farmers to enter farming as part-owners only if society helps provide that opportunity.²

My only firm comment is that the issue of defending traditional structure cannot be resolved by high commodity price supports. Higher prices fall alike on the modest-farmer just and huge-farm-corporation unjust (if we accept those terms). Appropriate steps include (1) debt-carrying assistance to overindebted farmers, as suggested above; (2) a policy requiring the Farmers Home Administration and Federal Land Banks to sell land held by them only to modest sized operating farmers; (3) credit assistance to capable young farmers; (4) an appropriate targeting of income-supplement payments; (5) ending of all remaining tax sheltering.

The Government Problem

In my opinion the concurrent increases in cost of farm programs and stocks of farm commodities cannot continue indefinitely. I am sensitive also to the international-relations aspect of farm programs. As the expression goes, "Something's gotta give." It need not "give" during calendar 1987. The odds are high that changes in the 1985 farm law, whenever made, will be peripheral adjustments, not a revoking and rewriting. Although there will be calls to make major changes in farm policy, they will give way before the process of give-and-take, of compromise. That is how most laws are written in a democracy.

Soil Conservation and Other Issues

Omitted from this review are other considerations such as the place of soil conservation in farm policy. For my part, I have long advocated removing all highly erodible land from farmers' acreage bases. The 1985 law takes a commendable step in that direction. Pressures are being exerted to revoke the

²Harold F. Breimyer, "Causes, Consequences, Correctives, and Christian Responses to the Farm Crisis." New Life in the Heartland Conference, Sioux Falls, South Dakota, September 19, 1986.

mandatory feature that is due to to into effect in 1990. All possible support ought to be given, in my judgment, to keeping that provision intact.

It would be easy to list other issues, such as environmental considerations. They are not touched on here.

My final comment is almost an apology, a statement of regret that my review does not lead to neat, discrete "answers." On the contrary, I warn against buying package solutions. My own preference is to give foremost attention to providing debt-carrying assistance in order to minimize further liquidation of capable farmers, and to the longer run issue of the structure of agriculture. It is also my conviction that in the present setting of world surplus, it is neither advisable nor feasible to lift farmers' incomes to an incentive level. Moreover, any heroic attempt to do that would likely have the side effect of locking in the farmers who are already on the scene, and locking out newcomers. For several years to come farm programs will be primarily of the nature of damage control. I am sorry that is so, but I believe my assessment to be realistic. In all other respects, the making of farm policy will continue to be a process of considering, reconciling, and compromising the many considerations that bear on policy. The religious community has good cause to introduce its informed and generously humanitarian voice into the proceedings.