should be sensitive to their plight. But these adjustments will lead to a lower cost structure for the sector, higher incomes, and greater financial stability. According to USDA, total farm debt has fallen $6.4 billion since 1982—that's at least a $640 million saving in interest expenses. And the debt liquidation is not over—as much as (gulp!) $50 billion in farm debt will probably be liquidated over the next few years. This has to happen to bring debt servicing obligations back in line with the income generating capacity of the sector. This adjustment alone will add $5 billion to farm income.

Farm real estate represents about 73% of all farm assets. As such, changes in its value have a dramatic effect on the rates of return one earns on investment in farm assets. Once farmland prices stabilize at lower levels, investment in farm assets will yield attractive rates of return. This will benefit a whole new generation of farmers and attract outside equity capital to the sector. The result will be a more profitable and financially stable agriculture. C

A Panel Responds

What Will Be the Big Effects of 1985 Farm Legislation?

A CHOICES panel of experts answers the question, "what will be the big effects of the 1985 farm legislation?"

Bold Steps Have Been Made

Stanley R. Johnson
Administrator
Center for Agricultural and Rural Development
Iowa State University

The Food Security Act of 1985 is designed to move major agricultural commodity markets and the U.S. agricultural sector into a more balanced position. Key features of the Act include more competitive pricing in domestic and export markets to stimulate demand growth, a long-term conservation reserve to remove fragile land from crop production and to reduce excess production capacity, and income and gross receipts protection near current levels in exchange for planted acreage reductions by farmers.

Excess capacity will be reduced by decreasing planted acres, especially those from frail land, and expanding domestic and export markets. But export markets are not likely to respond to lower U.S. support pieces (loan rates) sufficiently in the short run to prevent substantial declines in farm prices. Thus, government direct payment to farmers will be high with annual costs for the next 2-3 years likely to be more than two times the annual average costs under the 1981 Farm Bill. Net farm income will hold near current levels with declining receipts offset by reduction in costs due to energy and real interest rate declines.

Government will be prominent during the planned transition to a more competitive U.S. agriculture. The farm debt problem will continue in the near term and will probably be addressed with special legislation, since the Food Security Act of 1985 does little to improve financial conditions of farmers with high debt loads. Bold steps to recapture export markets and reduce U.S. excess production capacity have been made, with the government assuming much of the risk associated with possible declines in market-price-based net farm income and gross farm receipts.

Family Farm Income Threatened

Cy Carpenter
President
National Farmers Union

The legacy of the 1985 Farm Bill will be grim indeed if immediate corrective action is not taken to restore farm income. Its biggest effect could well be the elimination of the family system of agriculture in the United States. If that happens, what will replace family farm ownership? Corporations that take production overseas, or import foreign grain, or hire at wages so low that families are forced to drift from temporary farm job to farm job?

No one knows. Until that all-important question is answered, we must reverse this disastrous direction and marshall all our energy into preserving the most efficient an effective system of agriculture on earth: the American family farm.

Farm income is the missing link in the 1985 Farm Bill. USDA's own Economic Research Service forecasts that off-farm jobs are "the only income source projected to increase substantially between now and 1991." This trend is forcing more and more families to sell their land and give up their vocations. This elimination of farming and ranching families is fundamentally wrong. We need to take acres and livestock out of production—not people. Keeping families on the land with a widespread distribution of land ownership has long been a goal of democracy. Our present course means an elimination of this model system.

Farmers and rural communities across our nation are being economically raped. They are not alone. Workers have already lost a half a million jobs because of the rural depression.

Our farmers have kept pace with, if not ahead of, other sectors of the economy in productivity, efficiency, willingness and capability to adjust, quality of product, capitalization and modernization—all hallmarks of successful business. Now, they deserve better legislation and a chance to continue that record.

Toward Market Orientation

Robert L. Thompson
Assistant Secretary of Agriculture for Economics

The 1985 Farm Bill redirects U.S. agriculture toward market orientation and flexibility. Tools found in the new bill will work for the 1986 crop with positive results in the 1986/87 marketing year. Changes may not all be dramatic but they will be in the right direction. The conservation reserve will begin to idle excess, erodible acreage; the reduction in loan rates will work over time to reduce global production. And the effective freeze of acreage bases and crop yield cuts the link between direct Government payments and production, reducing the incentive to overproduce as a way to receive larger Federal payments. Lower U.S. loan rates and the resulting lower world prices should cause our competitors to share some of the supply adjustment necessary to bring world production in line with world demand. This also should permit recapture of U.S. export market share over time.

In 1986, lower loan rates and the declining dollar should make us competitive again in export markets. Even with smaller U.S. crops, we still will continue support for farm income through the compassionate provisions of the new farm bill with frozen target prices and larger deficiency payments for the next few years. Until then, as we work through the 1985 crops and the last of the 1981 farm bill, we will continue to see record expenditures and low prices. But I believe the worst is over; the 1985 farm bill contains the tools needed to put U.S. agriculture back on the road to prosperity—if only we will give it time.

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A Subsidy Battle for World Markets

Francis B. Dubois
California Rice Grower of the Year

Almost all California rice growers are grabbing the ASCS life-line. In spite of (and probably also because of) the highest per-acre yields in the country, the mournful cry of the scissor-billed auctioneer is heard o'er the land. It has been folk wisdom, if not economic axiom, that even a 5-percent surplus of a farm product could depress its price by 25 percent or more. Rice surpluses have sometimes approached 100 percent, and what we once euphemistically called an "ever-normal granary" has become an ever-abnormal bursting warehouse.

Before the Green Revolution, which we ourselves fomented, we used to ship at least a quarter of our crop every year to oriental countries where the monsoons came too early or too late, tungro disease struck, or there was civil insurrection. Some of those countries are now our adversaries in the battle for world markets. They have chosen subsidy as their weapon, and we are arming ourselves accordingly.

Consumers Will Pay

Ellen Haas
Executive Director
Public Voice for Food and Health Policy

A wide circle of interests have a stake in the outcome of the 1985 Farm Bill, not the least of which is the consumer who pays in two ways—in food prices at the supermarket and through their taxes. American consumers spend about $400 billion a year on food, and the new Farm Bill provisions for the sugar, dairy and peanut programs will add to those costs in coming years. For example, the dairy program will continue to be costly to the Treasury because farmers have been signaled to continue to produce. This will result in persistent, high government purchases (and costs).

Also, consumer prices will continue to be artificially propped up while consumption of this nutritionally inequivalent product will continue to decline. Sugar and peanut prices will also remain artificially high as a result of the 1985 Farm Bill. These effects are among the major impacts for consumers.

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No Fan of 902

Derwent Renshaw
Agricultural Counselor
Delegation of the Commission of the European Communities

Rather than attempt an overall analysis of the Food Security Act, its destabilizing effect on world markets and the extent to which U.S. farmers will be insulated from market orientation, I will concentrate instead on the effects of one particular aspect of the legislation.

Section 902 requires that the U.S. sugar support programme be operated without any cost to the federal budget. This will be achieved by restricting imports so that domestic prices are kept high enough to prevent CCC having to take over sugar under loan. All of which is not entirely new but more a prolongation of similar and previous arrangements.

The first effect of the Act's "no cost" requirement was felt as soon as February 27 when USDA announced that the 1985/86 import quota, which was already 30 percent lower than the previous year's, would be extended by three months and thus effectively reduced by a further 23 percent. The Caribbean Sugar Producers Association commenting on what it called the "severe impact" of the reduced U.S. import quotas said it was "a further blow to developing countries depending on sugar exports for a large part of their foreign exchange earnings."

This latest cutback is part of a trend of ever-diminishing quotas which have resulted in U.S. sugar imports plunging from 4.6 million tons in 1981 to 2.8 million tons in 1984 and with a final figure of 2.2 million expected for calendar 1985. This downward drift, which will be accentuated by the Act, is a movement destined, according to many analysts, to result in no U.S. sugar imports whatsoever well before 1990.

Thus, the big effects of Section 902 will be to enable protected U.S. sugar growers to continue to produce at traditional levels, to disastrously reduce still further the export markets of developing country sugar exporters but also to maintain the bonanza enjoyed by producers of corn sweeteners and particularly of high fructose corn syrup. With only 4 percent of the U.S. sweetener market 10 years ago, corn sweeteners now enjoy a 50 percent share. The lower corn prices resulting from the Act together with its no-cost requirement should help them to consolidate their gains. All of which raises the question "was Section 902 drafted with the Caribbean Basin or the Corn Belt in mind?"

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Exports Won't Halt Downsizing

Bob Bergland
Executive Vice President
National Rural Electric Cooperative Association

Almost every country in the world except the Soviet Union and a handful of smaller countries has developed an economic system in agriculture similar to ours in at least one respect. It is more profitable to get a high net yield per acre or animal unit than a poor one.

Not every country has yet developed the ability to provide the required fertilizer, irrigation or better seeds, but they are on the way. These countries will be turning to exports only to fill in the shortfall. An unreliable number, from my point of view.

The Third World debt crisis starting in 1982, or after, has certainly affected needy countries' ability to pay. Mexico, for example, has been forced to cut farm imports from the U.S. in half during the past few years.

For these, among other reasons, I do not believe we can any longer routinely export our crop surpluses.

The Reagan Administration demanded and received a provision in the farm bill allowing sharply reduced price supports with the implied promise that this will place us in a more competitive position in the markets and exports will automatically increase. I don't think it will work.

I don't believe developing countries will abandon their own production incentives just because the U.S. is trying to dump a surplus. Until the Third World debt crisis is settled, places like Mexico, that represent far and away the best possibilities for export growth, will be unable to pay no matter how badly it may want to buy.

We are going to downsize the capacity of production agriculture in the U.S. The question is: Will it be through denial of credits and bankruptcy or some orderly adjustment process through a farm program?

I am strongly in favor of the conservation reserve section of the new farm bill as the best means of attacking at least two problems: Fragile land conversion to a conserving use and downsizing at the same time. The only fault—it is too small. We ought to target 100 million acres converted to a conserving use.

The Most Expensive Farm Bill Ever

David L. Reinders
Senior Economist
Farm Credit Corporation of America

The Food Security Act of 1985 will be the most expensive farm bill ever unless Gramm-Rudman-Hollings forces spending cuts by USDA. If spending cuts are made, the Act could be modified before the 1988 crop year to reflect lower target prices and larger set-asides.

In its present form, the Act will have several important effects:

—The lower loan rates (combined with a falling dollar) will make U.S. farm products more price competitive on world markets.

—With target prices only slightly less than last year, government deficiency payments will continue to protect farm incomes and slow the decline in land values.

—The conservation reserve eventually will remove some 40 million acres of fragile, highly erodible lands from the production base.

—The dairy whole-herd buyout program will help bring milk production more in line with demand.

—FmHA will make fewer direct loans and more guaranteed loans.

This last item may have the greatest implications for commercial agricultural banks and the Farm Credit System. Presently FmHA holds $28 billion in farm debt. Potentially as much as three-fourths of FmHA's future loan volume could be guaranteed and transferred to other lenders' portfolios.

■

A Test of 'Market Clearing'

Jim Gill
Executive Director
Commodities Director
Illinois Farm Bureau

The 1985 Food Security Act ranks as the most complex supply control piece of agriculture legislation since the 1930's depression. It gives the Ag Secretary and the President enormous power to enhance or limit farm incomes.

The most dramatic feature of the legislation has to be the sharp reduction in commodity loan rates. This experimental feature should test the entire "market clearing" concepts. If it stimulates a widespread subsidy war then it will be discarded in future years. The idea must be given two years to prove itself.

After the bill was signed, new-crop commodity prices quickly dropped below cost of production. Producers will now respond by increasing yields. Lower feed prices will stimulate livestock production and lower those prices, too. Industry response will be to develop and merchandize improved meat products for the consumer, a positive development.

The second most important feature of the bill was revival of the Conservation Reserve idea. If implemented properly, it should reduce the crop production base by removing erodible acres from crop production.

A third important feature is creation of a new farm commodity—PIK entitlements. The rest of the business world is now making money trading "paper", why shouldn't agriculture!

The fact that this act terminates in 1990, an election year, guarantees another great debate that year.

■

Give It Time To Work

Charles M. Harper
Chairman of the Board
Chief Executive Officer
ConAgra, Inc.

The 1985 Farm Bill recognizes, really for the first time in U.S. legislation, the internationalization of agriculture and the role the U.S. plays in influencing world production and pricing. The Farm Bill furnishes the Secretary of Agriculture the tools to help the U.S. recover export market share via considerable flexibility in setting loan rates and flexibility in export pricing with the export programs. The bill is designed to build on the inherent strengths this country possesses in agriculture, and it has demonstrated Congress' confidence in the U.S. agricultural system.

If the economic environment remains favorable, in terms of world economic growth, lower interest rates, and competitive U.S. exchange rates, we have powerful forces in place to stimulate world food demand and regain a significant share of lost markets. However, these changes will come slowly. Commodity prices are likely to remain depressed in the foreseeable future, as large surpluses are being reduced. Competing exporting countries will attempt to maintain market share and production in the near term. Large debt burdens in U.S. agriculture and developing countries will make adjustments painful. Eventually, however, the weaker dollar and lower loan rates will cause competitors to rethink their philosophies of subsidizing inefficient production at an increasingly higher drain on their treasuries. U.S. agriculture will also shrink as marginal acres are bid into the conservation reserve.

It is critically important, however, that the Administration and Congress allow the new thrust in the Farm Bill enough time to promote the changes it is designed to accomplish in the world and eventually restore a greater level of profitability to U.S. agriculture. C

HAVE YOU READ . . .

Have you read . . .
The State of the World, 1986

. . . a publication prepared by Lester R. Brown and his Worldwatch Institute staff? It is the third annual report of the Institute to have a similar title—State of the World. It deals literally with the world in all of its complexity—deficits, environment, food, military, and national security. Nothing is too intricate or complex to escape the purview and insight of the Worldwatch Institute.

The strength of the book is in its willingness to speak directly, and articulately, to a wide range of issues that trouble all of us—to sense relationships and to identify possible policy approaches. And, of course, those are the reasons why these annual reports have been such a success, with 117,000 copies of the 1984 report printed in 9 languages.

You will likely agree with much of the analysis and conclusions but not all. Some will be bothered by statements that reach beyond what can be known with a high degree of certainty. For example, the last sentence of the book states, "Once it starts, demilitarization—like militarization—could feed on itself." Therein, however, is one of the strengths of Worldwatch Institute. Brown and his colleagues are willing to discuss important issues even if information on these issues is limited, thus stimulating us to reach for more and different information.

For a copy of the 1986 report, call 202/452-1999 or send $8.95 to Worldwatch, 1776 Massachusetts Avenue, NW, Washington, DC, 20036. Discounts are available for bulk orders. If you want a hardback cover, send $18.95.

Have you heard and seen . . .
Today and Tomorrow

. . . a video documentary focusing on USDA's Outlook program? Dave Carter, through interviews with a wide range of people, traces the program from its beginning (in the 1920's under the leadership of noted Dr. Henry C. Taylor) to the current comprehensive program of research and analysis. Copies are available by contacting Dave Carter, ERS-USDA, Room 228E, 1301 New York Avenue, NW, Washington, DC, 20005-4788 202/786-1494).

Have you read . . .
U.S. Demand for Food: A Complete System of Price and Income Effects

. . . by Kuo S. Huang of the Economic Research Service?

Have you ever wondered what will happen to the amount of beef and veal (or some other food) consumed by Americans if the price of beef and veal drops 10 percent (and all other prices are unchanged)? Huang's publication includes the answer to this question—up 6 percent—and answers to many similar questions.

This study explores the interdependent relationships among 40 food commodities and nonfood as one category.

For your copy of the report, write to Superintendent of Documents, U.S. Government Printing Office, Washington, D.C., 20402. Ask for USDA/ERS Technical Bulletin Number 1714. The cost is $2.00.

Have you read . . .
Rising Poverty, Declining Health: The Nutritional Status of the Rural Poor

. . . a 146-page report focused on conditions of poor people in rural America? It focuses particularly on intake of food nutrients, biochemical levels of nutrients such as iron levels in blood, anthropometry measurements such as the height of children relative to their age, birth weights and infant mortality, and participation in assistance programs. It concludes that the diets of the rural poor ". . are considerably worse than those of the urban poor."

Using government-published data the report emphasizes related conditions of the rural poor: the infant mortality rate is 16.3 for rural poor counties (85 in the U.S.A.); 11.1 for all other counties.