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Commodity Policy Issues Today

An Interview with Senator Jesse Helms

Commodity policy has been central to policies affecting agriculture for several decades. As Chairman of the Senate Agriculture Committee, Jesse Helms has a key role in assessing the economic and political realities of farming and guiding legislation in response to these realities. This interview was conducted by the Editor of CHOICES, Lyle Schertz, in Washington, D.C., on June 5, 1986.

CHOICES Editor Lyle Schertz opened the interview by asking if the 1985 legislation is a watershed in farm policy.

Helms: Without a doubt, the 1985 Farm Bill represents a significant watershed in farm policy. After more than 50 years of increasing price supports and increasing orientation of American farm production to the government warehouse, we have put in place a plan to sharply reduce price supports and, as we make the transition to a market-oriented agriculture, gradually reduce income-support payments to more realistic levels.

The version of the 1985 Farm Bill that was finally signed into law signifies a broad consensus across the political spectrum that American farm policy has priced our farmers out of world markets long enough.

Our wheat producers have lost half of their market share in world wheat trade over the past five years. Our cotton and rice exports have fallen in the past year to a mere fraction of previous levels. For the first time in recent years, U.S. imports of flue-cured tobacco will exceed our exports this year—quite a turn-around when you consider that we've been viewed as the world leader in tobacco production for decades.

CHOICES: You opposed several key provisions of the legislation. How do you account for your present favorable attitude toward the legislation?

Helms: You are absolutely correct that I opposed major portions of the legislation. I still oppose some of the bill's provisions, including, for example, the House of Representatives' infamous dairy whole-herd buyout program.

As you may recall, I voted for passage of the final version of the farm bill as it left the House-Senate conference and went to the White House. At that time, I pointed out that although I viewed the target price levels as too high and the bill too costly—among other problems—the absolutely essential goal of sharply reducing commodity loan rates was achieved.

In addition, for the first time in half a century, the farm bill reverses the trend toward higher price supports and greater government involvement in agriculture—not as fast as I'd hoped, but at least we're headed in the right direction.

CHOICES: What is your attitude toward the marketing loans?

Helms: The marketing loans authorized in the farm bill for cotton and rice are probably necessary to restore export competitiveness for those crops, because our price supports were so far in excess of world market prices. I understand that both the cotton and rice industry expect positive export results from the marketing loan program. I know that Thai rice producers are afraid that it *will* work to restore U.S. rice exports.

There has been considerable discussion of expanding marketing loans to cover wheat and feedgrains, to ensure competitiveness in these crops. I feel that we should give the reduced price support levels on the 1986 crops a chance to work their way into the marketplace before a marketing loan program is instituted for these crops.

CHOICES: Will the marketing loan lead to big checks being paid to rich people?

Helms: There will be a lot of big checks being sent out this year under the cotton and rice programs, let alone all the other programs. And, as I think you're intimating, the payments are going to be made in an indiscriminant manner—the bigger the producer, the bigger the check. As you are aware, net returns to farmers when they repay marketing loans at prices lower than the original loan rate are not subject to the $50,000 payment limit.

In my view, this is a major drawback of the marketing loan program. Also, the use of a marketing loan removes much of the incentive for prudent marketing of farmers' crops, because under the marketing loan, the lower the price at which the crop is sold, the higher the government subsidy.

CHOICES: What is the balance among the groups that favor (1) high price supports and restrictions on production; (2) low price supports, production restraints, and high farm income protection; and (3) low market prices and no restraints on production?

Helms: The final outcome of the 1985 Farm Bill debate indicates that the overwhelming view among members of the Congress, the Executive Branch, and the farm groups is that price supports should be set low enough to ensure competitiveness in world markets. My expectation is that as the lower price supports are incorporated into the market following the 1986 harvests, this consensus view will strengthen, as our market share internationally is gradually restored.

Helms: Very few people, if any, like the reduced prices expected in the next year or so. But the fact remains that our price supports must allow U.S. commodities to trade competitively in world markets. U.S. wheat, for example, was priced as much as $1.00 a bushel over competitors' bids during the past marketing year. The result was a 40-percent drop in the volume of our wheat exports.

Competitive loan rates will not turn farm exports around overnight. Clearly, we can't expect wheat and feedgrain exports to rebound until the loan rates go into effect, after the respective 1986 harvests. Beyond that, restoration of our market share will probably be gradual. In the meantime, farmers who comply with the commodity programs will have very generous target price protection.

CHOICES: And, what happens if farm exports don't increase? Will those who favor production controls become a majority?

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The level of farm income protection, of course, continues to be a major issue of contention. The Congress has committed itself to expanding unprecedented levels of taxpayers' funds over the next few years on the farm programs. Only time will tell how long these huge outlays will be supported by the American public.

As long as artificially high target prices are in place, most people feel that some modest production controls must be kept in place to offset the artificial production incentives of our farm programs. In addition, support for the conservation reserve continues to be strong on Capitol Hill, in spite of its rocky start earlier this year.

I must point out, however, that more and more people are coming to the realization that we cannot unilaterally cut production and expect the rest of the world to follow. The Department of Agriculture estimates that while we cut our wheat production by about 10 percent this year, the rest of the world is picking up the slack. The European Community expects a near-record wheat harvest this year, and Communist China expects a record harvest. Australia projects record wheat exports for this year, and Canada and Argentina expect production increases. This pattern has to be turned around.

CHOICES: How long do proponents of lower prices have to demonstrate that lower prices will, in fact, lead to larger U.S. farm exports?

Helms: Nothing is certain in as complex an arena as the international commodity markets, but every early indication points to increased exports. Rice exports are projected to be up 15 percent during the current marketing year as a result of the marketing loan program for that crop. Cotton exports are expected to triple during the 1986-87 marketing year, according to the Department of Agriculture. Early estimates show increased sales of wheat and corn following the 1986 harvests.

Obviously, I am convinced that exports will recover and eventually expand under the market-oriented approach of the 1985 farm bill. In addition to the competitive loan rates, unprecedented levels of export promotion and enhancement programs are authorized in the bill.

Undoubtedly, there will be occasional calls for other approaches. But I think that the American farmer understands the game plan and wants Congress to stay the market-oriented course. I am confident that the American farmer's export markets can be regained, and there are opportunities to develop new ones.

CHOICES: Can commodity program decisionmaking cope with effects of rapid technological change?

Helms:: Yes—if the programs are designed correctly. The marketplace is the best determinant of the effects of rapid

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technological change. Important steps were taken in the farm bill, especially on the price support side, to link program parameters to moving market-average prices. Unfortunately, the farm bill didn't go far enough in tying price and income supports to the market.

The commodity legislation I introduced last year tied both loan rates and target prices to market-average price formulas. Substantial discretion within a market-oriented formula would have been granted to the Secretary of Agriculture to set specific loan rates and target prices, depending on supply and demand conditions.

My proposal would have given the Secretary of Agriculture the flexibility to devise a program consistent with today's technologies, both here in the United States and around the world. In the long term, our programs are going to have to be adaptable to technological change—or we can kiss our international competitiveness good-bye.

CHOICES: During the Farm Bill debate you had a column in the Washington Post. In it you argued that there should be limits on the size of checks written to individuals for farm programs. Do you still think so?

Helms: Absolutely. The current payment limit of $50,000 should be reduced, perhaps to $25,000, which is about the median family income in the United States today. All direct subsidy payments, including all deficiency payments, should be made subject to the payment limit.

CHOICES: Why do people oppose this approach?

Helms: Some have asserted that lower payment limits will make the commodity program ineffective, because large farmers, who account for the vast majority of production, will no longer have sufficient incentives to enter the farm program.

Some of the debate on this point has been misleading. The handful of farmers who are subject to the $50,000 payment limit currently are only required to comply with the farm programs on the proportion of their acreage with which they reach the payment limit. For example, a 1,000-acre corn farmer who hits the payment limit at 500 acres is required to cut production only on that 500 acres. No acreage reduction is required on the additional acreage.

As you can see, this allows these farmers to have their cake and eat it too, if you will. I guess I think that $25,000-worth of cake is enough.

CHOICES: How long can agriculture retain a high federal budget visibility?

Helms: Currently, there is a lot of public support for big expenditures on the farm programs, which is expected to reach almost $25 billion this fiscal year—easily a record. Barring unforeseen circumstances—like another Chernobyl nuclear disaster—spending could be in the $20 billion annual range for the next couple years, through 1988.

Beyond that, the budget experts estimate that spending under the farm bill will decline somewhat. I don't think anyone is in a position to accurately estimate what the budget outlays beyond 1988 will really be, simply because no one can predict weather conditions that far in advance.

Meanwhile, the evidence is building that only a small percentage of the billions spent on farm programs is reaching those farmers who need assistance for their farms to survive. Last year, the Department of Agriculture estimated that only one dollar of every five spent on commodity programs was paid to farmers under financial stress.

Provisions of the 1985 Farm Bill will augment this growing perception. As we have discussed, under rules adopted in the farm bill, some producers will receive subsidy payments far exceeding the traditional $50,000 limit. As long as budgets remain tight, I anticipate that efforts will be made to tighten down our farm programs, to make them more cost-effective.

CHOICES: However, Senator, your comment suggests that Congress will accept a $25 billion farm program expenditure for several years. How do you account for this kind of support when, as you suggest, large parts of these expenditures go to farmers who do not "need" assistance and the federal budget deficit is large?

Helms: Very little attention has been focused on this aspect of farm programs in the past. Farm price support programs have been more or less on automatic pilot for 50 years, with a few ups and downs. For the first time since being instituted, their costs have soared totally out of control and are now about 10 times their historical norm.

These huge expenditures are now forcing members of Congress to examine the reasons that these programs cost so much and give such limited benefit to American agriculture. But, as the farm bill debate demonstrated, change is unlikely to occur. I am optimistic that over time, with the gradual reductions in target prices and other efforts to tighten farm program benefits, including cross compliance, we will be able to bring these farm program costs back to earth. C