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To you . . . From you

My Week

Symbolism, Important But Insufficient

I was tremendously impressed with the goodwill of the American people reflected in the Hands Across America on Sunday, May 25. Nearly 5 million Americans including the President and Mrs. Reagan literally joined hands to say to each other and to the rest of us that they have goodwill toward the hungry and the homeless.

The event reminded me of the weeks in the 1970's when it was fashionable to kneel at other symbols in the name of the hungry. Congress passed resolutions that said, "People have an inalienable right to food."

And some speech writer was brazen enough to write piously that there should be no hungry children in the world by 1985. And more than that. Our Secretary of State was willing to give the speech (on behalf of all of us Americans) at an international meeting.

Hollow symbols without calories. All of them. For the follow up was unequal to the tasks at hand.

Opium for our leaders! Setting up these symbols probably made our leaders feel good, but surely they realized the insincerity of the gestures.

But in a larger sense, these examples were exercises in self-deception by each of us. Many—most—of us felt a tinge of goodness as we read and heard the symbols of inalienable right to food and the promise no hungry children. But, at the same time we didn't plan to accept the cost or the effort needed to fulfill the promise of the symbols.

Do not misinterpret. Symbolism is important. Each of us and all of us collectively need symbols. Symbols communicate and inspire.

But symbols will fill empty stomachs and provide shelter only if they lead us to understand the complex interactions of our economies and behavior of people—hungry and satisfied—and then to act on this understanding.

The reality is that to relieve—to

eliminate—hunger and homelessness is not cheap while at the same time it cannot be bought.

Those of us who are conservative politically must come to realize that joining hands and appealing for more volunteers is important, but not sufficient if hunger and homelessness are to be diminished.

And those of us who are liberal politically must come to realize that just spending more public money is not sufficient. Relieving hunger in lower income countries requires much more than U.S. taxpayers buying U.S. farm products and shipping them to some faraway point—although in some cases that helps and is important. In the United States we may not know what is required to eliminate hunger, but we know that it is more than food stamps.

The tasks are tough, hard, and gritty. They involve changing the distribution of incomes in the world. With few exceptions the hungry and the homeless will have food and homes only to the extent that their incomes are improved.

Rich people are not hungry—although they may be malnourished—and they are not homeless. Thus, in the final analysis it is the creation of jobs—income flows to people—that will relieve hunger and homelessness.

The tasks relate to education, unemployment, taxes, budgets and their allocations in this country. They also relate to trade, policies, and institutions in other countries.

So we need symbols this week and every week. We need ceremonies such as Hands Across America—not as opium for ourselves or our leaders to distract us from the true tasks at hand. We need symbols to inspire each of us to search for and support ways to accomplish what so many Americans will—the fostering of communities, a nation, a world in which people can earn incomes so that they are not hungry and not homeless.

... Two other notions keep coming to my mind this week as I go about completing this third issue of CHOICES:

Thanks

First, more and more people are contributing to the development of CHOICES, its preparation and its circulation. Their contributions attest to the strength of the people of the Association and bodes well for the future of CHOICES. To each, we say thanks.

Argument, Yes

Second, we welcome Lauren Soth's appeal in this issue for argument on the pages of CHOICES. We invite our readers to join in the arguments. Remember, when everyone thinks alike, no one thinks very much. So, read CHOICES to learn about issues important to you. But, in addition, send us letters so we and other readers know what you think, too.

LPS

Reader Response



From: J. L. Ozburn, Dean, College of Agriculture and Home Economics, Washington State University

Re: Schuh's "Revitalizing Land Grant Universities"

The article by Dr. G. Edward Schuh "Revitalizing Land Grant Universities—It's Time to Regain Relevance" in the second issue of CHOICES is right on target. I have regularly urged our land-grant universities to emphasize their uniqueness and mission. To a very considerable extent, these institutions have become more and more specialized and isolated from society as they have matured and grown in size.

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From: J. L. Ozbun

Continued from page 5

Colleges of agriculture have become specialized too, and this can restrict internal and external communications and interaction. In part, increased size necessitated dividing into disciplinary units or departments. Another major cause is that today's faculty generally are educated in agriculture and usually in the same discipline in which they work. In contrast, earlier agricultural faculty were educated in botany, chemistry, or mathematics. Over time, as knowledge has grown, faculty have become more specialized. This is also encouraged because specialization enables faculty to compete more effectively for grant funds awarded by peers with similar specialization. It follows that undergraduate and graduate programs are specialized. Too frequently students do not understand where their specialty fits in the agricultural system let alone in the total environment in which they will live and work.

Equity is a fundamental principal associated with the land-grant university which Dr. Schuh did not discuss. In this sense, equity refers to equal access to information and technology. The concept of equal access is a major reason for the success of U.S. agriculture and is sound justification for federal funding and other public resources support. Such support is intended to provide a quality education for undergraduate and graduate students; to foster a technology base that will enable agriculture to compete regionally, nationally, and internationally; and make information equally available to all citizens.

The changing economics of education indeed requires an innovative approach. Dr. Schuh points out the need for flexible hours and night and weekend classes. Many land-grant universities are geographically isolated and this results in a need for off-campus courses and requires more effective use of new communications technology. We can and should offer our educational programs to citizens in their homes and at locations far removed from our resident campus.

Dr. Schuh's article has a heavy economics orientation. Greater emphasis on culture and human develop-

ment would add balance. This would be particularly useful in his comments



From: Daniel W. Bromley,
Department of Agricultural Economics, University of Wisconsin-Madison
Re: Ed Schuh's "Revitalizing Land Grant Universities"

Ed Schuh offers a characteristically provocative assertion that the land grant universities have lost their way. We are said to be too disciplinary oriented, and thus insufficiently interested in problems.

I suggest that this view is mistaken in several important ways, most seriously in that it overlooks the primary mission of any educational system, which is to produce new knowledge that is not being produced elsewhere in society. To be trite about it, the solutions for tomorrow's problems come from today's academic "doodlers." Our society is now replete with organizations whose sole purpose is to solve problems—the Agricultural Research Service, the United Nations Development Program, the Agency for International Development, a Department of Agriculture in every state, the Small Business Administration, the Economic Research Service, "think tanks" galore, the Rockefeller and Ford Foundations, and the World Bank. There is now enormous capacity in the private sector (and elsewhere in the public sector) for problem solving—both for agricultural producers, as well as for other sectors of the economy.

Indeed, some have suggested that the land grant universities have spent far too much of their time and resources serving the special economic interests of several sectors, and then only a narrow spectrum of individuals within those sectors. This is not the place to debate that charge. The more pertinent debate, I suggest, would concern the implications of a greater "problem solving" focus in our land grant universities, versus making sure that we continue to create new knowledge, and to teach that knowledge to the next generation of decisionmakers. With a college edu-

cation at the "better" private universities soon to cost as much as an immodest home, the social value of the land grant universities has never been clearer. Most students can graduate from a land grant university having spent less than the price of a decent automobile for an education that, with a few exceptions, is as good as that available at four times the price in the private sector. Lost our way indeed!

Finally, having challenged Ed's assertion, I most vigorously question one of his "remedies." To suggest that the appropriate solution is to give administrators more power is almost laughable, except that it reinforces an ethic that has dominated most colleges of agriculture since their inception. It is serious business to suggest that scholars ought to be "assigned to" projects and "missions" that happen to move some administrator. I believe it suggests a fundamental misunderstanding about the role of the university, and the vital role of independent scholarship therein. This is not to suggest that academics are better than other scientists employed by the Economic Research Service, private consulting firms, or a division of the World Bank; it simply recognizes the fundamental difference in the social role of these different organizations. Moreover, academic freedom has nothing to do with this issue. What is at stake is the idea that a modern society can afford to pay a very minor fraction of its citizens to think independent thoughts, to follow those thoughts to their logical (or illogical) conclusion, and to teach its children.

Those of us in the land grant universities do not expect the Economic Research Service, or the private consulting firms, or the World Bank, to engage in undergraduate or graduate education. But attempts to turn universities into publicly supported consulting firms so that they can better serve the economic interest of whoever happened to talk to the Dean last night—and to keep flailing at us because we are not "relevant" enough—should be taken quite seriously by those who understand the role of serendipity in the evolution of human knowledge.

Administrators in universities ought to serve to make the important job of scholarship more rewarding, and less bureaucratized. The good ones, at the good universities, know this and behave accordingly. God help our universities if presidents, deans, and department heads take Ed's "solution" seriously. God help us if we let them get away with it.

■
From: Karl Kottman
Re: Ed Schuh's "Revitalizing Land Grant Universities"

In most states, the granting of degrees in agriculture is restricted by law to the Land Grant institution. Agriculture is no science without a special social purpose that the institution represents. That purpose is equity under the law.

I write to clarify some ambiguities in Dr. Schuh's article that may focus the discussions that it is sure to engender and so make them produce action on his recommendations that will be fruitful.

The Land Grant system put nature in the service of the Constitution. As a result, the federal system was successfully re-knit and enlarged after the Civil War. It is recognized as a triumph of social development strategy. It is so because the federal government gave the states means by which their citizens were able to provide for themselves directly from nature through the wide diffusion of modern agricultural technology. The freedom of popular access to nature shows the moral value of the Constitution by connecting the immediate and universal demand for nourishment and the freedom of the states under the federal system. Agriculture in the service of the people made society better than before.

Agriculture has changed dramatically since 1862. Then it was largely self-contained. Now inputs come from the outside. The independence of domestic life on the farm is still apparent, but tomorrow agricultural resources may be split up. Pieces of it may be taken by land owners, technicians, food merchandisers, chemical companies succeeding in genetic research, and the communications in-

dustry. The farmer may become a wage laborer. Science which is fundamental to all this may make agriculture more productive. It is the consistency of interests in a society that makes it better for its members. This is what the Land Grant Universities brought the states and their people. In a sense, the Morrill Act set the moral framework for the Unionist position.

Most of the technical services provided by the Land Grant University can be found outside of it. Why should the science of agriculture still receive such public patronage? The benefit to the states it provides is equity under the Constitution. So the responsibility to grant degrees in agriculture should be in public hands in each state. Equity would be prejudiced if the University were bereft of means or controlled by national or commercial interests.

Dr. Schuh says that the University must respond quickly or other institutions will take its place in public service. The University must be reformed along the lines Dr. Schuh proposes, I believe, but I disagree with his belief that there is an alternative. His loyalty to the University seems more habitual than rational. The University must be reformed because it cannot be replaced without damage to the federal system and the equity of our society.

There is no idea of society so attractive as one with an agricultural economy directly accessible to its people. Only a foolish or malevolent government would reserve the science of agriculture to itself if the public good were not the purpose. The purpose of the University is no longer obvious as Dr. Schuh says. But the purpose is not service to society in the same way as other institutions, perhaps more aggressive, might provide it. The unique purpose and service of the Land Grant University, equity under the law, is not clear even to Dr. Schuh. So how can it be reformed?

I believe the new structures Dr. Schuh calls for should be instituted first in the Land Grant University itself. It should be the business of the science of agriculture to clarify its own purpose. The importance of equity in the history of agriculture is,

alas, almost never studied. The history of world agriculture from the standpoint of what it adds to human identity is the subject of no book. Anthropology, history, philosophy, political and social analysis, are all part of the science of agriculture or it is no science as understood in the charters of the Land Grant Universities. The administrators' responsibility to the people and their political freedom under the Constitution outweighs, indeed makes legitimate, any claim to academic freedom.

The new structure should integrate these disciplines into the agricultural program insofar as they can support the purpose of the institution. Insofar as they cannot support it, they should be left for other schools. The free exchange of ideas is not impaired in this. Scholarship does not deal in absolutes. It does require making sense of things.

■
From: G. Edward Schuh Director of Agriculture and Rural Development, The World Bank
Re: The Author Replies

I welcome these comments on "Revitalizing the Land Grant Universities." There is little in the comments by Kottman and Ozburn that I disagree with, although I might amplify on a couple of points.

Both respondents note that I did not give enough attention to the principle of equity associated with the Land Grant universities. In a sense that is true, since I didn't discuss this issue explicitly. But the issue is implicit in the entire paper, starting with my remarks at the beginning when I note that the Land Grants were created in response to the elitism of eastern private universities, through my persistent pleas that we rediscover and implement our original mission orientation.

In my early drafting of the paper I considered a section on the equity issue. Rightly or wrongly, I discarded the idea on the grounds that this had to do with the substance of the mission, and to address the substance of the mission would be to open a large set of issues—a larger set than could be covered in one paper.

I agree fully that the principle of equity is an important aspect of the Land Grant universities. However, I think they have contributed most to this value or goal through the resident instruction programs. Neither the research or extension programs have contributed to alleviating poverty on anywhere near the scale they might have. Moreover, as we become increasingly elitist, we tend to lose it on the teaching side as well. In our efforts to change schools of agriculture to be more like the rest of the university, we raise admittance standards—again on the grounds that being more like the rest of the university is a good thing.

On another issue, I am surprised with Mr. Kottman's statement that I believe there is an alternative to reform of the universities. If I believed that I would not have gone to such lengths in arguing that we reform ourselves by returning to our roots.

I would like to elaborate on the point Mr. Ozbun makes about offering our educational programs off campus. I couldn't agree more. Moreover, in my judgment extension ought to be offering many of the courses now offered to resident students to adults and young people out in the state and through television. We have lagged badly in exploiting this possibility.

Dan Bromley's comments are disappointing, in large part because I would have expected so much better from him. Frankly, I don't think he read my paper very carefully. Consequently, he finds himself tilting at windmills and flailing about. For example, at no place in the paper do I say that the Land Grants should not "produce (the) new knowledge that is not being produced elsewhere in society." To the contrary, I said that our challenge is to do both that and apply that knowledge to the solution of society's problem. Moreover, I said that doing both would make us more productive in working on the frontier of knowledge.

He also doesn't seem to recognize that I referred to all those other institutions he mentions as doing teaching and research. The point, however, is that those other institutions do not transmit and reflect the same val-

ues that come from a major university. We need those values.

Bromley's raising of the issue of "serving the special economic interests of several sectors" is frankly a red herring. Nothing in my paper implies that the Land Grants should do that, and it is difficult to understand why this innuendo was introduced, or who the "some" he refers to really are. Using innuendo is poor scholarship of the worst sort. It does not contribute to constructive debate.

On another point, if we are turning out such a good educational product, why are so many colleges of agriculture and the larger universities of which they are a part experiencing such declines in enrollment? Clearly the poor economic conditions in agriculture contribute to the problem of the schools of agriculture. But what about the rest of the university? Moreover, we shouldn't delude ourselves with a lot of self-serving rhetoric without at least looking for the facts.

Bromley's allegations that I would turn universities into publicly supported consulting firms again reflects a failure to carefully read what I said. My objective is to do just the reverse. For example, I argue that extension services should move away from doing so much technical assistance and do more general education as part of their programs. In fact one of my major concerns is that our Land Grant universities have become just what Bromley says I want them to become. All too frequently university professors are out peddling on consulting contracts the knowledge that has been produced with public funds. This is fundamentally an ethical question. It is also precisely such things as this that are getting us into trouble.

On still another point, there is nothing in providing administrators with more discretionary funds, or in giving increased weight to contributions to institutional missions, that will make a dictator out of the administrator. It is also difficult to see how giving accountable administrators more control over their programs is a greater tyranny than the anonymous peer reviewer who hides behind his anonymity.

Unfortunately, Mr. Bromley's views are very representative of the views

that in my judgment have caused us to lose our way. His perspective is the elitist view that the university exists to serve the professors. I submit that it exists to serve the people, and that if it doesn't get back to that perspective soon its public support will continue to decline. Moreover, the vitality of our economy will continue to decline due to the lack of stimulus that knowledge fed into the system provides. That is the real tragedy of the elitist perspective.

■



From: Orville Bentley, Assistant Secretary for Science and Education, USDA

Re: William Ruckelshaus' Interview "Environmental Issues Today"

The CHOICES interview with William Ruckelshaus (Second Quarter 1986) is—as one would expect—a thoughtful discussion of today's environmental issues. Mr. Ruckelshaus accurately highlights the importance of education in land and water management and the necessity of a good working relationship between USDA and EPA in dealing with agriculture-related environmental issues.

USDA has always recognized that our soil, water, and air are the long-term building blocks of the future. They are the basic natural resources necessary for the production of the food, fiber, and forest products which support our Nation and our Nation's farmers.

While there is never "enough" money for all the work we want to undertake, USDA is strongly supporting the research category for soil, water, and air. Even within the current budget restraint, that category was

one of two which showed a funding increase in projected budget changes for 1990. This reflects the selection of the improvement of water quality and management as one of the five national priorities of the Joint Council on Food and Agricultural Sciences for FY 1987.

Research studies by the Agricultural Research Service will continue to make significant contributions to improved groundwater quality. Integrated pest management, expanded use of biological control measures, and genetic engineering of crops for increased pest resistance are among other related research approaches under study at the state agricultural experiment stations through the Cooperative State Research Service.

There is no doubt that the American farmer is concerned about water quality and interested in trying to do the right thing for the environment. But concern and good intentions must be translated into concrete action.

And we have the best chance for concrete actions if we clarify the farmer's responsibility for non-point source pollution.

For example, we need legislation to relieve careful farmers—not negligent ones—of pollution liability for pesticides applied in good faith and according to directions. Proposed amendments to the Federal Insecticide, Fungicide, and Rodenticide Act would do that.

Mr. Ruckelshaus recognizes the importance of USDA's history of relating to farmers and the strength of our infrastructure that is in place across the nation—county agents and all the rest who are tuned into the thinking of American farmers.

The solid work done by the Extension Service enables USDA to emphasize education—the transfer of knowledge to enable people to make smart choices. Agriculture is an outstanding example of this ability to channel scientific knowledge into useful applications.

In discussing the allocation of responsibilities of working toward a cleaner environment, CHOICES posed the question of the sometimes difficult working relation between USDA and EPA. Though Mr. Ruckelshaus

considers USDA "far and away the most important governmental ally that EPA can have," it is true that our relations have not always gone smoothly on the program level.

We are working with great success to improve that situation. In the current age of biotechnology, cooperation is increasingly important. Recently, we put a lot of effort into an integrated framework in government to deal with the questions raised by genetic engineering. The lines of responsibility have been made clearer, and there is still room for the ebb and flow of advice and consultation between agencies.

Average Americans often take their relationship to the natural environment for granted, but most farmers are environmentalists at heart. At USDA, we are actively working through science and education to preserve the natural resource base which sustains our agricultural and forestry production.

■



From: Charles B. Holstein
Former Washington Correspondent And for 30 years a Senate and House of Representative professional staff member, retiring as staff director of the House Banking and Currency Committee's Subcommittee on Consumer Affairs.

Re: Sylvia Lane's "Food Stamps"

Professor Sylvia Lane's article (Second Issue CHOICES) arguing the economic advantages, while conceding the political difficulties of "cashing-out" food stamps by giving recipients equivalent amounts of money to spend as they please takes me back 32

years to the introduction by former Congresswoman Leonor K. Sullivan of Missouri of the legislation which eventually led to the present program. Her bill, which I helped her fashion, was directed primarily at the mechanics of distributing to poor people some of the vast stores of surplus foodstuffs then, as now, being held in government storage under various price support programs.

Mrs. Sullivan, an obscure first-term Democrat from St. Louis, later to become during a 24-year congressional career the leading legislator on consumer issues, was deeply concerned in 1954 over the irony of supporting her party's open-handedness on agricultural benefits while thousands of people in her urban district, and millions of unemployed miners, steelworkers, auto workers and others in recession-ridden American that year were literally going hungry. She was looking for a way to combine her somewhat grudging support for Democratic Party agricultural policies with a device to make some of the over-abundance of government-owned food available to the needy.

The small, experimental regional food stamp program operated primarily for WPA workers in the early years of the New Deal, until World War II eliminated both unemployment and farm surpluses and made the program superfluous, provided a possible approach to the Congresswoman's dilemma and we resurrected the idea. It was put forward contemporarily with a burgeoning new program of the Department of Agriculture to ship bulk quantities of flour, corn meal, cheese, lard, butter, and a few other commodities into badly depressed areas of the country, particularly coal mining centers, where local relief authorities, church groups, unions, and volunteers had to store, repackage into manageable sizes and distribute monthly handouts to people willing to wait in long lines to lug home heavy loads of these items. The Department's main objective was to get rid of as much of the stuff as possible as cheaply as possible. The recipients were hard-pressed to use it effectively. Controls over eligibility were lax or non-existent. Much of the largess became

spoiled or contaminated in temporary storage and more was wasted—often just thrown away.

Mrs. Sullivan's bill proposed to civilize this system by allowing provably needed families certified by state welfare departments—but without regard to their eligibility for welfare benefits, which were a mishmash of restrictive state rules and widely varying levels of benefits—to obtain through regular grocery stores the same kinds of foods then being given away, or which would become in such surplus as to be distributable under the program. But instead of powdered milk, recipients could obtain fresh milk, fresh eggs instead of powdered eggs, processed bakery and cereal products instead of sacks of flour and corn meal, and so on. Each month, the Secretary of Agriculture was to cite the foodstuffs in sufficient surplus to warrant distribution and issue stamps specifically designated for each commodity or item. The USDA would thereby save at least part of the costs of acquiring, storing, processing and distributing the donated foods at a time when it was costing the government what was then considered a budget-busting \$1 million a day merely for storage of surplus foods.

Contrary to Professor Lane's impression that rural and food merchandising interests joined urban legislators in enacting a food stamp program, there was, in fact, little or no support from either group in the five years which followed introduction and eventual passage of the Sullivan bill and the enactment five years later, in 1964, of her Johnson Administration-supported measure establishing the basic national program now in effect. Throughout that decade, almost the entire House Agriculture Committee (except for Chairman Harold Cooley of North Carolina) opposed any food stamp program. The only food retailers who came forward in support were several small businessmen from Detroit and Philadelphia. Both the 1959 Sullivan Food Stamp Act dealing only with foods in surplus (it was never implemented by the Eisenhower Administration) and her 1964 law were put through by a coalition of urban and mining

area legislators over the bitter objections of most farm-state Members of Congress. Both laws were enacted as an implied quid pro quo—no food stamp law, no farm bills. Nevertheless, every Republican on the House Agriculture Committee still voted No. (In contrast, Republican Senator George Aiken of Vermont, who had seen the pre-World War II program operate while he was Governor of his State, was a firm supporter of the idea, and helped to push the bills through the Senate Agriculture Committee after they had passed the House).

Throughout the recurring bitter House debates over food stamp legislation in 1957, 1958, 1959, 1964, and 1967, most farm organization lobbies held out for an expansion of the scandal-ridden direct distribution system as the cheapest most "efficient" way of cutting into surpluses. The dairy industry, for instance, worried that, given a choice, poor people would buy margarine with food stamps while the program reduced the quantity of butter being given away. Some liberal groups, including the organization of professional social workers, were calling for cash payments instead, but no one on Capitol Hill paid much attention to that.

Professor Lane's estimates of only a 25-percent impact of food stamps on increased food consumption may be supportable but they fail to mention a basic principle of the 1964 law and the 1967 extension—that those who participated in the program had to buy, with the money each family would normally be expected to spend for food out of a limited budget, a sufficient quantity of food stamps to assure a reasonably adequate diet. Under that basic principle, needy families could not utilize their participation in the food stamp program as a means of achieving additional purchasing power for things other than food. In other words, the program was aimed exclusively at malnutrition, not at poverty per se.

Unfortunately, in my opinion (and in Mrs. Sullivan's, too) the USDA under President Nixon joined with critics of the program's limited scope to push through amendments in 1971 to give the food stamps away free—sav-

ing the Department a lot of book-keeping and administrative costs but at the price of actually reducing the food purchases of many, many recipients. In those instances, the free stamps often became the entire food budget, and the money recipients previously had been required to spend for the stamps could be diverted to purchases other than food. Of course, poor people need more money. But the whole purpose of the program before 1971 was to make sure they spent enough on food, and only on food. Had this principle been retained, the entire \$11 billion being appropriated annually for food stamps plus a whole lot more would be going into purchases of food which otherwise would not be sold. Professor Lane's figures indicate that is certainly not happening now.

A long career in Congressional staff work taught me, as Professor Lane acknowledged, that it is tough to pass legislation giving poor people money—or more money—to spend as they please. Benefits are paid out for better housing, for food, for college grants, for Medicaid and inoculations against disease, for all kinds of specific purposes deemed to be socially and nationally desirable. The prevailing idea in Congress has always been (not just under the Reagan Administration) that giving poor people more money just encourages them to remain poor. It may not be true, but it surely has a tenacious grip on Congressional perceptions.

■

From: Sylvia Lane, Professor Emeritus, University of California, Berkeley

Re: The Author Replies

Charles Holstein's letter certainly provides an accurate picture of the beginning of the Food Stamp program. He fails, however, to mention that there were a few people in Congress in addition to Senators Cooley and Aiken who did support the program. Proponents of programs to provide specific goods and services to the poor generally fail to concede that the poor are capable of making rational economic decisions in the market place.



From: Kenneth P. Baer,
Executive Vice President and Chief
Executive Officer, GROWMARK
Re: Sextons' "Taxing Co-ops"

I read the article "Cooperative Taxes" by Richard and Terri Sexton in the second issue of CHOICES and found it provided an interesting perspective on a much debated subject.

I especially appreciated the analogy they advanced on cooperative/patron relationship to the vertical integrated corporation. It's an appropriate and fair analogy and should be quite easily understood by interested parties. Their conclusion that Subchapter T tax treatment is fair and consistent with the rest of the tax code will be welcomed reading for cooperative-minded people who, like myself, have been asked to repeatedly defend this provision of the code.

The laws on cooperative taxation never have prohibited the owners of noncooperative businesses to enjoy the advantages they allege the co-ops have enjoyed. All they need do is re-charter their business to become a qualified cooperative and commit to pay a portion of their profits back to their customers as patronage refunds. They would have less income for themselves, but might make a lot of their customers happy. I don't expect a ground-swell of enthusiasm for this approach from the non-cooperative sector. While many say they love their customers, they aren't so blinded by it that they are willing to let customers share in their profits!

Given the past several years results in Midwestern agriculture, the debate on fairness of cooperative taxation has dwindling relevance. An ever-increasing number of farmer cooperatives are suffering losses with some facing dissolution. Had cooperatives been provided an "unfair advantage"

on taxes in the 50's, 60's, and 70's, they might have built tax exempt retained earnings to better absorb the shock of current economic disaster that has existed in agriculture and agribusiness for the past 4 years. Having paid earnings to patrons for 50 years as annual patronage refund declarations, some cooperatives must now seek equity infusion.

My comments, while pro-cooperative and quite biased, should not suggest I am anti publicly held or other forms of business. Quite the contrary. There has been and always will be room for each. I somehow feel our future is not cast in being for or against farmer cooperatives, or other types of businesses. Conversely, our future may well depend on how the various forms of agribusiness and farmers might work together with our government to regain for the U.S. its rightful position in world markets. We truly need each other. After all, the fight isn't a domestic quarrel. It's an international war between U.S. farmers, their cooperatives and all U.S. agribusiness interests pitted against other country governments and their treasuries.

"Circle the Wagons!"



From: L. William Seidman,
Chairman, Federal Deposit
Insurance Corporation
Re: Gajewski and Meekhof's
"Band-Aids for Banks"

I read with interest the article by Messrs. Gajewski and Meekhof in the second issue of CHOICES—"Bankers Dream While Regulators Adjust the Rules." In general, the article presented a well-balanced overview of the issues surrounding assistance to banks in the agricultural section.

There are a few areas, however, worthy of additional comment.

There is no question that a historically large number of agricultural banks are having difficulties. This must be kept in perspective, however. Over 85 percent of the agricultural banks in the country are not considered problem banks by the FDIC. As a group, agricultural banks remain among the strongest capitalized banks in the country.

The basic problem facing the farming sector is not a banking problem; it is an agricultural problem. Given today's crop prices and the volume of carryover debt, many farmers find it difficult to produce sufficient cash flow to provide for debt service. The necessary long-term solution to this and all kinds of farm debt problems is increased profitability of farming. On this point, I should add the lower interest rates and energy prices as well as the relative decline in the value of the dollar are all positive signs for the agricultural industry.

With regard to accounting for renegotiated debt, the regulators did not, as the article indicates, change rules for all banks in response to Congressional pressure. What we did was take steps to ensure banks, as well as our examiners, recognized the accounting flexibility provided by a generally accepted accounting principle. Larger banks were already using this principle, but it appeared that many smaller banks were not aware of its provisions. Moreover, our examination practices were not always consistent with regard to loss recognition on renegotiated loans.

The policy guidelines for capital forbearance have been finalized and were explained to the banking industry during March. Basically, capably managed banks suffering from agricultural or energy problems will be allowed to operate with capital significantly lower than regulatory minimums. As a condition, though, the banks must provide a viable plan for restoring capital by 1993 and the regulatory agencies will monitor for adherence to the plan.

The program adopted by the regulatory agencies is not a bailout and does not, I believe, increase the risk

to the banking system or the insurance fund. In reality, the program formalizes a frequently used approach to working with problem banks. What we have tried to do is systematically provide troubled agricultural and energy banks greater flexibility in working out their problems. Given capable management and proper supervisory monitoring of risks, the program should prove to be in the best interest of the banking industry and the FDIC insurance fund.

■

From: Gene Malone, Assistant Director, Information The American Farm Bureau Federation

Re: Gajewski and Meekhof's "Band-Aids for Banks"

In their article "Band-Aids for Banks," Gregory Gajewski and Ronald Meekhof hit upon an extremely timely subject of dealing with problem farm loans and did a fine job of outlining the extent to which regulators have come to the rescue by expressing their preference for forbearance instead of foreclosure.

The new rules adopted first by the agencies that regulate the commercial banks, namely the Federal Deposit Insurance Corporation, the Federal Reserve Board and the Comptroller of Currency; and more recently by the Farm Credit System are designed to facilitate restructuring of many of the nation's problem farm loans.

With nearly a third of all farm operators experiencing some degree of financial stress, time is short for implementation of the new rules to save as many as possible of the farms with debt service problems from the liquidation so feared in rural communities that are heavily dependent on agriculture.

Gajewski and Meekhof reported splendidly the new rules that would reduce penalties against banks for restructuring loans for troubled borrowers, modify the reporting requirements for successfully restructured loans, and grant formal capital forbearance for banks with low net worth but good future prospects.

A "two-tier" debt restructuring plan has been offered by the American Farm Bureau Federation for farm borrowers with loans which temporarily exceed the debt service capacity of their business. The two-tier plan is remarkably compatible with these new regulations and it has several added advantages.

Farm Bureau's two-tier debt plan is predicated on communication and understanding between borrower and lender. It is, of course, preferable to liquidation for all but the most hopelessly indebted borrowers, it can result in lower losses to lenders than they would suffer in foreclosure, non-problem borrowers benefit because their financial institutions are strengthened and their rural communities do not fall into disrepair, and it can be accomplished without massive outlays of federal funds.

The two-tier concept requires a farmer and lender to analyze the farm operation's cash flow and profit potential. They then would agree on the amount of the debt that could be serviced normally within the operation's cash flow. That amount would be designated "tier-one." It would be amortized at current interest rates and regular increments of the principal would be paid each year. Debt not related to existing inventories of crops and livestock plus accounts receivable would be amortized over the next 10 to 20 years. Short-term debt to be incurred in subsequent years must be repaid in that crop year or offset by more than 100 percent liquidity in crops or livestock retained in inventory.

"Tier-two" debt would be that portion of the total that exceeds the farm's capacity to repay on a regular basis. No principal repayment would be required on tier-two debt, but 3 percent interest would be charged.

Each year an amount equal to the principal repaid from tier-one advances into that category from tier-two. No debt is forgiven under this plan. Lenders would lose some interest due to the reduced requirement of tier-two debt.

Lenders would be most likely to offer two-tier restructuring in cases where it would produce a smaller

loss than if they took no action. The financially troubled farmer benefits by being able to stay in business and keep his farm. The community benefits because foreclosed property is not being sold to further depress prices.

This plan offered by Farm Bureau will not save every farm business and there may be critics who will say it is not perfect. But, as the saying goes, it probably is far ahead of whatever is in second place. And for some farm borrowers, time is short.

■

\$200 Billion Debt Interest Expense 12% N₁

From: Neil E. Harl Charles F. Curtis Distinguished Professor, Iowa State University

Re: Gabriel and Prentice "Macrolinkages"

Gabriel and Prentice argue, in their essay, "Fundamental Economics (Not Farm Policy) Now Drives Agriculture's Future," that agriculture's current economic woes are somehow "good" for the sector. I would like to offer a somewhat different perspective with quite different conclusions.

The authors reason that "lower farmland prices and debt liquidation are good for agriculture" as they will "lead to a lower cost structure for the sector." In reaching that conclusion, the authors seem to be assuming that farmland values are like other costs of production. I would agree that a reduction in fertilizer cost should increase net farm income (or reduce net farm loss) unless the result is increased use of the input and greater aggregate production.

Farmland is not, however, like other costs of production. It has been a fundamental tenet of economics that farmland values are price determined, not price determining. Land values represent the present value of a string of expected future incomes. Under the income capitalization the-

ory of land valuation, reduced land values signal either an increase in the discount rate or a reduction in the amount of expected income to be capitalized into land values. To say that land values have dropped says little of significance about net farm income *except that the amount of net income or expected capital gains from land ownership or both are likely to decline*. It stretches logic and empirical evidence to say that lower land values will lead to any appreciable improvement in farmers' incomes or financial stability. The net incomes likely to rise with falling land values are those of bankruptcy lawyers.

To say that writing off \$50 billion in debt will lead to \$5 billion more in farm income, as the authors do, is a little like saying that an amputee should be able to move faster because the individual saves the energy needed to move the amputated limb. If those for whom the debt is written off are forced out of business, it is difficult to see how more net farm income would be realized as a consequence by that group. Those who weren't indebted may gain in psychic satisfaction from seeing others buffeted by discharged debt but it is difficult to see how they would share in \$5 billion of increased income. Clearly, lenders will have \$5 billion less in income but that does not mean farmers have \$5 billion more.

The economic trauma that has gripped much of agriculture since 1981 has exacted an enormous toll. We will have lost some of the best and the brightest young farmers as the debt adjustment process has selected in favor of the older, smaller, debt-free individuals. This is not a move toward greater efficiency, as some would have us believe. Even the surviving farmers will be adversely affected with sharply reduced asset values and net worth and with greater economic vulnerability. Moreover, lenders of all types will have lost billions in capital reserves, necessitating higher interest rates in the future to restore those balances. Rural communities have lost economic vitality with a rapid acceleration in the demise of many communities and the reversal of the economic fortunes of some.

Any assessment of whether all of this is "good for agriculture," as the authors maintain should necessarily involve consideration of the negative as well as the benefits to new investors.

■

From: Stephen C. Gabriel and Paul T. Prentice General Partners, Farm Sector Economics Associates, and Editors, Farm Financial Conditions Review
Re: The Authors Reply

We are pleased that our article, "Fundamental Economics (Not Farm Policy) Now Drives Agriculture's Future," generated further discussion of the issue. Unfortunately Neil Harl's letter creates more confusion than clarification.

Professor Harl takes issue with our perspective and our conclusions. However, we would reiterate our conclusions and suggest that professor Harl largely misses the point. He apparently cannot see the forest for the trees.

Our article clearly relates to agriculture as an industry not Farmer Brown in particular. Professor Harl fails to make this distinction.

Professor Harl criticizes our assessment of the cause and benefits of declining farmland values. In the early 1970's, farmland values soared in response to sharply revised income expectations due to a temporary spike in farm income in 1973 and 1974. In real terms farm income then fell right into the eighties where it is now beginning to stabilize. But, farmland values continued to soar even as farm income dropped. The spike in farm income produced expectations that were not realized. Farmland values in 1980 reflected the capitalized value of unattainable income levels, resulting in depressed returns on investment. When those expectations adjusted, farmland prices plunged. The result has been higher income returns to investment.

The point is that farmland values are adjusting to reflect realistic expectations for farm income. Once the adjustment process works its way through, it will cost less for farmers to

control the use of farmland (either through purchase or lease). In our book lower costs mean higher income.

It will also mean a more stable cash flow. The lower fixed costs associated with owning or renting farmland means lower operating leverage. Hence, cash flow will be less volatile with lower fixed expenses.

Article after article has pointed to financial leverage as the common denominator among stressed producers as well as the main culprit (along with high interest rates) in depressing returns to equity in the farm sector. Interest rates have come down but they won't drop much more. Farm income performance is projected to be lackluster by most analysts. Something's got to give! If agriculture can't service its debt on the income it can generate, the debt's got to go—one way or another. The result will be precisely the purpose of the liquidation—lower interest expenses for the sector. If sector gross income is unaffected by debt liquidation (as we believe it is), then lower interest expenses will lead to higher sector net income.

In our article we acknowledge that the financial adjustment process would bring casualties, both economic and personal. And we urged society to address these problems and be sensitive to the plight of those affected. However, we maintain that the agricultural sector will enter the nineties in much better financial shape than when it entered the eighties.

Professor Harl states that "we will have lost some of the best and the brightest young farmers." Well, we give these young farmers more credit. If they are as young, good, and bright as Harl suggests, they will be farming again—and under better conditions than when they started the first time. ■

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