From: ***Thomas R. Saylor,*** *New York, New York*

Re: ***John Schnittker's "Coping With Excess Capacity" and Interview with Chairman Helms***

The article by John Schnittker and interview with Chairman Helms in the Third Quarter 1986 issue of CHOICES offers a very useful perspective on the climate for American agricultural policy development. Neither, however, is completely clear on why American farmers have lost their competitiveness in world trade.

American farmers have significant advantages in food production. Few nations have as low a labor component per unit of farm output. Most other input costs are generally comparable or lower than the costs to the economy in other countries. On a delivered basis none have marketing systems as efficient as the U.S. system. The principal culprits in America's lost competitiveness appear to be (1) relatively high support prices in the U.S. which combined with a strong dollar encouraged a surge in production abroad, (2) the willingness of other nations to subsidize food production and export, and (3) overcapitalization of farm assets such as land and machinery.

Recent exchange rate changes and lower commodity prices have put the U.S. in a more favorable position despite the short term insulation of most foreign producers and consumers from world markets. However, I agree with Mr. Schnittker that changes in subsidy practices and production adjustments of other countries will come slowly.

There is little we can do to affect foreign subsidy practices except make it increasingly expensive to maintain such disparities with world market conditions. But as the predominate supplier of agricultural commodities to the world it costs the United States significantly more than our competitors to drive market prices lower using current policy tools. Any action that the U.S. takes which drives prices lower adds to our own program costs. To compensate we are compelled to cut back on output foregoing any return on that capacity even when, which I believe to be the case, lower prices could cover variable costs and, in some cases, some return to fixed costs to well structured commercial producers.

The key, then, to maintaining U.S. agricultural competitiveness is to reduce and eliminate those programs which distort farm asset values and delay the inevitable restructuring of farming, principally high and essentially unrestricted target prices and production controls.

The 1985 Farm Bill, while contradictory and incomplete, is an important step in the direction of establishing a policy framework for maintaining American agriculture's long term advantage in world trade. Despite the contradictions which John Schnittker describes of high production incentives coupled with production controls, the Act was formulated around the theme of preserving U.S. agriculture's competitiveness in world trade. But it was only a first step.

The "medicine" for curing the farm problem must be related to the disease. Debt servicing problems should be dealt with as such, namely, restructuring either the debt or the ownership of the assets—not through the income support system. Resources available for income support must be targeted to those who truly need transitional assistance, either to find other means of economic support or to carry them through the several years of world supply adjustments. However, farm programs where only one dollar out of five goes to producers in financial stress is neither fair to those who truly need financial assistance nor to those who must face income supports and production controls which distort the long-term economic value of production assets.

Despite excess supplies in the United States and around the world productivity does not have to be a bad word. Competitiveness will be related to our ability to keep ahead in the implementation of productivity increases. In Senator Helms' words, "Our programs are going to have to be adaptable to technological change—or we can kiss our international competitiveness good-by." However, American farm programs have placed too much attention on maintaining a "target" price per unit of output. Rather, our focus should be on how we can maximize returns on assets employed in farming.

The greatest threat to America's comparative advantage are programs which limit the amount American farmers can produce or market. Productivity gains will be achieved by trying to maximize the efficient management of production inputs—not cutting production across the board or attempting to freeze the ownership of farm assets. This means that assets will change hands and that pressure will be placed upon the remaining producers to maximize the return from those assets.

There is nothing wrong with cheap food. It should be our objective just as it should be in every other economic sector to use our competitive advantage and opportunity for increased productivity to offer our product cheaper than any other supplier—and make money doing it.

■

From: ***Daniel G. Amstutz, Under Secretary for International Affairs and Commodity Programs U.S. Department of Agriculture***

Re: ***John Schnittker's "Coping With Excess Capacity"***

After 40 years of trying to go it alone in terms of balancing commodity supplies with available markets, it should be apparent to almost everyone that the United States can no longer carry the burden of excess production capacity for the world. Although he did not acknowledge it, this was the obvious message in Mr. Schnittker's commodity-by-commodity description of excess U.S. stockpiles, and his observation that "technological developments in the next decade will remind us constantly of the futility of continuing to control crop production via limited acreage, and to restrain milk production by cow slaughter."

Thus, it was with surprise that I read his negative assessment on prospects for globalizing solutions to this international problem. "Trade confrontation and negotiations will take up a lot of air," he wrote, "but are overrated except to the people caught up in their excitement." He follows up this dismal assessment on internationalizing a global problem by concluding that "the decisive test will be whether experience under the 1985 Food Security Act, in combination with budget policy and political developments, sets the stage for more of the same or for major reform of farm policies in the next round."

Not in the next round of trade negotiations, mind you, but in the next round of farm bill development. His prescription, it seems, is for the United States to continue handling the global overcapacity problem via its domestic farm programs. If this is his view, needless to say, we have clearly identified a major difference on how to solve the current problems of agriculture. It is U.S. farm programs that have gotten us into the present situation. Via our programs we have provided a price umbrella which has, in effect, financed high production incentives in other countries, particularly the European Community. If more of the same is the best we can hope for, then the outlook for U.S. agriculture is indeed bleak.

But there is a better way, in my view. It is to deal with this global problem in a global manner. That is why the Administration has pressed so hard, first for a new round of multilateral trade negotiations, and second for a comprehensive approach to agricultural issues in those negotiations, a shift from the past when the practice was to negotiate barrier for barrier with other countries.

In the new round, we intend to deal with this global problem in a more fundamental manner. Our goals are to:

—Freeze the present level of export subsidies used in agricultural trade and phase out the use of these subsidies over time.

—Stop the growth of new barriers to agricultural trade and to phase out the non-tariff barriers that now exist.

—Achieve greater harmony of international food, plant and animal health regulations in order to facilitate greater international trade.

—Improve the dispute settlement process under the General Agreement on Tariffs and Trade, so that once trading nations have agreed on better rules, there can be an assurance that they will be applied consistently and dependably.

As we view it, if you remove barriers to agricultural trade, you open up markets to competition and improved efficiency. Eliminate agricultural export subsidies and you increase the pressure for lowering the financial incentives that result in overproduction.

It is, after all, global overproduction that has forced the U.S. toward supply reduction measures. We have learned, however, that supply reduction cannot be a unilateral U.S. action. That should be clear from our experience with PIK in 1983 and from the magnitude of the problem described by Mr. Schnittker. Reducing U.S. crop acreages enough to hold global stocks in balance or the imposition of marketing quotas to achieve this will bankrupt U.S. input supply firms along with more farmers, since the U.S. only accounts for about one-fifth of world grain production.

The bottom line is that we must reject the "go-it-alone" approach and move to a global solution. The new round of trade negotiations is a major opportunity for making that move. In the meantime, it is important to keep the pressure on export subsidizing countries so they will come to the bargaining table with serious intent. But the international bargaining table is where the solution lies, not in the committee rooms of the U.S. Congress.

■

From: ***Richard J. Goodman**, Vice President, Continental Grain*
Re: *John Schnittker's "Coping With Excess Capacity"*

I agree with John Schnittker that it is politically unlikely that major reductions in farm program costs will be made before 1989. However, I think Congress and the Administration will act to cap program costs beginning with the 1988 crop. As usual, there will be much questioning and debate as to how best to do this. If rational economic thinking prevails, action should come in the form of effectively divorcing farm income payments from production.

The blueprint to do this is already developed and reasonably well known. It is the income payment formulation contained in the bill introduced last year by Senators Boschwitz and Boren, but not—mistakenly I believe—incorporated into the 1985 Farm Bill.

The Boschwitz-Boren proposal was simply to take current base acreages and average yields as the basis for a once-and-for-all calculation of income payments per farm. Each farmer would get that payment—or some declining proportion of it—each year for the term of the legislation. Payments would be made regardless of what he grew—or for that matter, whether he grew anything at all.

Income payments would have no effect on production. With price supporting loan rates at sub-equilibrium levels, farmers would plant and produce only with regard to market prices and production costs.

Certainly this program would result in lower levels of production than would result under the current target price program without paid acreage diversion. With program costs capped for 1988—and possibly methodically reduced beginning in 1989—the long term conservation reserve could be accelerated and enlarged to provide additional incentives to withdraw resources from agriculture.

With the beginning of the Uruguay Round of multilateral trade negotiations, the U.S. would then be in a much cleaner position. The farm income support payments would be capped and declining. Their effects could be described as production and export neutral. It would be the most defensible from program we have had since the GATT was formed.

As for the "big and well-financed Republican farmers" that John characterizes, and which conventional wisdom seems to accord control of American farm policy, the Boschwitz-Boren program could have its appeal. Capping and subsequently reducing payments might be the only budgetary alternative to severe payment limitations imposed next year.

From: *John Schnittker, President, Schnittker Associates*
Re: *The Author Replies*

Negotiating improvements in domestic farm policies has been the principal platitude of agricultural trade talks since 1963. It was an unrealistic objective in the Kennedy Round, and it is equally so in 1986. Levels of agricultural protection as indicated by export subsidies in Europe, direct payments to farmers in the U.S., and other measures elsewhere, have risen sharply in the meantime, keeping time to an internal music of their own.

Of course, we must deal with global problems comprehensively, as Secretary Amstutz says, by addressing reductions in Europe's export subsidies (as the U.S. will argue), and reductions in equally disruptive U.S. domestic subsidies (as the EC will argue).

Progress on those two critical issues can be made in the next few years only if internal political and budgetary pressures in the leading countries in respect to agricultural policies are strong enough to produce domestic reforms which fortuitously coincide with the objectives of the new round of trade talks. There are no clear indications that this is the case in Europe, Japan, or the U.S., but you never know.

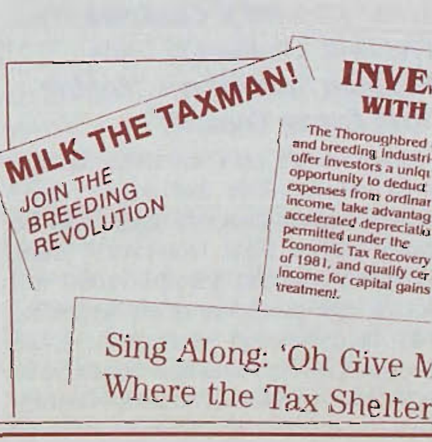
The U.S. in 1986, is in a position similar to that of the EC in the 1960's. Having just raised our "levels of protection" (to use an old EC term) to spectacularly high figures in the 1985 Act, we can preempt the high moral ground by proposing to freeze and later reduce our subsidies, if others will reciprocate. In 1964, the EC had just established the CAP and proposed to freeze the Mountant de Soutien (the margin of domestic support over world prices), which they had raised to a new record level.

It will be convenient if internal political pressures force the U.S., Europe, and other countries to amend their farm policies during the next few years in ways conducive to restoring order in world agricultural markets. Such actions, taken largely for domestic reasons, would make it possible to claim some progress on agriculture in the new GATT Round. In fact, the U.S. could advance some aspects of present law, including the scheduled 5 percent cut in target prices for gains in 1988, as positive contributions to the objectives of the GATT Round. That would be easy and it would look good at home, but it will not buy any concessions for the U.S.

We may also have to cope with our own farm organizations who will argue that the U.S. should not reduce its farm subsidies for any reason until the rest of the world (meaning Europe and Japan) does so. In the meantime, the world knows that the U.S. has little choice in 1987 and indefinitely after that but to pursue unilateral production controls for our surplus crops and to pay out huge production subsidies as well, while turning up the heat on the EC and alienating our competitor friends such as Canada and Australia at the same time.

I have no quarrel with Tom Saylor's letter, but generally agree with it. I do worry, however, about the current meaning of "competitiveness" in respect to agriculture. It seems to imply the shipment of more tons of U.S. products per year for less money indefinitely, I would prefer a broader strategy, since shipping more for less is not very satisfying.

Finally, I hope Dick Goodman is right and that Congress will limit farm production spending. Divorcing payments from production and capping individual payments absolutely would cut costs. I doubt that those actions would reduce grain production, however, the Boschwitz-Boren Bill, for example, would provide both the opportunity for full production and the money to finance it. That is not "production neutral" in my book.



From: *C. William Swank, President, Ohio Farm Bureau Federation*
Re: *"Farming The Tax Code"*

The article "Farming The Tax Code" which appeared in the Third Quarter 1986 issue of CHOICES made two major points. First, agriculture does receive tax preferences. Some are available exclusively to farmers, and some are available to farmers and other categories of taxpayers. The second point is that some taxpayers are helped by the preferences, and others are hurt.

When submitted to a "so what?" test, the article comes up short. A reiteration of some of the preferences that are available, the ease with which taxpayers can use them to shelter income, and the fact that the value of preferences is greater to a taxpayer in a higher bracket than to one in a lower bracket, does little to answer the question posed in the title, "Is the Farming Sector Helped?"

There are significant issues that merit exploration in arriving at an answer to this question. The most fundamental issue probably is "should tax policies and laws be tools for social engineering and/or the stimulation of certain types of economic activities at the expense of other types?" The current tax reform bill appears to begin to shift tax law toward the single function of generating tax revenues. Arguments developed addressing this issue would get at the pros and cons of general preferences such as capital gains, accelerated depreciation, investment tax credits, and deferred recognition of income. These issues, of course, encompass much more than the use of preferences by agriculture.

Focusing directly on agriculture, there's the issue of whether or not there are substantive reasons today that tax laws applicable to the business of farming should be different than those applicable to other small, medium, or large businesses. Exploring this issue would provide a basis for evaluating some of the preferences specific to farming such as cash accounting and the capitalization versus expensing of improvement and development costs. One might even posit that, for tax purposes, farming is treated more like a personal than a business activity. This makes preferences available to a broader taxpaying population than just "bonafide" farmers.

A third issue for exploration is whether the use of preferences results in greater after-tax income over the lifetime of the farmer taxpayer. This would appear to be the result if the tax liability can be deferred until the taxpayer qualifies for a lower tax bracket. However, if in order to keep deferring the liability, purchases or sales or investments result in higher opportunity costs than would have been realized without the deferral, then the true after-tax income may be reduced.

Pending further development of these, and probably other significant issues, one is left with the following concluding statements. First, farmers do farm the tax code, as do most other taxpayers eligible for preferences. Next, the use of preferences does result in lower taxes paid by the individual taxpayer in a given tax year. Finally, it is not evident, based on the questions raised above, that the use of preferences helps the individual farmer taxpayer, let alone the entire farming sector, especially if "helped" is defined as increasing after-tax income over the span of years the taxpayer is engaged in farming.

■

From: *Robert L. Clodius,*
National Association of State Universities and Land-Grant Colleges, Washington, D.C.
Re: *Ed Schuh's "Revitalizing Land Grant Universities"*

On reading my copy of the Third Quarter 1986 issue of CHOICES I felt no compelling need to write a letter to the Editor and project my views into the content and controversy of the referenced subject. After all, I had read Ed Schuh's earlier paper, had used it as required reading for an inhouse staff retreat two years ago, and had written him that there was much merit in rediscovering the very healthy roots of the "land-grant movement." Furthermore, I find myself in agreement with most of the comments I have read on the subject subsequently, especially when I place them in the context of the person who is writing.

Thus, when the Editor suggested a response, my initial reaction was that there is nothing much to say. However, after some further discussion within the staff of NASCLGC and particularly with Dr. Dale Stansbury, Director of Governmental Relations for Agriculture and Natural Resources, I concluded that, perhaps we do have something to say. That something is that our friends and colleagues are dealing with sweeping generalizations which make them at one and the same time both partly right and partly wrong, or completely right, in part, and completely wrong, in part. One is reminded of the story of the three blind men each feeling a different part of the elephant and correctly characterizing the part while incorrectly generalizing about the whole.

Dr. Schuh uses the term "land-grant universities" in a collective sense that suggests uniformity, indeed, as most of us do. In fact, the warp and woof of the land-grant fabric includes 74 distinct and varied institutions. They are not homogeneous but very diverse in organization, focus, and nature. It is this diversity that affords our system its unique strengths and relevance for the states where they are located. And it is this diversity that makes almost any generalization overly broad, and yet accurate for some parts, different parts.

Dr. Schuh suggests there is a "malaise" or lack of relevance in current activities among the "Land-Grants" as they are called in shorthand. Maybe yes, maybe no. There are exemplary programs in every one of these institutions to suit almost every taste and value, yet we can agree on a concern that they may be falling short of what they could be.

Nor do I find it disturbing that "land-grant" ideas show up outside the chosen few. The state-designated Land Grant institutions do not have a monopoly on land-grant concepts, and all of the great state universities who members of this Association subscribe to teaching, research, and service as the foundation stones for their programs. At the same time I also believe there are advantages to specialization in certain program areas and exchange among the higher education institutions in a state, including community colleges and private universities.

Dr. Schuh touched on the old-new debate of peer review versus formula funding without using those exact terms. This debate will not be ended in the near future. Would anyone be offended at the suggestion that each is a legitimate and necessary tool in achieving national goals, and that neither is adequate by itself? However, I would stress as Dr. Schuh does, and as did the Pound Report in 1972, that administratively allocated research funds are the most likely to be used for socially relevant research in contrast to the two poles of research determination—disciplinary determined (peer review) or politically determined (earmarked funds). At the same time, neither of these allocation systems is inappropriate in a democracy.

As a matter of interest is the historical fact that a major question about the original Morrill Act and the implementing land-grants was whether these grants would serve a public purpose. Only after extended debate and one presidential veto was the Morrill Act signed into law. This action was a charter as well as requirement that those higher education institutions be in the service of the nation's people. Although it took decades for fulfillment, the Morrill Act initiated a new spirit for higher education.

The "new spirit" of higher education contained in the Morrill Act of 1862 was concisely stated by W. J. Kerr, President of Oregon State Agricultural College at the 45th Convention of the Association of Land Grant Colleges and Universities in 1931 as the nation sank into its worst depression. He said the new spirit was:

1. The spirit of initiative (pioneering).
2. The spirit of growth (process).
3. The spirit of equal opportunity for all (democracy).

4. The spirit of helpfulness (service).

In other words, higher education should be available to all; the fruits of science should be brought to bear on our social economic, and physical environments; and institutions of higher learning should be involved, not insular. Creation of new knowledge is critical and inherent but not adequate for this system of ideas.

While the distinct functions of resident instructions, research, and extension are embodied in three hallmark legislative statements—Morrill, Hatch, and Smith-Lever enacted over a period of a half century—the Congress surely did not create them as unrelated concepts. Rather, they are seen as complementary functions to fulfill the overall objective of land grant institutions to serve the people. There is no greater challenge for a university administration than to maintain the equity and vitality of these functions. While there probably is a chronic favoring of research relative to teaching and extension and there may be a tendency today to push toward the basic at the expense of the applied in research. That does not necessarily mean the research or the university is less relevant. Relevance for the university must include the full spectrum of activity in research, extension and teaching, and in every school and college, and is as much related to being on the frontier as settled country. And must we not be pioneers?

On one closing note, as a card-carrying, dues-paying member of almost 40 years standing, a past officer and one-time Editor of the Journal, I wish to commend the American Agricultural Economics Association and the Editor of CHOICES for one of the best, most timely and relevant contributions to agricultural policy in my memory—the forum of this magazine.

■

From: *Eldon D. Smith, University of Kentucky*
Re: *The Bromley-Schuh Interchange About Land Grant Universities*

The issues in the current debate with Ed Schuh (CHOICES, Third Quarter 1986) have become greatly confused I fear. I find myself in fundamental disagreement with you for denying the problem and with Schuh for failing to formulate it meaningfully.

The academic doodling argument which basically supports nonaccountability of the academic establishment is not just trite—it is seriously misleading. It basically pleads that we will get higher productivity from research resources if we randomly allocate them than if we plan their allocation—surely a strange argument for an economist. Beyond that, it ignores the evidence which is surely substantial that the institutionalized merit evaluation systems and promotion and tenure review systems have in fact greatly modified the incentive structure of academia, especially the Land Grant portion which was formerly quite problem-focused. A modification of research resource allocation of unprecedented dimensions in the result, one which greatly diminishes relevancy as a criterion of choice both direct and indirect. While I agree that we have something of a new division of research labor, and hence, more justification for a heavier focus on theoretical and technical issues, this begs the issue of what theatrical and technical issues, issues that are simply faddish, cute and publishable or issues the understanding of which are strategic to understanding present and future problem sets of significance.

I would argue that it is now possible for a member of our profession to become quite successful and acclaimed without showing any interest in whether his inquiries have any potential relevance to understanding important problem sets or not. We look now to approval from within and deny the relevance issue either direct or indirect. And what is interesting and acclaimed is not necessarily what is strategic to genuine understanding of anything. I disagree with Ed on the same issue as you—that of putting more power into the hands of administrators. Our Dean castigated our department recently for not having "solved" the farm debt crisis within our own state boundaries. Such misperceptions of the social scene are not unusual I think. But the more serious oversight is that the current imbalance is an institutional creation of our academic system and requires corrective action from within to modify that part of the system which has run amuck, the institutionalized merit and promotion and tenure system. It will not be easy because it is university-wide and rooted in this fantasy that lack of accountability is necessary to scholarly creativity, which you share apparently.

■

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

I am pleased that my article has elicited additional thoughtful comments.

Clodius reminds us of the diversity in the system, with which I agree, and provides us with some important historical background. I am in substantial agreement with his comments, and especially with what he says about the role of administratively allocated research funds.

I also am in substantial agreement with Smith's comments. Where we disagree is on the role of academic administrators. The fact that there are some foolish deans around is not sufficient reason in my judgment to put all deans (or department heads/chairpeople!) to handling trivial matters and doing public relations. After all, people are presumably elevated to such lofty status and paid higher salaries because they are judged to have superior wisdom and talent.

My point about providing administrators—at all levels in the university—with additional discretionary funds is not to impose an authoritarian regime. I, too, believe in democratically run academic units. The point is that the peer review system, which I believe has taken us down a primrose path in the way it is now widely used, also undermines the democratic process in academic units. If faculty are rewarded only through the blessing of national (disciplinary) peer groups, they have little incentive to participate in the discussion of 'local' issues. Surely this has contributed to a decline in faculty interest in department and college meetings. They now march to a different drummer.

On this issue is seems to me that our challenge is to find the proper balance between outside peer reviews, inputs from colleagues, and judgement on the part of administrators as to the contribution of individual staff in attaining both social and disciplinary goals. My continuing concern is that we have lost our sense of institutional mission, and that that loss is causing society to under-invest in both research and higher education. Society will let us doodle as much as we want; it doesn't have to, and probably will not, pay us to do it.

To conclude, I would note that the issue of peer review, accountability, and mission are not the only issues before us. The fact that the frontier of knowledge had moved out so far, with increasingly specialized bodies of disciplinary knowledge, poses a particularly difficult organizational challenge for us if we are to focus—as I believe we should—that knowledge on the problems of society. The special challenge to the land grant universities is to continue to work on that frontier while at the same time helping to solve the practical problems of society. Hence, two critical issues we face are "Who are we to serve?" and "How are we to organize to do it?" The dramatic decline in support for extension—a key component of the land grant system—and the continuing prevalance of budget crises for the universities, suggest that we are not answering these questions effectively. My special plea is that we put our complacency behind us and get on with the task of responding to these difficult challenges.

■

From: *Thomas O. Kay,*
Administrator, Foreign Agricultural Service, USDA
Re: *Zulauf and Henderson's "Export Shifts"*

The cycles that have buffeted American agriculture are legend. Yet another one is in the making in the 1980's with the recent downturn in export sales. But the cyclical nature of that downturn was largely lost in your headline "Exports May Have Shifted From an Engine of Growth to a Catalyst for Downsizing U.S. Agriculture."

What may also have been lost was that the framework for a turnaround has already been established. The Food Security Act of 1985 provides for lower loan rates which will permit U.S. exporters to compete more aggressively in the international marketplace. These lower loan rates didn't go into effect until the beginning of the 1986/87 marketing years for program crops, though, so farm exports during the 1985/86 fiscal year won't reflect the new competitive pricing structure. However, there are signs that a turnaround in the U.S. export situation is likely to occur in 1986/87. As of early August, forward sales of new crop rice were running 50 percent ahead of the same date a year earlier. For cotton, forward sales only seven days into the 1986/87 marketing year totaled 3.2 million bales, which is more than 50 percent higher than the 2 million bales exported during all of the 1985/86 marketing year. Wheat sales are also up one third from the same date of a year ago and soybean sales 50 percent higher. Overall, at this early point USDA analysts are looking for an increase of almost 17 million metric tons, roughly 15 percent, in our 1986/87 exports.

Unfortunately, some see a downside to this, including the authors. They are nervous about the degree of international resentment spurred by the more aggressive U.S. farm policy. Certainly it was more comfortable for competing countries when the United States was holding a price umbrella over the world market. While some of these other countries may call the lowering of the U.S. loan rates predatory, it is important to keep in mind that past U.S. farm policies have given them a windfall to the detriment of U.S. farmers.

In recent years, Canadian, Australian, Argentine, European, and Thai farmers could have cut back on their acreages in response to the slackening in world demand. But they did not. U.S. farmers were forced to make all the supply adjustments. As a result, since 1980 our wheat farmers have seen their share of world wheat trade plumment from over 45 percent to only 30 percent. Our corn, soybean, rice, and cotton producers have seen similar or even more dramatic declines in their shares of world trade.

In September, delegates of the major trading nations will be meeting in Punta del Este in Uruguay for the opening talks in a round of multilateral trade negotiations. U.S. trade negotiators have been working in international fora for years to bring about a reduction in the use of export subsidies. It has been a lonely cause up until now. Perhaps at this meeting there will be a few more countries with an active interest in getting this issue resolved in the current round of trade talks.

Our conclusion is that this is not a time for us to "temper" our actions. The 1985 Farm Bill—with its adjusted loan rates and other export-oriented tools—can put our farm export sector on the road to recovery. On the international front, these new export programs give us our best chance in years to reduce the use of unfair trade practices which have worked to the detriment of the U.S. farmer.

■

From: *Richard L. Gardner,*
Economist, Executive Office of the Governor of Idaho
Re: *Wilson Scaling on Soil Conservation*

I read with interest Wilson Scaling's response to Pierre Crosson on soil conservation, in particular his comments on the use of economics within the Soil Conservation Service. It was encouraging to discover that economic analysis is being promoted within the agency, because my experience has been that there is considerable room for more attention to economics in current SCS practices. Let me offer a couple of examples.

Gardner and Young in the issue of the Western Journal of Agricultural Economics estimated that only three of nine SCS on-farm salinity control projects planned for the Colorado River Basin had benefits exceeding costs. One problem appeared to be the inclusion of inefficient (BMP's) like drip irrigation and land leveling in project plans and the secondary role of management tools like irrigation scheduling, and surge-flow irrigation techniques.

Capital intensive land treatments are greatly overemphasized under the current SCS/ASCS policy of paying a proportion of treatment costs. The BMP does not sufficiently take into account the benefits and/or lack of benefits to the society as a whole versus the individual landowner.

Similarly, the method of accepting land into the conservation reserve program is not designed to maximize societal benefits from erosion control. Currently, any cropland which is eroding at three times normal levels or greater is eligible. Bids are then prioritized within each region on the basis of dollars per acre. This ensures that least productive land will be retired with a given budget, but what happens to the goal of reducing soil erosion?

Bids per acre should be divided by the tons of topsoil preserved before being ranked by dollars per acre. Consideration should also be given to the off-site benefits generated in each region per ton of topsoil preserved. For example, erosion in many western watersheds contributes to the siltation of federally financed reservoirs, lowering their storage capacity. Targeting the conservation reserve program to maximize preservation of topsoil and minimize siltation of reservoirs is consistent with the Soil Conservation Policy Task Force report of the American Agricultural Economics Association and targeting was a principal point of Crosson's article in the Premiere Issue of CHOICES.

Clearly, agencies must operate programs with an eye towards social objectives like equity, administrative ease, and public acceptance, as well as economic efficiency. However, in this time of increasing budget constraints, the SCS/ASCS programs appear to have much latitude to squeeze more soil and water conservation bang from their bucks.

■

From: *Yoav Kislev, The World Bank*
Re: *Wayne Boutwell's "Marketing Loans"*

CHOICES is interesting and informative. Well done!

There is a point I would appreciate if you could clarify. In the box on page 33 (CHOICES—Third Quarter 1986) the marketing loan for rice is explained. As I understand it, the cost per cwt. to the government is $3.90 of the deficiency payment (11.90-8.00) plus $4.60 loan forgiving (assuming a world price of $3.40). The total cost is, therefore, $8.50 per cwt.

CHOICES put the cost to the government at $4.60 per cwt. Is my calculation erroneous? Or is CHOICES' figure limited to the loan part, to which the deficiency payment should be added to get the total government cost?

Editor's Note: You're correct, the deficiency payment is not part of the $4.60 and is, of course, a government outlay.

■

From: *Harold F. Breimyer, University of Missouri-Columbia*
Re: *Paarlberg on Economic Advising*

Readers of the first two issues of CHOICES surely noted that Don Paarlberg's counsel to givers and receivers of economic advice took the form of commandments to the former and gentle suggestions to the latter. I could argue that he should reverse the pitch: administrators and politicians may be the more derelict and need the harsher admonition.

This note, though, is written primarily to propose an eleventh commandment or suggestion to each party. To the adviser I insist on mental and moral preparation for disappointment. I am, like Paarlberg, an expatriate in the role and I cite my own experience. Finding that only a third of my carefully crafted memoranda had a visible effect on policy I philosophized that a .333 average will keep a batter in the big leagues. To the receiver of advice my instruction is to avoid the temptation to ask a yes-man relationship. The ego begs for boosting and any official likes to have his own ideas confirmed. If he insists on that intellectual self-indulgence and routinely rejects or rationalizes away anything he dislikes, the advisory function will be futile.

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From: *Neil H. Pelsue, Jr., University of Vermont*
Re: *Katherine Reichelderfer "Agricultural-Acrostic Puzzle"*

I enjoyed doing the Agricultural-Acrostic in the recent issue of CHOICES. Please tell Kitty that according to our Webster's Third New International Dictionary the apparel for fox hunt is "jodhpurs," not "jodphurs."

The articles surely must satisfy Lauren Soth. Keep up the good work!

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From: *Kitty Reichelderfer, USDA, ERS, NRED*
Re: *The Author Replies . . .*

As you certainly must have guessed, this was a hidden test of CHOICES' readership. Congratulations to Neil Pelsue as the first to solve enough of the acrostic to uncover this fiendish trick.

With tongue in cheek . . .

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From: *Michael Boehlje, Head, Department of Agricultural and Applied Economics University of Minnesota*
Re: *Paul Kelley "Disequilibria"*

Paul Kelley argues two related themes in his "Disequilibria" commentary in the third quarter 1986 CHOICES: (1) that land grant institutions have not been providing leadership in national public policy extension and research programs, and (2) the effectiveness of land grant universities in doing credible extension and research programming in this area is undermined in part because international dimensions of our economy and agricultural policy have been ignored or underemphasized. Although it is always worthwhile to evaluate the relevance of our teaching, research and extension programs in the land grant system, Kelley's criticisms in this case seem a bit too strong.

In fact, one might counterargue Kelley's main premise. The "hot topic" on the research agenda in many departments of agricultural economics recently has been the implications of macro policy and the international commodity and financial markets on agriculture. There has been less extension focused on this topic, but extension programming in this area is not void. From the perspective of many of our clientele (producers, agribusiness firms, legislators, etc.), the key question is "What can we do about it?" Macroeconomic policy has been in disarray lately and our understanding of international markets is not as complete as it should be so that research in this area has been less than satisfying in terms of definitive, prescriptive results. In addition, some analysts still do not understand the interface between the international commodity and goods markets, and the international financial markets. If I were to identify one major fault of the profession (this author included), it is an incomplete understanding of the functioning, institutions and structure of the international financial markets and their significant impact on activity in the real sectors of the economy. Yet there have been significant contributions by agricultural economists to the policy debate in recent years.

If we have not done enough research and extension programming on policy issues, we certainly have not done enough on how individual firms can adjust to international and domestic economic policies that are set outside of agriculture. There is some legitimacy in the argument that some farm and agribusiness managers make: "Don't spend all your time studying macro and international policies because I can't do anything about that. Instead, tell me what the potential macro and economic scenarios are and how I should adjust my firm to survive and thrive under those scenarios." In essence, give me information that I can use to improve decisionmaking in areas in which I have some say in the matter.

Kelley asserts that we really don't know much about how agricultural policy decisions are made. Numerous agricultural economists and political scientists, including Talbot, Cochrane, Paarlberg, Hadwiger, Browne, Spitze, Guither, and others have attempted to analyze the political process that generates policy decisions. Given the constant change in the players in the game and the economic and political environment in which the game is played, it is not too surprising that public policy decisions are stochastic in nature. Yet farm policy is not all that unpredictable—we have followed somewhat the same pattern of supply control and price enhancement policies at least since the 1960's, in spite of political statements to the contrary that promote each new farm program as a dramatic change from the past.

Kelley also argues that we don't know much about the long-term scenario for food and agricultural prices. Yet there are those who have made projections of supplies and prices of agricultural commodities including the Food and Agricultural Policy Research Institute, Dennis Avery, Clark Edwards, and others. Although these analysts don't all agree in their specific forecasts, they are consistently pessimistic of varying degrees in the short and intermediate run.

Unfortunately, Kelley's criticisms of the land grant institutions may be more appropriate as a commentary on our analytical capability rather than our interest and focus. In my judgment, the interest and focus is there. What is lacking is the capability to integrate agricultural issues, macro policies and international considerations into a comprehensive, analytical framework. Progress is being made to accomplish this complex task, but the challenge remains.

■

From: *Paul Kelley*, *Kansas State University*
Re: *The Author Replies . . .*

Michael Boehlje's comments on my article in the third issue 1986 CHOICES and Wes Seitz's paper in this issue of CHOICES are useful.

Boehlje reaffirms my central thesis that we lack analytical capacity in our current institutional organization of the research process in Land Grant Universities to deal effectively with priority research issues of the U.S. food and fiber system. These problems have their roots in macroeconomic issues and integration of the U.S. agricultural sector into the world economy. But Boehlje has great faith that current institutional processes will ultimately remove much of our analytical deficit. In the short term he would stress improving firm survival and growth strategies in an economic environment increasingly impacted by U.S. macro and worldwide economic events. He implies no need for major reorganization of the agricultural economics research and extension policy agenda.

Seitz, in his article in this issue of CHOICES, asserts the need for a "string of PEARLS"—i.e., a number of policy evaluation and research laboratories. This is indeed a major institutional change in the research process dealing with public issues in agricultural finance, markets and marketing, etc.

I am supportive of the Seitz proposal and referred to this general concept in my original article citing the Food and Agricultural Policy Research Institute at Ames and Columbia. If properly coordinated and linked to individual Land Grant Universities, such a policy research structure has the potential of enhancing the quality of public policy decisionmaking as Seitz argues. The key to the success of such a research structure most likely is in the linkage process to individual universities. There are obvious advantages of scale, critical mass of specialized talent, continuity, and length of time concentration of researchable topics. I concur with his general proposal. Hopefully such a structure would contain the institutional format to permit more direct on-site research analyses of domestic and trade policies in other agricultural sectors of the world that affect the U.S. agricultural food and fiber system so vitally. Extension personnel need to be tied into a similar process. Perhaps the most important implicit proposition that Seitz advances is that his proposal is in effect creating a needed "new institutional research structure" to effectively advance the mission of Land Grant Universities in the public policy research area by meeting the "competition" of non-Land Grant research groups using similar strategies of concentration of skill and resources.

■

From: *Bernard M. Collins,*
Baltimore, MD
Re: *Steve Gabriel and Paul Prentice's "Macrolinkages" and Jim Horsfield's "National Park"*

I have subscribed to your excellent magazine. Farming is an industry with an enormous range of issues and you are addressing them in a comprehensive yet penetrating way. I hope you can keep up the pace. The national importance of these issues can hardly be overemphasized.

Steve Gabriel and Paul Prentice's article in the Second Quarter 1986 issue is a good example of the thoughtful coverage you are providing about questions which ultimately affect the farmer in a personal and particular way. It also provides some contrast to Jim Horsfield's article about the rural "park" in the Third Quarter 1986 issue. It seems to me that Horsfield advocates expanding the overall issue from one of pure economics to include more of the human side. I share his feeling and believe it could provide the farm community with a key to greater public awareness and support.

Going even further than Horsfield, the farm still provides, in my opinion, one of the major solutions to endemic and probably worsening national employment and welfare. I have nothing but a feeling to support the statement, but I am confident that the urban unemployed of today are largely made up of people who are but a few generations removed from the farm, and who still find much of their culture, family and personal history tied to a rural life.

The 45 percent U.S. farm population of my youth versus the 5 percent of today, represents perhaps 10 million families displaced by pure economics. It was one of the largest migrations in the history of man. "Output per acre" is the reason, pure and simple. Combining a human approach with hard economics could lead to a different formula - "Output per person per acre." Suppose, for example, that price supports were indexed to people on an incentive basis - the more employed, the higher the support. Such an idea may seem outrageous to some, but I submit that it is an answer to many of our national and human problems in an economy that is rushing at break-neck speed into warehoused people, "robotics", and "artificial intelligence." Where else but on a farm will large numbers of people be able to find noble and rewarding work that allows them to fulfill their unalienable right to a family and gives them that all important stake in society that is required for a stable and peaceful life for us all?

Price supports are only one way. Grants in aid, tax breaks for farm life that reduces welfare, and a revised homesteading law are but three other alternatives which, combined or separate, might stimulate the growth of the farm population. It has taken some 60 years or more to drift into our present farm employment situation. It might take a lot less to reverse the trend with policies of enlightened national self-interest, and we can hardly afford to wait.

■

From: *James Roumasset,*
University of Hawaii
Re: *Farm Subsidies—Who gets hurt? We do*

In the days of fixed exchange rates, Stanford economist Emile Dupres used to advocate heading off potential runs against the dollar by threatening to sell large amounts of gold. Maligning the French and others about the importance of being neighborly, he argued, would only convince them that holding dollars was an act of altruism and contrary to their own national interest. Instead he urged the U.S. to, in effect, try to induce countries to part with more dollars than they were really prepared to sell.

Imagine trying this reverse psychology with the European Common Market, our allies and alleged opponents in the agricultural trade war. Instead of focusing on what they should do for us—decrease subsidies to agriculture and exports—suppose that we focused on doing the right thing ourselves, without promises of reciprocity, and reduced costly public subsidies to agriculture for our own good. For these subsidies contribute to our budget deficit in a major way.

Economists once thought that increasing the public debt was not a proper cause of concern. "We owe it to ourselves" they would say, arguing that paying off the debt would simply involve a transfer of wealth from one group of Americans to another. That was never good logic since holding public debt tends to substitute for real wealth, especially private capital formation. But the logic is even less applicable today, in a world of flexible exchange rates where, as Assistant Secretary of Agriculture Bob Thompson recently noted, "literally billions of dollars can move among countries at the touch of a telex key." Large public deficits and relatively low private savings produce trade deficits counterbalanced by capital inflows from abroad. Thus, even if the budget deficit is initially financed by domestic sales of debt instruments, it ends up being financed largely by foreigners.

In summary, budget deficits to which the farm programs contribute, are financed both by a reduction of capital formation and by the transfer of real wealth to foreign nationals. It would not be so bad if public spending were used to finance offsetting capital formation (e.g., by repairing America's decaying infrastructure). But spending it to bail out inefficient farm operations and other businesses doesn't accomplish that. Instead, it blocks the transition to a more efficient economy—one more consistent with our real comparative advantage.

By some estimates the farm program will add $30 billion to the U.S. budget deficit in 1986. That's $30 billion worth of potential capital and natural resources that could have been yielding large dividends for years to come. Unless we want to accept the stagnant and stationary economy foreseen by the "dismal economists" of the 19th century, we simply cannot afford to continue to finance non-productive expenditures with deficit finance. Farm supports must be among the first programs to be drastically cut.

So who gets hurt by trying to subsidize our agriculture more than the Europeans? We do. And the best way to break the negative psychology of protectionism and conflict is to communicate that we intend to phase out most of the subsidy programs, thereby taking a big step towards restoring our long-run competitive edge. The Europeans will learn, soon enough, what they are missing. C