. . . From you

From: ***Jim Miller***
President, National Association of Wheat Growers

Re: ***McCalla, White, and Clayton's "Embargoes, Surplus Disposal, and U.S. Agriculture"***

The Economic Research Service study of the embargoes of the 1970s, and potential for surplus disposal programs, while offering an analytical frame work for academic exercise, falls short of providing a viable policy analysis for future use. The attempt to isolate singular events fails because a column of numbers cannot identify the political or social ramifications of those actions. Furthermore, it does not identify cause-effect relationships which become multiplied over time in a dynamic global economy where even subtle market reactions should indicate the necessity of change but institutions dampen those signals on the basis of short term individual national interest.

The short supply embargoes of the early 1970s, whether general or targeted, encouraged a more rapid movement to self sufficiency and supply diversification by importing nations than would have occurred in their absence. The response of importers and exporters was to seek long term supply agreements and production expansion to fulfill those guarantees. The impact for the U.S. was to experience a loss of reputation as a reliable supplier, and join the growing movement in signing LTGA's. Unfortunately both are negative for U.S. agricultural interests in the long run. The implications of a tarnished reputation are obvious. The explosion in the absolute number and size of LTGA's was generally considered counter to our more open trade policies. The U.S. was slow to adapt to this new element of the competitive market place and less able to capture the potential benefits. This is due to a foreign policy aversion to making commitments to many potential customers interested in such agreements, and our own trading institutions which suffer diminished competitive advantage compared to quasi-public agencies, such as the Canadian Wheat Board, when markets become guaranteed rather than based on competitive bidding.

The 1980 embargo against USSR while significantly different from previous restrictions, further exacerbated agriculture's export problems. The change in trading patterns provided even greater guarantees for our competitors. This prompted increased investment in production around the world. The reactionary domestic policy, which was certainly a political as well as an economic necessity artificially stabilized prices and income not only in the U.S. but also for other producers, encouraging the creation of even greater production capacity.

The fact that macroeconomic conditions in the 1980s have significantly impacted U.S. farmers in terms or both market volume and prices should not be used to ignore the negative ramifications of past sales suspensions. Domestic and export agricultural programs as well as foreign policy issues will continue to have a high profile in the public policy debate. The embargo study has contributed little to a responsible resolution of those issues now or in the future.

■

From: ***John K. Hosemann***
American Farm Bureau Federation

Re: ***McCalla, White, and Clayton's "Embargoes, Surplus Disposal, and U.S. Agriculture"***

Carol Brookins deserves praise for her insightful piece on the long-term damage to U.S. markets through the farm policy manipulations done in order to "help farmers" immediately after the embargo.

In the USDA embargo study and subsequent commentaries—until Brookins—no mention was made about the costly negative effect of the embargo in perpetuating the view that ". . . if the government is going to do this (embargo my grain) . . . then it ought to do this (higher loans and targets and increased farmer-held grain storage) . . . to offset the out-of-pocket costs to farmers."

Brookin's article is real world. While academics can debate until the cows come home whether farmers were adequately compensated for the embargo, much of what farmers and their elected leaders are trying to sort out today can be traced to the post-embargo policy actions and the course these policy decisions set for the 1981 and 1985 farm policy debates.

As Brookins points out, think of where we would be today if the 1981 farm bill debate had started with the \$2.35/bu. wheat loan rate instead of the embargo-adjusted wheat loan rate of \$3.20/bu. Likewise, where would we be if the pre-embargo target price for wheat of \$3.08/bu. had been the benchmark for beginning the 1981 debate instead of the post-embargo target of \$3.63/bu.?

These higher price and income responses were bad enough in terms of long-term market damage. Still worse was the further manipulation of the federal farmer-held (government-managed) grain reserve into the status of a permanent price support and supply management tool, not a buffer stocks program.

Again, the loan, target and reserve manipulation responses to the embargo gave the impression that, as bad as the embargo was, government offsetting policies would make farmers whole. Well, we're out of the short run (1980) and into the long run (1981-86) and farmers are still paying in terms of policy damage to their markets.

In preparing for the next embargo, economists and policymakers would be well served not to read the USDA embargo study but rather Brookins' one-pager. The old rule that one bad policy begets another did not apply in the case of the embargo. It got at least three! And worse yet, the Soviet troops are still in Afghanistan!

■

From: *Alex F. McCalla*
University of California, Davis
Re: *The Author Replies*

I suppose most economists, with policy interests, dream of the definitive study—so overwhelming in its logic, analytical rigor and empirical validity—that it lays a major issue to rest—forever. If any of us on the Embargo study group had such dreams, they have long since been dashed. One more study, however large and ponderous, is not going to remove from the public debate, a subject so politically volatile as export embargoes. Thus, it should not be surprising that most all of the criticism of the study has been that it reached the "wrong" answer. The "right" answer should have been that embargoes caused U.S. farm income losses, cost the United States export markets and in general must be blamed for everything that has gone wrong with U.S. agriculture since 1973.

No one to my knowledge—in the many press commentaries as well as in the irate responses from farm and commodity groups—has challenged the conceptual framework, the empirical models nor the economic substance of the results. Two of the many commentaries appeared in the previous issue of CHOICES and two letters precede this comment in this issue. My purpose is to comment briefly on these four items and close with some general comments.

Carol Brookins' comments focus on an issue that we from the outset recognized as important—namely did the increase in the loan rates and FOR entry prices that occurred at the time of the embargo, cause these rates to be higher in the 1981 Farm Bill than would otherwise have been the case. This question was asked in all of our interviews and caused a lengthy and spirited debate in the study team. The interviewees had responses ranging from no impact to full impact, i.e., loan and FOR rates in the 1981 Farm Bill would have been lower by the full amount of increases in 1980 ($2.35 to $3.00 for wheat and $2.00 to $2.25 for corn). Our analysis, the majority of our interviewees, and all the information we could bring together on the subject indicated that had there been no embargo, world prices and exports would still have fallen sharply in the early 1980's. This alone likely would have generated the necessary political and economic atmosphere in the farm belt to pass higher loan rates. Despite the apparent consensus that price levels in the 1981 Act were independent of the embargo, most of our "no" embargo scenarios (see chart p. 13-2) assumed loan rates would have been 15 cents and 10 cents lower for wheat and corn, respectively. We did not attribute the increases in the loan rate in July of 1980 (50 cents for wheat and 15 cents for corn) solely to the embargo. However, whether we assumed post-embargo support levels were lower or not, it made little difference to the aggregate outcomes. Embargoes in the larger scheme of things showed little empirical impact.

I believe the study team would have little quarrel with Brookins' premise that increases in support prices in the 1981 Act were a significant factor in the problems of U.S. agriculture in the early 1980s. Our disagreement would be over how much of the domestic policy response of the early 1980s to attribute to the embargo and how much to other political and economic considerations. I suspect we would also agree that the FOR changed from a stabilization to a support operation but we would not see the embargo as the major cause of that change. Overall we agree with Brookins that the political impact of embargoes on subsequent legislation is a critical issue. A reference to Chapter 15 will show how we dealt with it. It is quite possible that Carol Brookins' political instincts may be as good or better than ours but based on the evidence available to us, we found little alternative to our final conclusions.

I find little to disagree with in Ken Farrell's comments. It is obvious that his second point is well taken. A bigger, better, and more comprehensive economic study does not necessarily alter political perceptions of economic impacts. His comments on the approach of concentrated policy analysis are worthy of continued study. A single researcher or even agency could not have done this study in the time frame. Whether it is a model for other studies remains to be seen.

The comments by John Hoseman essentially argue that Brookins says more in a page than the study did in 500+ pages. One might cautiously wonder how much of the study critics have read. Clearly, as noted above, Brookins addresses cogently one piece of the complex puzzle that had to be studied but by no means all of it.

The comments by Jim Miller tempts one to defend our approach as being applied policy analysis rather than an academic exercise. An academic exercise would probably have involved building a new global economic model which would have taken at least two years. The approach taken was to use all analytical approaches available to simultaneously attack the problem. That we did not fully capture the political dimensions is the major charge which is hard to refute on economic terms alone. Miller raises two continuing arguments. First, that embargoes caused importers, especially Japan, to diversify sources and invest in new supplies. The study's analysis of production trends and trade flows shows that there is simply no concrete evidence of this.

The second point relates to the reliable supplier issue. There is no question that embargoes increased protectionist rhetoric in importing countries and gave our export competitors talking points for long-term agreements. But it is hard to find empirical evidence to demonstrate that U.S. embargoes changed the policies of importers or competitors from what they otherwise would have been. Even for the Soviet Union, there was little evidence that the 1980 embargo did much more than change the sources and commodity mix of imports with a minimal impact on the total volume of Soviet agricultural imports. Finally we agree with Miller that it was a complex set of events. We tried to put the embargo in perspective. Our conclusions

From: *Vernon R. McMinimy*
Director, Economic Research, A.E. Staley Manufacturing Company
Re: *Babcock and Schmitz "Look at Hidden Costs"*

Evaluation of the true cost of any farm program is a complex process. That is because one is always involved with the question of what would be the value or price of the product if government were not involved. It is clear that the involvement of the U.S. Government affects the domestic price of sugar. Yet, the authors seem content with assuming that the world price of sugar represents the economic value of sugar in the world, in spite of essentially universal governmental intervention.

When we choose a standard for the basis of measuring, we have an obligation to examine that standard, test it, to ensure that it is an appropriate and valid standard by which to measure. The price of sugar in the world market over the past few years is the product of the intervention by essentially every government within who's borders sugar is consumed and produced. The world price is, thereby, the net result of that involvement. How then, can one assume that the world market price is a proper standard by which to measure the value of sugar? How then, can one use the world price to calculate the cost of the U.S. Sugar Program to the U.S. consumer?

The crux of the problem is that when governments become involved in altering the production and marketing of a commodity through subsidies, quotas, or by whatever means, the market price of that commodity becomes a distorted representation of the economic value of that commodity. So, it is with sugar, and unfortunately, more and more agricultural commodities today.

The sad fact is that because of ever increasing government involvement, the world sugar price becomes less and less a reliable measure of the economic value. If the U.S. eliminated its sugar program, the price of world sugar would, in all probability, rise as it would if other governments eliminated their sugar programs. Thus, it is inappropriate to use the world market price of sugar as a basis to measure the cost of the U.S. sugar program to U.S. consumers.

One should use the world price that would exist if there were a world market free of intervention by any government. True, we don't know exactly what that price would be, but it can be estimated. The estimated price would provide us with better information for evaluating the cost or benefits of government policy.

■

From: *Bruce Babcock and Andrew Schmitz*
University of California, Berkeley
Re: *The Authors Reply*

Vernon McMinimy correctly notes that the world price of sugar depends on the government policies of producing and consuming countries. Therefore, the fundamental demand and supply relationships cannot be estimated without accounting for government's influence. But simply including past government actions in an econometric model to estimate demand and supply elasticities is not enough. The reactions of foreign governments to changes in U.S. policy must also be predicted. Attempts at building these necessarily elaborate models have only just begun. Given the difficulties in predicting the responses of foreign governments, the most we can expect from such a model is a range of estimates of the world prices.

As a result, a better approach to this problem is to (1) acknowledge that the world price without U.S. import quotas cannot be known, and (2) calculate the social costs of the present sugar program under different post-quota world sugar prices. If the relative costs and benefits do not appreciably change, then neither should the recommended policy.

It is most likely true that the world sugar price would rise if U.S. sugar import quotas were eliminated as domestic refiners look to foreign sources for less expensive sugar. The price effects could be substantial in the short run but the resulting expansion in foreign production would probably lead to a world sugar price not much above the old one.

Our original analysis of the social costs from import quotas yields maximum producer benefits, consumer costs, and net social costs. In a forthcoming AJAE article, authors Leu, Schmitz, and Knutson relax our small country assumption with a rest-of-world excess supply elasticity of 2.37. They calculate that in 1983 U.S. sugar producers received benefits totaling $575 million. The social cost of this transfer was $981 million. Thus, our basic point that the present U.S. sugar program is a costly means of enhancing the wealth of a relatively small number of domestic sugar producers is not dependent on the small country assumption.

■

The Highest Payments

From: *Charles L. Frazier*
Director, Washington Office, National Farmers Organizations
Re: *"Targeting Farm Program Benefits"*

The plethora of statistics, historical references and qualified observations by the panel on "Targeting Farm Program Benefits" do not really deal with the targeting of benefits so much as they illustrate the utter confusion surrounding the design and administration of modern farm programs.

Professor Breimyer's contribution

about its relative importance are at variance with many people's strongly held convictions.

I have four general comments

It is curious that in all the furor over the study, little or nothing has been said about the surplus disposal part of the study. Is this because people agree with the conclusions or because they never got that far? During the evolution of the study we were very concerned about the potential implications for current policy of this analysis.

Several commentators have implied that the study "supports the use of embargoes." It seems almost impossible to draw that conclusion. The analysis shows that the 1980 embargo did not have much impact on the Soviet Union because international markets in primary products are flexible. A go-it-alone embargo does not prevent our competitors from filling in behind us. And it showed that it is very expensive to offset domestic impacts of export embargoes. In sum, the analysis seems to be a strong statement that embargoes simply don't work, period. How that conclusion can be interpreted as encouraging embargoes is difficult to fathom.

The study elucidated the fact that macroeconomic forces are of overwhelming importance to U.S. and world agriculture. Agricultural policy pundits should learn from this conclusion.

We showed that export dumping via export subsidies is expensive and is not a panacea for farm surpluses.

Exercises of this magnitude are difficult to organize and execute, but for a fleeting moment as the product rolls off the presses, one feels that the job is done and the issue settled. But only politically naive academics could believe that. The study has reopened old wounds and stirred a smoldering political issue. Despite the charges that came from many sources, it is possible that in future debates the *economic* consequences of embargoes will be better understood. How that understanding will influence policy is another story.

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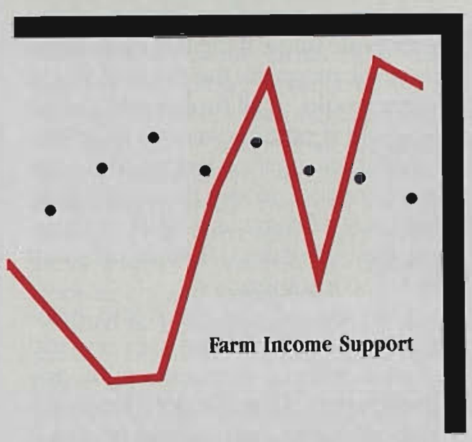

From: *Jean Kinsey*

University of Minnesota, Visiting Fellow, Resources for the Future

Re: *Runge and Halbach "Sales Tax on Food"*

Runge and Halbach should be congratulated for a courageous and innovative proposal that, if taken in its entirety, would revolutionize food and agricultural policy in the United States. For those who may be wearied by a morass of farm policy rhetoric, this proposal is a gust of cold wind.

Any one of the three parts of their proposal could be adopted independently; each of the three are equally controversial. The first is a variation on "decoupling" schemes. It aims to provide rural households with income sufficient to maintain a reasonable standard of living. No particular level of income support is guaranteed. If it is tied to a fixed budget for the sector, income support levels could be considerably lower than the 1985 average farm household income of $23,250. A switch from supporting the farm business to supporting the farm household is a fundamental change. It make possible the goal of supporting farm families; it kills the idea of supporting family farms.

Second, taxing food is regressive, even if the taxes are targeted for recycling to poor farmers and non-farmers alike. Runge and Halbach acknowledge the regressivity problem but fail to discuss its degree and propose an unachievable solution. Other problems with this tax reimbursement scheme involve the distribution of household food expenditures, taxes on taxes, and the history of the food stamp participation.

One can quibble with the food expenditure number they used but it wouldn't change the fact that the poorest 20 percent of U.S. households already spend 37 percent of their income on food. The proposed tax would raise it to 40 percent.

Since almost all restaurant food (40 percent of total food expenditures) is subject to sales taxes and 17 states tax food in the grocery store, this proposal raises the question of taxes on taxes. If the new federal excise tax were not assessed on total food expenditures, which include current taxes, then the tax base is less than $3,830 and the required new tax would be more than 6.4 percent. This would increase its regressivity and perhaps its political saleability.

Implementation problems with the third proposal are numerous and complex. More importantly, some misleading assumptions were posited. First, a wider distribution of food stamps designed to offset higher food prices would help alleviate hunger and malnutrition. Second, expanded food stamp and nutrition program eligibility would increase the consumer demand for surplus agricultural surpluses. Studies have shown that food stamps increase the total demand for food very little and increase net farm income by only 1 percent. Direct distribution of surplus food commodities helps diminish excess supplies and may relieve some storage costs, but food stamp recipients do not necessarily chose to eat more butter, cheese, and corn. In fact, the authors contradict themselves by later pointing out that food stamps act as fungible currency.

Finally, it should be remembered that low food costs leave households with more disposable income. Policies that reverse the trend towards low food prices imperil all economic activity. Federal budget transparency and stability are laudable goals, but are they worth the costs and political risk of taxing food? I suggest we find that they are not.

■

is outstanding. He is well qualified to define the conflicts reflected in earlier farm program decisions. After that, however, little is accomplished except a demonstration of uncertainty as to our proper objectives.

We seem to have lost our way in recent years. We have surpluses, low prices, high costs of operation, failure of financial institutions and a continuing march toward bankruptcy.

Those who conceived and implemented earlier farm programs generally were in agreement on certain principles and goals. They sought to provide for the survival of the individual owner-operator unit in farming. Due regard was given to safeguarding an adequate food supply and careful attention was given to the infrastructure of the rural communities where the economy depended primarily on a profitable income for producers.

In recent times the tugging and hauling surrounding passage of a farm bill all too often reflect the concerns of those furnishing the inputs for commercial agriculture, the transportation and storage of commodities, the processing and manufacturing of finished products and, quite significantly, the welfare of international traders involved in the export markets.

Many farmers strongly favor getting their income from the markets rather than to depend upon government checks which could be the cost with targeting. However, farmers will receive adequate income from markets only if programs deal directly and effectively with supply management, marketing and better prices for producers.

That is where responsible people should really apply their talent.

■

From: ***Edward Andersen***
National Grange Master

Re: ***"Targeting Farm Program Benefits"***

The targeting of farm program benefits has recently received a great deal of attention as an alternative approach to current farm programs. Much of the current debate has focused on targeting as means of providing financial assistance to economically stressed family farms. However, beyond providing assistance to those who are in need, a national commodity support program that explicitly targets benefits to moderate-sized family farms would improve the efficiency of our farm sector and would best serve the interest of farmers, consumers and taxpayers.

Current commodity support programs promote inefficiencies because they provide both direct and indirect income and price support on virtually every unit of production. This includes production beyond the point needed to fulfill domestic consumption and world demand. Ironically, commodity support programs that treat all units of production equally have helped to make U.S. agriculture remarkably inequitable.

They have this effect because supporting the last units of production of large farms equally with the first units of production of all farmers distorts the distribution of farm input resources. Using economies of scale, larger farms increase their ability to outbid and command input resources, such as land, labor, capital, chemicals, etc. Untargeted commodity programs distort this system by failing to provide adequate market-based signals to large and expanding producers that the value to the market and society of each subsequent unit of their production is diminishing.

To compensate for large farmers' unneeded last units of production, we have forced others to bear the burden of adjustment. We have required all farmers to participate in mandatory acreage set-aside in order to qualify for program benefits. We require taxpayers to bear the costs of commodity storage or product sale at a loss. Finally, and more frequently than anyone desires, we compensate for large farmers' unneeded last units of production by encouraging the elimination of another farmer's first unit (and subsequent units) of production.

The National Grange believes that the medium-sized family farms should receive targeted benefits from government programs. As farmers increase their production beyond certain modest points, their benefits from direct government support programs should decrease, eventually to be eliminated.

Targeted support would eliminate many of the distortions caused by the current programs. Farmers who have large operations would find that their economies of scale would be offset by the reduced stability of the price of their product in the market. The larger farmer would find his relative advantage in bidding for input resources offset by a policy that puts his smaller neighbor on a level playing field. Such a program would encourage large farmers to become truly efficient by working to maximize output while minimizing inputs.

Taxpayers would also benefit from a targeted approach. If the largest 7.2 percent of qualifying farmers who receive direct government payments averaging $72,000 a year were instead to receive payments at the average of the medium-sized farmers, which are less than $23,000, then the costs of direct farm support programs could be reduced by almost $5.75 billion a year. These funds could be redirected to deficit reduction, soil conservation, rural development, refinancing agricultural debt, or providing assistance to farmers based on need.

There is an important difference between targeting program benefits to achieve better efficiency in farm policy and targeting to provide assistance to farmers based on need. While the National Grange favors both concepts, my purpose here is to emphasize targeting to direct the farm sector toward greater efficiency and a better distribution of benefits and resources to the largest number of farmers, consumers, and taxpayers.

A targeted program offers family farmers the clear hope of improved supply and demand balances for the commodities that they produce and an important safety net for family income. It does this without increasing government costs, imposing unnecessary costs on consumers and family farmers, it is time that we seriously consider the targeting of benefits from commodity support programs as the keystone of this nation's food and agricultural policy.

From: *Bert Greenwalt*
Farmer/Ag Economist, Arkansas State University
Re: *"Targeting Farm Program Benefits"*

Harold Breimyer does a good job in explaining the true nature of the various government farm program payments Dean Kleckner referred to as "a hodgepodge of payments to farmers for doing things." I agree with Breimyer's idea that where the farm economy is far out of balance, acreage reduction payments should be separated from income supporting deficiency payments. This is a prerequisite for any sensible targeting plan and is also compatible with Senator Boschwitz's decoupling proposal.

Only true income support payments can be logically targeted. Any acreage reduction plan based on renting land from farmers has to direct a large share of the payments to the larger farmers who control the land. These payments cannot be limited or targeted and achieve the desired effect. To the extent society wishes to supplement the income of farmers, this can most efficiently be done through direct payments limited or targeted as desired.

The present system of deficiency payments and CCC loan programs greatly reduces the economic efficiency of U.S. agriculture. To receive subsidies, producers are forced to idle fixed resources (land, machinery, and some labor) whose opportunity cost is near zero. They must then produce particular program crops even though in some cases the variable cost of production is greater than the open market price. This requirement to produce particular crops is delaying the appropriate production adjustments among commodities in marginal areas. In addition, the loan rates which are greater than the open market price send the producer a signal which encourages him to use a higher level of scarce variable inputs (i.e., energy and water) than is appropriate.

Another source of inefficiency is the inordinate amount of time and effort required of government employees and farmers to comply with the details of the present system. This is surely a non-productive use of human resources.

A system where production decisions are based on market prices, acreage reduction, if necessary, is done by direct land rental, and income subsidies are made by direct payment would help clear up the confusion and inefficiencies of the present system. This is probably the reason this sort of policy will be hard to obtain. Many politicians and interest groups would prefer to complicate the issue and hide the subsidies.

From: *Cy Carpenter*
President, National Farmers Union
Re: *"Targeting Program Benefits"*

Because the 1985 Farm Bill is fulfilling its purpose of killing off the family farm system of agriculture, changes must be make during this session of Congress. That theme was sounded recently in Washington D.C. by four major farm organizations, including National Farmers Union. But more importantly, they were joined by eight other citizens' groups, including the nation's premiere consumer organization, the labor unions, the senior citizens and religious organizations of all denominations. All were united in the cry, "Action Now—No Excuses!" to increase net farm income and revitalize productive sectors of the rural and national economies.

In order for new farm program action to meet the demands of these diverse family farm supporters, we must more selectively target benefits of farm programs to mid-size producers. Taxpayers (farmers included) simply cannot sit still as we continue to spend more and more money on less and less effective programs. It is clear that supply management would measurably improve farm income at only a fraction of the cost of current farm programs or the Administration's alternatives. Higher net farm income would have a direct impact on other businesses in the rural community. According to a May 1986 report of the Senate Subcommittee on Intergovernmental Relations, for every $1,000 change in net farm income, there is a difference of $200 in spending power. And each $64,000 change in net farm income in a community either adds or loses one job on Main Street.

As your earlier discussion notes, the Economic Research Service finds that in 1985, farms with total annual sales of $40,000 to $500,000 received nearly four-fifths of total farm payments. While these mid-sized farmers accounted for less than one-fourth of all farms, they accounted for more than one third of total U.S. crop and livestock sales. Our nation cannot afford to continue forcing this important segment of our productive capability through the greatest number of rural bankruptcies in history. We cannot tolerate policies that require family farmers to sustain an additional drag on the U.S. economy of their $225 billion debt.

Congress has repeatedly stated its national policy goal of retaining the family farm system. We see that goal as a responsibility that must be upheld for the well-being of the entire rural American structure.

Delegates to our recent National Farmers Union convention said, "Tiered marketing quotas, set-asides, and price supports, together with realistic overall and per-program limitations should be enacted and effectively enforced on all farm program provisions so program benefits are targeted to small- and medium-sized farmers based on the number of bushels and a limit on the total (dollar) amount of CCC loans that any farmer could receive in one year."

Congressman Dan Glickman's comment in CHOICES explains why NFU members believe this: targeting "means that those who need the program benefits will suffer least" as a result of overall government spending cuts.

Targeting of farm program benefits has been developed from the very beginning of farm legislation. This was done in recognition of the best use of democracy—to protect farmers and others who are exploited as minorities or are in a reduced bargaining position in our American business world. In his comments, Dr. Harold F. Breimyer told CHOICES there is "little original under (the) farm policy sun." Although this is true, it should not lead us away from the proven recipe of targeting benefits to mid-size family farmers. In fact, farm programs of the 1940s, 1950s, and 1960s were effectively targeted and proved very successful, in helping both the family farmer and the total rural economy.

NFU members also passed a special order of business to "support the concepts of the Harkin-Gephardt bill." We will work to improve and pass it. One of its important elements is targeting.

Under Harkin-Gephardt, greater set-asides would be required as farm size increases. In no event would an unpaid set-aside on any one farm exceed 35 percent of acreage base, The Secretary of Agriculture is authorized to offer a paid diversion program above that 35 percent if necessary to bring supply in line with demand. The bill also allows framers to file a specific plan to reduce production by reducing inputs instead of planted acres.

It is no surprise that refinements are needed for targeting the benefits of future farm programs. Just as the entire agricultural industry is constantly changing, so is the proper direction and political pressure for targeting. Critics of farm program benefit targeting point out that the largest individual payments in 1985 went to megafarms. Some small failure is no surprise in any democratic program of such magnitude. But to throw out the targeting benefits that moved the great majority of payments to mid--sized producers (as intended by Congress) with the bath water does not solve the problem. We prefer to refine the system and redirect farm programs to benefit the most effective, careful stewards of our American farm production legacy.

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Farmers 55 and Over

From: *Marvin Julius*
Professor (retired), Iowa State University

Re: *Boxley's "Aging Farmers: Not a Crisis"*

Boxley's scenario of extended entry and delayed exit is not the only way to produce a high average age of farmers. A pattern of early-age entry and retirement-age exit for most farmers will give the same result if the entry flow is smaller than the exit flow over an extended period of time. If the entry flow is also decreasing then the entry-age cohort can always be smaller than its next-older cohort. This size difference can persist until the older cohort passes retirement age. The larger size of successively older cohorts can occur with not extended entry.

The debunking of the aging farmer crisis is not in dispute. It is even possible that extended entry is a fact and that many farmers do not become operators before age 35 or so. It is, however, also possible, and I believe likely, that most farmers entered before age 35 , but that in most or all years the number entering farming is less than the number who exit. Age cohort analysis alone can only suggest possible patterns of entry, exit and retention. Boxley has described one pattern and I suggest a different one.

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From: *Manuel Vanegas, Snr.*
Staff Member, United Nations, World Food Council

Re: *Dale Hathaway's, "Trade Negotiations"*

Dale Hathaway's article represents an interesting reflection and his sharp analytical view of what the American farmers should expect, at least in the short run, from the GATT-Uruguay Round.

It is very important for all trading partners to recognize and reach consensus on some selected conditions and elements to be dealt with in the context of the present negotiations. First, total openness by all to the international market forces will be a tremendous task. Most countries—developing and developed—are unwilling to fully subject their food and economic security to the economic and political forces of other countries.

Second, among all trading partners gainers and losers would emerge. These gains and losses will have to be simultaneously dealt with both in the national economy and internationally as part of trade policy.

Third, during the export food demand boom of the 1970's, the U.S. captured a large share of the export growth. During the shrinking market conditions of the 1980's, the EEC gained export market shares. The main loser has been the developing countries.

Fourth, a distinction needs to be made between structural adjustment which can be considered a longer term goal—as fully expressed by Hathaway—and measures that could be taken to ameliorate the situation in the short run. But what is done in an eventual agreement on short-term action must be consistent with the longer-run goals and negotiations.

Finally, world trade in food and agriculture still is and will continue to be of major importance in domestic food security, export profiles and regional development of many developing, socialist, and some developed countries.

One answer to the question of what can be done internationally to deal with the current excess capacity in world agriculture is to use the present surpluses (through the implementation of a targeted financial scheme) to assist developing countries in upgrading their rural economies. In doing this, world demand will be expanded significantly and developing countries can redirect resources to finance policy reforms.

In my view the trade crisis in food and agriculture by its very nature and context admits no easy solution. Future trade policy objectives in food and agriculture must be dealt with in the context of dynamic interactions among all trading partners in which gainers and losers emerge. These gains and losses will have to be dealt with simultaneously both in the national economy and international as part of trade economic policy.

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From: ***James C. Barr***
Chief Executive Officer, National Milk Producers Federation
Re: ***Dale Hathaway's, "Trade Negotiations"***

Dale Hathaway offers a very useful perspective on the causes of the decline in U.S. agricultural exports since the 1970's and negotiations in reversing that decline. He cautions against viewing the new round as a panacea for the problems currently affecting U.S. Farm exports, arguing that these problems stem largely from causes other than agricultural trade practices. These include slow growth in world agricultural trade, weak competitive status of U.S. farm exports, and world wide excess capacity in agriculture, factors largely beyond the control of international trade agreements.

I basically agree with this argument. I expect that the accumulating evidence will soon, if it has not already, convince most people that the longer-term outlook for U.S. agricultural export growth does not, unfortunately, include a return to the high growth rates of the 1970's, regardless of what is accomplished in the Uruguay Round.

This realization does not mean that those concerned with the economic health of U.S. agriculture must abandon all expectations regarding what is achievable in the new round. Rather, it should encourage agricultural interests to make realistic appraisals of what can and cannot be accomplished in Geneva to alleviate the economic problem troubling our nation's farmers and as a corollary, enable us to evaluate properly the trade-offs that will undoubtedly be proposed during the negotiations to gain improved agricultural access abroad.

During the Uruguay Round, there will be enormous pressure to weaken the Section 22 Waiver, an action to which the National Milk Producers Federation, on behalf of the nation's dairy farmers is fundamentally opposed. Section 22 is an integral part of domestic price stabilization programs such as the dairy price support program. It authorizes the application of import quotas on price supported products when unrestricted imports of such products would undermine domestic price support programs. In this respect, Section 22 functions no differently than such programs as the Canadian system of import licensing or the European Community system of variable import levies.

Dr. Hathaway's perspective allows one to conclude, as our membership has long known that the actual value of the U.S. agricultural sector of concessions that can be wrung from other nations during the new round do not outweigh the losses to this same sector that would follow any weakening of the Section 22 system of import protection for domestic agricultural programs.

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From: ***Dale E. Hathaway***
Vice President, The Consultants International Group, Inc.
Re: ***The Author Replies***

The two commentators make two points on which I agree and which I believe need to be fully understood by U.S. policymakers.

The first is that the only way to effectively deal with the current excess capacity problem is to grow out of it. That implies an outward-looking international policy which is becoming harder and harder to find among either agricultural producer groups or policymakers.

The second point is that any negotiation implies giving as well as getting. It is possible as a nation to get more than we give, but this does not follow for every agricultural group. The popular phrase "no pain, no gain" applies in agricultural negotiations as well as in other exercises designed to improve overall strength.

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From: ***Manuel Vanegas, Snr.***
Staff Member, United Nations, World Food Council
Re: ***Derwent Renshaw's "The European View"***

Derwent Renshaw has provided us with a detailed and far-reaching examination of the unnecessary trade struggle escalation between the U.S. and the EEC, his paper adds to the growing volume of current writings that focus upon the rising protectionist and acrimonious mood found both in the EEC and the U.S. However, he neglected the dimension of the problem, that is, the present disarray of world agricultural markets. For example, he did not give sufficient attention to: proliferation of import restrictions and increasing export subsidization. They have contributed to international market instability and to growing resource misallocations in developed, as well as in developing countries. In addition, there has been an important impact of the international agricultural environment on the development and the export earnings of many developing countries.

The continued downward pressure on agricultural prices in world trade reflects excess capacity and structural maladjustment. Lasting economic relations between countries must be built on the principle of trade and foreign trade must be based or related to the principle of comparative advantage, fair price competition, and not on dumping.

Within the economy of the U.S., EEC, but also other countries, excess production, surpluses, and subsidized exports represent an exorbitant misinvestment and waste of scarce resources.

Renshaw emphasizes the potential for a continued and intensified struggle between the EEC and the U.S. and that both partners should cooperate in planning the adjustment. I concur with this statement of the problem. But I would add that Argentina, Australia, Brazil, Canada, India, and Japan are relevant partners and need to make adjustments as well. Agricultural trade negotiations, inside or outside GATT, and of a short or long-term nature need to involve these countries if negotiations are to be successful.

(The views, interpretations, and inferences are the author's own and should not be attributed to the United Nations World Food Council.)

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From: ***Derwent Renshaw***
Agricultural Counselor, Commission of European Communities in Washington, D.C.
Re: ***The Author Replies***

I would be the first to agree with Manuel Vanegas that my piece "U.S.-EC Struggle Over Agricultural Markets" did not deal exhaustively with the problems afflicting world agricultural markets as a whole. But that was not my brief.

Nevertheless, while undeniably concentrated on the friction between the world's two leading players, the piece, contrary to what is suggested, did recognize the difficulties facing other exporters (Thailand, Argentina, Brazil, and New Zealand were mentioned, for example) as well as the damaging effect of weak markets on developing countries largely dependent on farm exports for their revenue.

To do justice to every aspect cited by Mr. Vanegas as having been neglected would require another full length article but here are some brief comments on two or three of them.

First, proliferation of import restrictions. I detect little evidence of this on the other side of the Atlantic where the EC remains the biggest importer of farm products in the world. In fact, in the case of European Community sugar imports, for example, these are 15 percent greater than they were five years ago. I leave events on this side of the ocean in this particular sector—one of vital importance to developing countries—to speak for themselves.

Second, the idea that trade in agriculture should be based on competitive advantage is seductive but unfortunately, not one which takes account of political realities. GATT rules for farm trade, however, do recognize these inconvenient facts of life. Any improvements to the rules resulting from the Uruguay Round should certainly be helpful, but I doubt whether they will on their own solve the world's agricultural problems—a point also made by Dale Hathaway writing in the same issue of CHOICES.

There is probably widespread agreement that the root of the trouble is overproduction on a saturated market, the lack of financial resources in developing countries and the ever present and highly sensitive conflict between the political and social desirability of supporting farmers on the one hand and the needs of consumers and taxpayers on the other.

Finally, I entirely agree with Mr. Vanegas that all relevant parties—not just the EC and U.S. alone—will need to cooperate and coordinate their efforts to find a solution. But once again, contrary to what he suggests, this was a point that was made in my earlier piece, albeit rather briefly, in the penultimate paragraph. ■