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Stay the Course

by Thad Cochran
United States Senator

Federal policy involving interest groups as varied as those associated with agriculture is very difficult to develop and inherently controversial. The Food Security Act of 1985 is no exception.

Farm legislation reflects a multitude of competing interests from across the agricultural and political spectrums. There are, and always will be, interest groups and detractors who continuously point out their complaints about the policy.

Policy Of and For the Times

In essence, the Food Security Act of 1985 is policy *of* the times—a compromise. An unofficial maxim of any legislative body is that a compromise really satisfies no one. Everyone can identify at least one deficiency in the final product. A true compromise disappoints everyone to some degree. The resulting policy in this case, however, represents the best balance of the competing interests.

The Food Security Act of 1985 is also policy *for* the times. It is a commodity sales policy consisting of a combination of mandatory and discretionary provisions developed to address the most critical economic factor affecting the future of U.S. agriculture—*market competitiveness*. Commodities must have access to—and be competitive in—all markets for agriculture to be a strong industry.

Major commodity provisions of the Act were adopted in order to make the trade-dependent U.S. agricultural industry a consistently effective competitor in international and domestic markets. Simultaneously, the Act is designed to protect farm income. For agriculture to make its maximum contribution to the nation's economy, federal policy must not only promote stability; it must also promote and support market competitiveness.

Importance of Commodity Price Flexibility

Precipitated by the rapid decline in exports from the \$43.8 billion peak in 1981, together with the resulting economic consequences for all segments of the industry, a need for competitive commodity prices became very clear. Thus, a major objective in developing current law was to protect farm income, while allowing commodity prices to fluctuate more in relation to market demands.

Such flexibility in commodity prices, for an industry that exports an average of 40 percent of its total production, is

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CHOICES is pleased to present this special feature on agricultural policy. Three influential senators—Thad Cochran (R-Mississippi), Rudy Boschwitz (R-Minnesota), and Tom Harkin (D-Iowa)—share their perspectives about farm policies.

Senator Cochran tells why he thinks we should “stay the course” with the current legislation.

Senator Boschwitz says he does not want to change legislation now. But he looks forward to the day when policies are different, and farming decisions by producers are not geared to government policy decisions.

Senator Harkin advocates changing programs now. He proposes limiting production in order to bring about higher farm product prices.

We invite you—as a supplier of farm inputs or credit, an owner of farmland, a farm operator, a marketer or distributor, a processor, a consumer, a researcher or educator, an organization leader—to let us (and other readers of CHOICES) know your reactions to these articles by sending us a Letter to the Editor.

***The Food Security Act of 1985
is policy of the times.***

Stay the Course

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THAD COCHRAN
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absolutely essential to maintain a reasonable degree of economic stability over the long-term. Although there is no such thing

as perfect planning, even for domestic marketing, the risks associated with international marketing create even greater levels of uncertainty in business decisions. Much of the uncertainty relates to the need for realistic access to markets as determined by the competitiveness of prices.

Prior to the policy provisions for price flexibility in the Food Security Act of 1985, U.S. commodities could not react to market conditions, even when they were set by foreign governments. Overcoming the inability inherent in traditional minimum-price policy to maintain markets and market shares is a major thrust of current law. There are, of course, many other important provisions in the Food Security Act of 1985, but none is as important to the economic health of U.S. agriculture and rural America as market competitiveness.

Policy For Agriculture

The Food Security Act is policy for agriculture—the entire industry. It is not a solution for every conceivable financial problem of everyone engaged in agriculture. For agriculture to offer maximum economic opportunity at every level, especially farming, markets for the industry's efficient productive capacity must be developed and maintained. Success in this objective requires policy that provides the mechanisms to respond in a timely manner to dynamic market factors. When marketing is worldwide, as it is for agricultural commodities, the need for flexible policy is even greater, because of the level of uncertainty, or potential volatility, of the various factors that influence effective market access.

Supply and Demand Balance

In addition to explicit market enhancement provisions, the Food Security Act of 1985 implicitly addresses industry concerns about production. Current policy recognizes the need to bring supply and demand more in balance, but the emphasis is not on unilateral action by U.S. agriculture. We have fashioned a situation which forces for-

eign producers to objectively review their production decisions.

As a result of U.S. agriculture's new pricing policy, adjustments are occurring in foreign production in response to increased uncertainty associated with marketing opportunities and program costs. As demand for U.S. commodities increases through market growth and stability, domestic acreage reduction programs can recede, with greater economic activity resulting at all levels in the agricultural industry. Businesses are able to sell more supplies, farmers can plant more acres, and greater quantities are available for processing and consumption.

The cotton industry offers a good example of the expected results.

Although the short life of the Food Security Act of 1985 has not produced a uniform market response for all commodities, the cotton industry offers a good example of the expected results. After U.S. cotton's market share declined from over 30 percent to about 10 percent for the 1985 crop, under provisions of the marketing loan in current law, the market share for the 1986 crop is projected to increase to just under 30 percent. As a result, ending stocks are down about 44 percent, and current projections indicate the Secretary of Agriculture will likely reduce the 25 percent acreage reduction requirement significantly—maybe 40 to 60 percent—for the 1988 crop. Additional cotton will be planted, and the expected result will be higher farm income and greater economic activity throughout the industry and rural America.

Benefit of Staying The Course

Although there are farmers still experiencing financial difficulties, several reports today, including a recent USDA Agricultural Outlook and Situation Summary, indicate signs are developing that a basic financial turnaround

has begun in the farm sector. These reports cite increases in returns on assets and equity, continued reduction in farm debt and operation expenses, (particularly interest expense) and the continued reduction in the rate of decline of farmland prices. The USDA Summary indicates that "...farmland values could stabilize in 1987, compared with an 8 percent decline last year." In some areas land prices are actually increasing.

The Food Security Act of 1985 is not, of course, totally responsible for these economic turnaround reports. Agriculture is significantly influenced today by national and international macroeconomic variables.

There is increasing evidence that major objectives of current law are being realized. The law is proving effective in protecting farm income and increasing market competitiveness.

Farm Income. Net cash farm income in 1987 is forecast to be about \$50 billion, which would be a record and the sixth consecutive annual increase. Additionally, net farm income in 1987 is projected to rise for the second consecutive annual increase, reaching approximately \$35 billion.

Exports. USDA forecasts export volume for fiscal 1987 to be 127.5 million tons, a 16 percent increase over fiscal 1986. Export value for the same period is projected to be \$27.5 billion, a 5 percent increase. The level of exports is an effective measure of the degree of price competitiveness of agricultural commodities.

Domestic Consumption. In addition to increasing exports, more competitive prices have also increased domestic consumption of some agricultural commodities. For example, domestic cotton consumption is projected to increase about 500,000 bales due to more competitive prices. Thus, the basic objectives of the Food Security Act are being accomplished, and they now are having a positive impact on farm, agricultural, and rural economies.

Also satisfying the objectives of the Food Security Act of 1985 is an efficient and effective rural investment and development program. Jobs are being created, and the tax base is expanding in an industry well known to rural America and for which an infrastructure already exists. In many instances, revitalizing agriculture, which must be recognized as a broader term



Thad Cochran is Senator from the State of Mississippi.

than farming, will be the fastest approach to stabilizing and improving rural economies.

It is obvious that the stage is set for a

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strong rebound from the serious recessions of the recent past. The current course is fixed. To obtain the very real benefits of stability and consistency of policy, I urge that we stay on course.

The Need for Balance. Since federal policy usually is a compromise, any proposal must offer the best possible balance of agriculture's competing interests in order to win congressional approval. Tradeoffs involving agricultural interests are extremely complex. In many cases these interests are direct opposites. Studies have examined the relationship between different policy options and tradeoffs among the different agricultural interest groups (pro-

ducers, suppliers, consumers and taxpayers).

Each interest group prefers some option other than current law, simply because the tradeoff process to arrive at a compromise required giving up something special to that group. However, evidence from a study by the National Center For Food and Agricultural Policy indicates that, among the major policy alternatives today, none rank above current law on a composite agricultural interest-group index. One reason for this conclusion is the fact that none of the major policy alternatives being discussed today are totally new. They were considered and rejected.

Furthermore, stability is important for efficient long-term planning especially in agriculture, a highly capital intensive industry. Admittedly, there is not a great deal of control over many of the factors critical to agriculture, especially farming. However, the provisions of federal policy are within the control of Congress and the Administration. In the continuing debate over agricultural policy, we should not overlook the benefits that result from stable conditions. This stability, with the other encouraging evidence of renewed health and vitality, provide sufficient reason and promise to stay the course. ■

U.S. Agricultural Export Volume Turns Up

