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POLICY

Time for New Directions

by Tom Harkin
United States Senator

When I first came to Congress and began serving on the Agriculture Committee, one of my senior colleagues at that time told me the key to political survival is to vote against every farm bill.

Indeed, farm policy is a convoluted and contentious process and sometimes it's far easier to stay in the stands and criticize than to take an active part in the debate.

Nevertheless, in this time of farm crisis and despair, those of us with legislative responsibility have an obligation to honestly evaluate the problem and attempt to solve it.

We ought to examine the potential (or actual) record of a farm policy in light of its effect on three key indicators: (1) U.S. exports and international trade, (2) the structure of our agricultural system, and (3) the American consumer.

U.S. Trade and Agriculture

A stated key objective of the 1985 Food Security Act was to improve the competitiveness of U.S. agricultural exports through the use of lower loan rates for feed grains and oilseeds, marketing loans for rice and cotton, and an aggressive export enhancement program. At the same time, farm incomes are to be protected by a costly program of fixed target prices and deficiency payments.

This drive for exports raises two fundamental questions: What level of market share can the United States realistically expect to accomplish? And, in what sense does a nation gain by increasing export volume at the expense of lower commodity prices (with or without increased federal subsidies)?

U.S. Market Share. Since 1981, U.S. agricultural exports have fallen more than one-third in volume and 40 percent in value. Despite projected increases in export volumes for our major commodities in 1987, revenues remain stagnant.

To put the current situation in perspective: In 1981, feedgrain export revenues were $10.5 billion, while this year's projection is for $4.6 billion. Similarly, projected 1987 wheat export revenues of $3.7 billion compare to $8 billion in sales in 1981.

Indeed, the 55 percent share of world grain exports captured by the U.S. in the peak year of 1980/81 was the result of a combination of very favorable conditions for U.S. agricultural trade that are not likely to be repeated.

Prospects for expanding the U.S. share of world agricul-

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The time has come for a new direction in our agricultural policy.

Time for New Directions

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tural trade in the near term are limited. While foreign trade will continue to contribute importantly to demand for American agricultural production, the halcyon growth of the late 1970's is not likely to be repeated.

This expectation is consistent with projections by the National Center for Food and Agricultural Policy (NCFAP), as well as the Food and Agricultural Policy Research Institute (FAPRI) at the University of Missouri and Iowa State University. Their projections suggest that the U.S. could possibly recover about 25 percent of lost agricultural export volume over the next three years. Even a gain of this magnitude, however, would still give us less than a 50 percent market share. Further, the rise in volume is projected to be accompanied by only a 6 percent gain in export value.

Looking at the long-term picture, NCFAP projects that the total volume of U.S. agricultural exports, which rose more than 10 percent annually during the 1970's, will return to a more normal long-term growth rate of 2.3 percent through the end of this century. NCFAP projects that U.S. grain exports will increase from 110 million metric tons in 1980 to 168 million tons by the year 2000. This is a 53 percent increase, compared with a 300 percent growth in the 1970's.

Even the Reagan Administration is belatedly coming to the conclusion that supply management is needed.

Gains/Losses From Trade. Trade at any price does not necessarily make a nation better off.

Studies by Andrew Schmitz at the University of California and other economists have shown that when terms and conditions for trade are distorted by input subsidies and trade barriers, there may be no economic gains from trade (and, in fact, there will likely be losses) even though trade volume is large.

Why then do the U.S. and other exporting countries continue to subsidize exports? The bottom line is that multinational grain firms, the major players in international trade, profit from large trade volumes and price instability.

As the last couple of years have shown, the present program with its export enhancement and marketing loan features will not provide any real relief for our farm economy (without massive government payments).

Is GATT the answer? Though I wish our negotiators well, I am not optimistic much progress can be made now or in the foreseeable future to restore a level playing field.

Another Way. I favor another option—negotiate with our trading partners to maintain higher world prices, equitable supply restrictions, caps on government farm support payments, and a fair sharing of carryover stocks.

The potential payoffs are high: Under the Harkin-Gephardt bill, for example, such agreements could result in an annual net gain in export revenues for seven major commodities of $12.3 billion over the current "export-oriented" policy, for a total of $248 billion versus $137 billion under the present program through 1995. In addition, under Harkin-Gephardt, the resulting higher world prices would raise domestic farm income to $41 billion by 1991, compared to $25 billion under the 1985 Farm Bill.

To those who say other nations will never go along with these kind of agreements, I would point out that in 1983 the Economic Community unilaterally offered to restrict its share of the world wheat market to 14 percent. None of the major trading nations agreed, so the EC continued to increase its market share. Today it is 17.5 percent.

A frequent criticism of this approach is that it is a "cartel" and that if "OPEC didn't work, why do you think this cartel will?"

Let's see how badly OPEC failed. In 1973, the first year OPEC unilaterally established its own price, non-American producers of oil received an average of $3.39 a barrel. In 1986, even after a major worldwide energy slump, the average world price of crude oil was $15.35 per barrel. By contrast, average corn prices in 1973 were $2.55 per bushel; in 1986, they were $1.96 per bushel. Corn producers could use some of that OPEC-style "failure." However, unlike OPEC, we're not after an extortion price, only a fair price.

By refusing to exercise our tremendous potential power to influence world markets, the U.S. and the other major grain trading nations hurt only themselves and help create a buyer's grain market.

Under Harkin-Gephardt, if nine months after entering into negotiations, no multilateral agreement has been consummated by the President, then the Secretary of Agriculture would be mandated to use export PIK (Payment-in-Kind) or cash subsidies to maintain exports. I am opposed to unilaterally abandoning our export markets, but first we should at least attempt to reach cooperative, mutually beneficial trade relationships. This carrot and stick kind of approach can help us achieve the maximum negotiating leverage.

The 'Family Farm'

The price of ignoring world trade realities in pursuit of a mythical free market is paid for by our farmers.

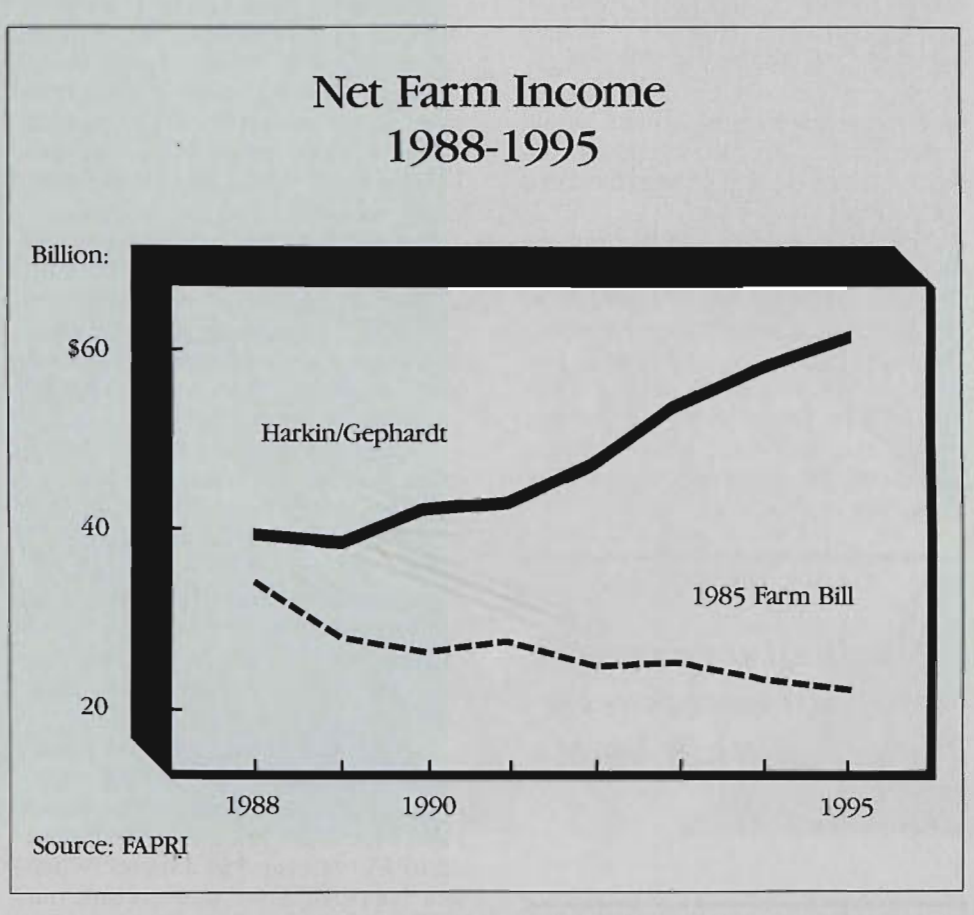
If current policies are continued, the total number of farms in the United States will fall to 1.2 million by the year 2000, nearly a 50 percent decline from the 2.2 million farms in the nation in 1982, according to a 1986 study by the Congressional Office of Technology Assessment (OTA).

Most of this loss will come from small and moderate-sized farms, which will plunge in numbers from 2.1 million in 1982 to 1.1 million at the end of this century, while the number of large farms (defined as those operations selling in excess of $200,000 in farm products) will increase from 122,000 to 175,000. Fifty percent of these megafarms "will account for 75 percent of all agricultural production by the year 2000," the OTA concluded.

"Who owns the land?" is becoming

the key question as farmland held by the Farm Credit Administration, the Farmers Home Administration, banks and other lenders, and insurance companies moves back into the market. Today, outside non-farm investors, including some Japanese and Europeans, are buying larger and larger chunks of American farmland. We may soon witness the virtual disintegration of the family farm system of agriculture. The effects will be felt far beyond the fenceposts.

Low prices lead to concentration of land ownership and agricultural wealth.



In its 1986 report, the OTA concluded: "As agricultural scale increases from very small to moderate farms, the quality of life improves. Then, as scale continues to increase beyond a size that can be worked and managed by a family, the quality of community life begins to deteriorate."

A landmark study by the USDA in the 1940's compared two rural communities in California—Arvin and Denuba. Both communities had roughly equivalent dollar values of agricultural production. However, Denuba's economy was based on a large number of small family farmers, while Arvin's was based on a few giant producers.

Compared to Arvin, Denuba (the family farm community) supported:

—20 percent more people, and at a higher average income;

—a higher percentage of self-employed workers (in contrast to Arvin, where less than 20 percent were self-employed and nearly two-thirds were agricultural wage laborers);

—twice as many small businesses and 61 percent more retail business;

—more numerous and better schools and public services;

—and greater involvement in democratic decision-making groups.

Thirty years later, Walter Goldschmidt, the USDA researcher, stated: "The vision of the future under increased corporate control of the land is the vision of Arvins rather than Denubas—indeed of super-Arvins."

So, it is not mere sentimentality to suggest that the family farm is worth preserving. Political democracy cannot long survive without some measure of economic democracy, as the history of Central America has amply demonstrated.

If we want to save the family farm, the answer is not elusive: Get supply in line with demand, reduce the surpluses, and allow market prices to rise to a level where farmers can make a decent profit.

Even the Reagan Administration is belatedly coming to the conclusion that supply management is needed. Yet, it clings blindly to a belief in a nonexistent free world market while spending billions on massive set-asides, huge diversion payments and bonus payments—all terribly inefficient and ineffective attempts to reduce surpluses.

The Harkin-Gephardt Bill

If supply management is needed, and clearly it is, why not do it correctly and efficiently by eliminating budget-busting farm subsidies and providing farmers with a cooperative mechanism that allows them to produce only as much as the market will bear?

This is the crux of the Harkin-Gephardt Family Farm Act.

Reduce Government Cost. According to FAPRI projections, the Harkin-Gephardt bill would realize $72.3 billion in government cost savings compared to the current program over the 9-year period 1987-1995. Furthermore, according to FAPRI, our bill would raise average annual net farm income by 77 percent to $48.2 billion per year versus $27.3 billion under the current program.

Under Harkin-Gephardt, farmers would be given the right to vote in a referendum held every four years on whether or not to have a mandatory production control program. The Secretary of Agriculture would set a national marketing quota for each commodity, based upon projected demand. Commodity loan rates, which guide market prices, would be set at 70 percent of parity for 1987 and increase 1 percent per year thereafter up to 80 percent of parity.

Quantity Limits On Production. Each farmer would limit production based on bushels, not acres, which would reduce the incentive to pile on chemicals and fertilizers to achieve maximum production. The bigger farmers would reduce their production more, the smaller farmers would reduce less. In no case would the unpaid set-aside on any one farm exceed 35 percent.

Matching supply with demand would raise market prices above government support levels. Target prices (deficiency payments) and diversion payments would be eliminated. Surpluses would be eliminated over a period of five years, and farm income would rise to a level where farmers could afford to pay their debts and get back on their feet again.

Trade at any price does not necessarily make a nation better off.

Don't Shut Down Rural America

Some say the Harkin-Gephardt Family Farm Act would shut down rural America. But that is what's happening now.

—Between 1981 and 1983, rural America lost 500,000 jobs.

—Bank failures have quadrupled since 1982, primarily due to stress in the farm sector.

—A study by the Federal Reserve Bank in Kansas City suggests that nearly a fourth of rural, non-farm businesses are having severe financial problems.

—And according to the U.S. Census Bureau, from 1980 to 1983 the growth rate of non-metropolitan areas slowed from an average rate of 4.7 percent in the 1970's to 1.6 percent, substantially below the 6.5 percent rate of metropolitan counties.

Large Government Payments Can't Continue. The only thing saving our rural areas from complete collapse today is the heavy infusion of crop support payments to farmers. But even that is not enough. More practically, it will not be politically sustainable as pressure to cut the federal deficit increases, and urban legislators (and their constituents) grow impatient with a farm program which seems merely to enrich the largest producers.

The Family Farm Act, far from shutting down rural America, will put more "market-earned" money in farmers' pockets, allowing them to purchase more goods and services, and creating a positive ripple effect that will revitalize our small towns and farm-dependent businesses.

Hopefully, supply management will be a short-term solution, undertaken in conjunction with efforts to reach international trade agreements. We must also start now to address the demand side of the equation by developing new markets for our farm products.

Increase Demand. I have introduced a bill in the Senate, the Alternative Agricultural Product Research Act of 1987, which would authorize $1.5 billion over the next 20 years for long-term research to help discover non-food uses for farm crops. What we're looking for, figuratively speaking, are 101 new ways to utilize or alter farm crops.

Perhaps the greatest promise lies in creating plant-based petroleum substitutes. By the year 2000, most economists believe the price of oil will shoot up to $30 or even $50 a barrel. When that happens, if we start to link our research and development efforts now, plastics, oils, and sources of energy manufactured from plants could be positioned as the economic alternative to products made from expensive oil imports.

In fiscal year 1987, the USDA will spend $510 million on research, mostly on finding ways to increase production, with a mere $6 million going toward developing new uses for food and feed grains. This bill would help change this imbalance.

Another way to increase demand is to reexamine America's relationship with the Third World. Instead of pursuing a beggar-thy-neighbor policy, driving world prices down and bankrupting Third World economies, we ought to be seeking to increase worldwide demand by raising standards of living in developing nations.

Technical assistance and development aid to Third World nations should be expanded, not curtailed. And we ought to provide real debt relief (not just austerity plans) to Latin America, whose purchase of U.S. agricultural exports has fallen by more than one-third since 1981.

A report by the Curry Foundation on the relationship between U.S. agricultural exports and Third World development put it best, "It is not the hunger of the poor countries, or even their growing population size, that makes them better customers for U.S. farm producers. It is the purchasing power that comes from their growing wealth."

What Will Consumers Pay?

What about consumers? Won't the cost of farm programs under Harkin-Gephardt simply be passed from the taxpayer to the consumer? Indeed, Harkin-Gephardt would result in a slight increase in consumer food prices.

As it is, Americans pay among the lowest proportion of their income for food in the world—12 percent versus 15 percent in Canada and Great Britain, 17 percent in Australia, 18 percent in France, and 23 percent in West Germany.

President John F. Kennedy correctly saw the delicate balance which must be struck when he said, "It must be our purpose to see that farm products return a fair income because they are fairly priced. No farm program should exploit the consumer. But neither can it subsidize the consumer at the cost of subnormal incomes to the farmer."

Who Benefits Now? An examination of the food processing industry shows who is benefitting most from the current farm program.

Profits of 29 food processing firms surveyed by *Business Week* increased 13 percent from January to October 1986, a period during which farm prices fell 9 percent.

Even compared to other industries, the food processors have come out far ahead. The 50 top food processing firms listed in *Forbes* 1986 annual survey increased their sales 6.0 percent and their profits 12.9 percent, while the all-industry averages showed sales increases of 3.9 percent and increased profits of 2.8 percent.

How did the consumer fare from all this increased "prosperity?" In 1981 the average retail price of a box of Wheaties was $1.04. The amount of wheat in that box totaled up to about 2.5 cents. By 1987, the price of Wheaties had risen to $1.41 but the wheat value had fallen to 1.5 cents—a 36 percent price increase to consumers, even as wheat prices had fallen more than 40 percent.

For General Mills and other food processors now to sound the clarion call of the consumer advocate rings hollow to say the least.

There's nothing wrong with food

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processors making profits, but there needs to be equity so that the producers of food and fiber can make a decent profit also.

Even assuming the worst, that food processing companies pass along to the consumer the full cost of higher priced commodities, food prices would only rise by an estimated 1.6 percent per year above the current program over the next 9 years, according to FAPRI. To guard against this increase hurting the poor the most, our bill would provide for increased benefits under the food stamp, school lunch and breakfast, and WIC (Supplemental Feeding Program for Women, Infants and Children) programs.

The bottom line is that low prices and chronic overproduction are a surefire formula for only one thing—the concentration of land ownership and agricultural wealth here and abroad.

The Public's Interest

What we need to decide is whose interests will government defend, the vast majority of farmers and the consumers who depend on a stable, widely-owned system of agriculture, or the handful of large producers and agribusiness conglomerates?

We can keep going the way we're going, spending upwards of $25 billion a year in subsidies to maintain farm income while trying to undercut the prices of our trading partners. But the patience of urban taxpayers is growing thin. And the destruction to the economies of Latin America and Asia that we are causing may soon come back to haunt us.

Let us call decoupling by its true name: welfare for farmers.

We can "decouple" payments from production and then phase out farm subsidies altogether. But let us call decoupling by its true name: welfare for farmers. How long does anyone think the public will support welfare payments to individuals whose income is zero, but whose net worth may be $500,000? How can we justify "income maintenance" to middle class farmers, when a family of four receiving food stamps is limited to $2,000 in basic assets and may receive no more than $271 a month in benefits.

Unfortunately, faith in the free market takes a back seat to the social and political interests of every nation on this globe. Perfect competition may be the ideal, but imperfect cooperation tends to be more attainable and more sustainable.

The time has come for a new direction in our agricultural policy.

At home and abroad, we need to be more concerned with value than quantity, more concerned with long-term growth than short-term profits, more concerned with balancing the interests of all those who depend on our agricultural system, not just the vested interests of a few.

I believe the Harkin-Gephardt approach is workable because it is based not on utopian economic models but on common sense observance of the real world. More importantly, I believe it is an approach that is absolutely necessary if American agriculture is to remain a strong and positive force in the world as we enter the 21st century.