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IN AND OUT OF THE HOPPER

James C. Webster's Capitol Happenings

The dairy program remains a classic example of the debate between employing lower prices or government supply management to retard production.

Congress once more has to decide between the two—or, as it did in the 1985 Farm Bill, take something from either alternative.

The case in point is efforts by dairy cooperatives to repeal or modify a feature of the 1985 Farm Bill that almost surely means a 50-cent cut in the milk price support beginning in January.

The reduction is prescribed if USDA estimates that 1988 purchases of surplus milk products under the price support program will be 5 billion pounds, milk equivalent, or greater. Preliminary forecasts are running above the "trigger" level.

Efforts to prevent the cut center around several variants of an increased assessment to finance more promotion of dairy products in lieu of the price cut.

The scheme, advocated by dairy cooperatives, is based on the theory that more advertising will sell more milk and cheese, thus cutting the surplus and reducing the amount USDA has to buy to support prices.

Most options envision raising another 10 cents per 100 pounds from producers—who now pay 15 cents per 100 pounds to finance local and national promotion efforts—and either eliminate the 50-cent price cut or postpone it until mid-year, when USDA would evaluate surplus projections for the full calendar year, using six months of actual data and six months of projected purchases.

Bashing the Farm Credit System

After months of congressional bickering over the third Farm Credit System bailout bill in three years, one has to wonder what kind of system of agricultural credit might emerge when the smoke clears.

All the current evidence suggests it will be a far cry from what Congress had in mind in 1916 and 1923 when it set up the principal components of FCS—a network of cooperatives that allowed farmers to lend money to other farmers.

Despite the likelihood of substantial federal help this year—which recalls 1933, when the government put in money the system later paid back—several features of the bills now moving through Congress will make it difficult for the system to compete for a shrinking farm lending market.

One of the most troublesome—despite its noble intent and natural appeal—is the "borrower's rights" feature that is a direct result of the arrogance of some of the system's hired hands.

But its new layers of credit reviews and appeals, mandatory loan restructuring and required mediation will allow some farmers to back out of repaying the debts they incurred—by borrowing from other farmers. It will only add to the system's overhead, making it more expensive and more risky for farmers to lend to other farmers.

Another is the secondary market for real estate loans, which in its current form would give commercial banks and insurance companies a leg up over the land banks—an assertion disputed by some FCS officials who, say they are willing to compete.

Every study says the secondary market will result in lower interest rates for agriculture, and that is why it gets consensus farm country backing.

But there has been far too little analysis of who will benefit from the lower rates; critics charge that its benefits will be restricted to the few credit-worthy farmers while all the high-risk business is left to FCS.

No Free Trade With Canada

Even if a new "free trade" agreement between the U.S. and Canada is ratified—and provincial opposition north of the border makes that prospect look chancy—there won't be free trade between the two.

Only because it didn't attempt to really free agricultural trade, it's unlikely to stimulate significant opposition from farm or commodity organizations in the United States.

Biggest gainer on this side of the border seemed to be the wine industry, which won concessions into Canada's market. But that in turn has becomeone of the big road-

James C. Webster is Editor and Publisher of the Food and Fiber Letter.

blocks to ratification by Canada.

Although progress toward really free trade is extremely limited, nevertheless it is progress. It would have been a better precedent for the multilateral trade talks in Geneva had the two been able to agree on a genuine free trade zone, but in this business one has to settle for incremental progress.

The agreement would mean a standstill of sorts on new protectionism and set the stage for potential rollbacks.

Although three current high-profile cases—U.S. countervailing duties on Canadian pork and potash, and Ottawa's duties against U.S. corn—are allowed to stand, they could be overturned in annual reviews by a new bilateral review panel that would supersede each country's appeals process.

Negotiators agreed not to touch the most sensitive issues: dairy products, beer, Canada's marketing boards and the heart of America's Section 22 import restrictions.

But they were able to waive each country's meat import quotas, scrap farm tariffs over 10 years, promise not to impose new limits on grain trade, forego direct export subsidies to each other, and—perhaps the most important single factor—seek agreement on science and technical barriers, which have been particularly difficult in meat and other agricultural trade.

The agreement also would give U.S. egg and poultry producers marginal increases in access to Canada. It ends troublesome seasonal tariffs on horticultural goods.

While the agreement has generated little attention in the U.S., Canadians have followed it intensely since Prime Minister Brian Mulroney proposed the negotiations 15 months ago. It's part of the syndrome of sleeping by an elephant, wondering when it will roll over.

Another Row With Europe

The U.S. and the European Community have staked out their negotiating positions for a new go at improving multilateral trade rules under the General Agreement on Tariffs and Trade (GATT). But they're caught in a dialogue of the deaf.

The EC again surfaced its hoary idea of market sharing—a cartel of the big exporting blocs managing the grain, sugar, and dairy markets—as a condition for talking about reducing export subsidies.

The two sides agree on the need to find price levels more realistic than today's dog-eat-dog competition, but they are poles apart on how to achieve it.

A European critic characterizes the proposal as "an attempt to extend its own manipulative and collectivist attitudes to domestic agriculture policy into the international sphere" and as "nothing less than a plan for the establishment of market management for the benefit of the prosperous EC and the United States."

Significantly, the EC proposal concurs with that of the U.S. in seeking general agreement on reduction in agricultural support on the basis of the OECD"s "producer subsidy equivalent" even though it would have that step come after agreement on market-sharing and minimum grain export prices.

Why the EC would resurrect such an idea right now is puzzling, not only because it's a non-starter for an administration that espouses free trade, but because any likely Democratic administration, should there be one after 1988, would be almost as opposed.

It sets up a GATT negotiation in which the two major protagonists talk past, not with, each other.

As unrealistic as the EC idea of micro-management of the world agricultural trade system may be, the U.S. proposal to eliminate all "trade-distorting" subsidies by the year 2000 equally fails to recognize the political imperatives that drive most Europeans.

We seem to be locked in an irresoluble clash between two diametrically opposed philosophies of agricultural thought. One, in Europe, holds the view that governments must intervene to maintain prices to maintain income for farmers. The other, in the U.S., says reliance on marketplace forces and the "survival of the fittest" is the way to go. There must be a middle ground.

Financing Competitors?

One of dozens of little-noticed controversies in the congressional conference over an omnibus trade bill this fall is whether the U.S. has any business helping multilateral banks finance the competitors of U.S. agricultural exports.

Those who support development efforts by the World Bank and other agencies argue that modernizing agriculture improves living standards and eases hunger. They also say it increases income and stimulates demand for imports of farm commodities that the U.S. produces.

But critics argue that many projects employ at least some U.S. financing to increase agricultural exports by countries that compete with U.S. farmers.

So the critics managed to get an amendment in the Senate bill that seeks to halt international banks from lending money to countries for projects to produce commodities already in surplus. The major examples they cite are World Bank loans to Brazil and Argentina to help increase wheat and soybean exports to help pay off their debts.

Leaders in the fight to block such loans are Idaho Republican Sen. Steve Symms and Rep. Larry E. Craig and Sen. Don Nickles, R-Okla., with the endorsement of the Coalition for Foreign Agricultural Investment Reform (FAIR).

The FAIR group, while endorsing the amendment, has not been actively lobbying for it. The coalition includes the National Association of Wheat Growers, the American Soybean Association, the American Farm Bureau Federation, and the Fertilizer Institute.

Their lukewarm attention could mean the provision will have the same outcome in this conference that it's had before: it's passed the Senate on three previous occasions, only to lose in conference.

But farm group lobbyists who pay attention to development loans believe their pressure may already have worked. The Treasury Department, one says, is now more sensitive to U.S. agricultural concerns when it assesses proposed loans.

Webster Communications publishes newsletters related to food and agriculture. They are located at:
1740 N Street, NW
Washington, DC 20037
(202)429-0308 C