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AGRICULTURAL POLICY -- WHERE WE ARE AND HOW WE GOT THERE

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The agricultural situation today does not lack for exposure. Persons closely associated with agriculture and agribusiness have a good grasp of what is going on. Everyone agrees that problems being experienced are serious, hard to resolve, and not likely to disappear soon.

On the other hand, we see also the behavioral pattern of persons under stress, that of searching for a hidden or even mystical cause of our troubles, or of suspecting a conspiracy. We hear it said that technical aid to Third World countries is our undoing in export trade, in disregard of the fact that the European Community has been our toughest competitor lately. "Imports are killing us" yet we are a big farm-products exporter. The Department of Agriculture is charged with worrying about consumers and not confining its attention to farmers. Trilateralism comes in for blame, although few persons seem to know what the word means. And so on -- a variety of accusations.

There is really nothing mysterious about the situation in agriculture today. The forces at work are old and familiar. In my opinion, though, more are involved than ever before, and some are exceptionally powerful. Never previously in the history of our nation has the economic health of our agriculture been beset by so many different influences -- forces at work and trends underway. As a reminder I cite seven. (1) A debt and interest-payment crisis that is putting a third of our full time farmers in financial peril. (2) Sluggishness in domestic demand for food, highlighted by a decrease of 20

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pounds per person in consumption of red meat (beef and pork). (3) A clear case of overcapacity in agriculture -- of resources in excess of current needs. Professor Tweeten of Oklahoma State University estimates that we have a five percent overcapacity just now. (4) Erosion of the proprietary (notably owner-operator) status of many farmers. (5) An income tax code that selectively subsidizes overinvestment in farming even as it discriminates against the operating farmer of modest means. (6) A never-ending debate, and chronic uncertainty, as to the direction farm programs will take. (7) The issue that generates most heat of all --the terms of international trade. By what terms and rules will trade be carried on henceforth, and where will the United States fit in?

No one will deny the relevance of any of the seven points. Opinions differ as to how much weight to give to each. What bothers me most, though, is the temptation to address one or two or maybe three of the issues and brush the rest aside. Admittedly, we do not want to make a problem more complicated than it is, but we also ought not treat something as simple when it really is complicated.

The agricultural situation is indeed complicated.

Having said that, I nevertheless try to compress what is at stake into three broad topics. I will name the topics, then take them up one by one. As the title to this paper shows, I was asked to address the question, "Where are we in agricultural policy and how did we get here?" The answer is that we are where we have been for 53 years. We are trying to give some stability to a farm and food system that is inherently highly unstable. We use government programs as a stabilizing device. We do so in the interest not only of farmers but of consumers too, and even as an aid in the export of farm commodities.

That topic is old but is not the most important. Of first rank is the enormous influence that general economic conditions and general economic policies have on agriculture. This is the most disturbing and most controversial element in agriculture today.

Third on my list is how our agriculture fits into the world scene. My only distinctive stand is that I do not rank it ahead of the other two topics.

With regard to agriculture's built-in instability, how often have we heard it said, "Oh, maybe we needed farm programs years ago but agriculture is different now." Agriculture is now commercial, the explanation goes, and wise farmers, if not interfered with by government, will make operating decisions that will stabilize the industry.

Balderdash. In 1986 as in 1933, agriculture is subject to the whims of nature and the coquettishness of the market. Farming is a biological activity and affected by drought, disease, early frost. Every flutter in domestic business activity affects demand for food. And the international market is highly erratic.

Yet demand for farm products, today as a half century ago, is marked by its inelasticity, imposing a heavy penalty for oversupply and paying a premium for a moderate shortage.

All these characteristics must be viewed against the backdrop of an agriculture of many hundreds of thousands of independent units, each of which has limited financial capacity to absorb changes in price and income. Also in the picture are hundreds of millions of consumers who want stability in the food supply.

Farm programs of the last half century can be explained only in terms of servicing a farming sector of a great many relatively modest-sized units.

That orientation of 1933 remains valid to this day and will continue valid until such time as farming moves into large hands.

During the last half century, farm programs have acted mainly to attach a floor and ceiling to prices and incomes. Within those boundary limits commodity markets have operated essentially unimpeded. It is easy to overstate the role government has played.

My second topic relates to how the general economic situation and general economic policy have impacted on agriculture. All economists agree that factors external to agriculture have more bearing on agriculture now than ever before in history. The same economists disagree on particulars, though, sometimes sharply.

In a weekly newspaper column I write, I commented recently on what a crazy, mixed-up economic policy we have drifted into. (We drifted into it; we did not design it.) No fiction writer could have dreamed up the mix of fiscal, monetary, and income tax policies that we are struggling with today.

On this topic, too, the basic data are well known. A fiscal deficit of $220 billion annually. "Real" interest rates at two to three times their normal level, a sure-fire prescription for calamity. A tax code of devilish complexity that costs the Treasury $400 billion a year in lost revenue -- the size of the pay-off in shelters -- and may have more bearing on investment opportunities than market prospects do. And a foreign trade deficit that has been running at $150 billion a year (the figure for current accounts).

In view of all these strange goings-on, how can we forecast the future for agriculture with any uncertainty?

I do not have time or space to explain how I interpret the goulash of general economic policies. I disagree with many economists, and a great many non-economists, who have almost a childlike faith that balancing the federal budget will make everything right. In my judgment, if we were to balance the budget yet fail to make compensating changes in other policies, we would be worse off than before. In this respect President Reagan's fears of higher taxes for budget-balancing are justified.

Agriculture has been hurt more by monetary policies than by the fiscal deficit. This is particularly true when we take into consideration the major change made in lending practices, namely, from fixed to variable interest rates. High interest rates of the 1980s are wiping out at least $300 billion in capital values in agriculture. In the process perhaps a quarter million full time operating farmers are being dispossessed. The hemorrhage is by no means complete. Without overstatement, action by the monetary authority to increase interest rates on variable-interest loans amounts to expropriation.

Without a doubt, asset values in agriculture (land prices) were too high. They must come down to bring them back in line with the earning power of land. The question at issue is whether it is necessary to liquidate a quarter of a million farmers in order to get the revaluation done.

I continue to believe that national legislation will provide some ameliorative help. However, prospects are not bright at the moment.

Third and last of my topics is the economics and politics of international trade. Much is said these days about how the lower loan rates for export commodities will restore our market share in world trade, meaning the exceptionally high share we enjoyed in the 1970s. I am skeptical. I don't believe other countries will let us cut them out. The best hope for revived exports lies in an expanded total volume of world trade. Trade in grain has been at a standstill since 1980. I join many economists in believing the debt burden carried by Third World countries is the biggest single obstacle to expanding export trade.

Finally, now that the 1985 farm bill has become law, where do we stand in agricultural policy, and what lies ahead?

For now, we are at about the same place as we have been for 20 years. The 1985 farm law made no major changes in commodity programs. It was more innovative in soil conservation measures than in commodity operations.

It seems to be politically expedient to bill the Farm Security Act of 1985 as a partial return to the free market. The claim is ludicrous. To be sure, loan rates have been lowered. But deficiency payments have been increased proportionately, as target prices remain unchanged for two years. Shifting from commodity loans to direct Treasury payment does not constitute a return to the free market.

Direct payments will be a sizable part of farmers' income in the next year.

The larger payments from the Treasury have a second major significance. In a sense they amount to a massive subsidization of exports. It looks as though world export trade in grains, cotton, and soybeans will be determined more and more by the depth of national treasuries. In this battle the European Community and United States are in strongest position, and they could make life difficult for smaller competitive exporters such as Canada and Australia and especially Brazil and Argentina. We could raise a question whether it is good to treat our political allies so harshly.

I look favorably on the 1985 farm bill. I believe it was the best bill that could have been enacted and signed by the President. As to the meaning for the future, though, I am ambivalent.

The positive note with regard to financing agriculture is that apparently agriculture will be spared its worst possible experiences. We are not going to let agriculture collapse.

The negative side of the matter is that the 1985 bill may not prove tenable. The budget cost will surely exceed the official estimates. Gramm-Rudman throws up a major roadblock in administration of the law. Exports will not respond greatly. I am very doubtful that provisions for control of production will prove tight enough to prevent a steady build-up in CCC stocks. I am even more skeptical as I note the willingness of Congress to loosen some of the controls that were put in the law.

My guess is that the next five years will be difficult years without any clear direction either up and down. We will mill about, trying to live with our problems. We will avoid catastrophe without achieving clear resolution. It is easier to be optimistic about a 10-year outlook, mainly on general grounds that agriculture has always been cyclical and will cycle upwards once more. Moreover, major changes in the general economic situation and/or general economic policy are inescapable. It is possible, as Professor Tweeten suggests, that we will lapse into depression and inflation. Although unattractive for the economy and for consumers, it probably would improve farmers' position.

For the rest of this decade most farm policy will act as a holding action, as the 1985 farm law does. But there <u>will</u> be a farm program. More and more of our international trade will be governed by negotiation. But we <u>will</u> continue to export in large volume, and I have an abiding faith that eventually (though maybe not as soon as 1990) we will be supplying more of the food the world needs so badly, and that we can supply so well.