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In a nation that prides itself on its democratic pluralism yet aspires to national unity the foremost public function is to unify. The separate parts of our economy and society must be kept connected and balanced. And as we are a moral people we want to minimize coercion as a technique and try for equity as a goal. Consistent therewith we reserve our highest acclaim to statesmen and organizations that reconcile our various conflicting interests.

Manifestly, we use government for the purpose, and my remarks on the status of farm policy today will be directed primarily to the role of government policy as it bears on the relationship of the farm sector to consumers and citizens. I will also touch on the internal politics of agriculture, the relationship of various segments of agriculture and agribusiness to each other. For agriculture itself is pluralistic. Furthermore, it is almost a sub-economy or sub-culture of its own. It has its own internal divisions and potentially warring factions, and farm policy deals with them too.

Even though government is the ultimate instrument of social control, our tradition sees formal government as only an extension of the more felicitous sentiments and customs of the populace. Furthermore, as the shrewd French observer Alexis de Tocqueville pointed out a century and a half ago, our practice is to rely to exceptional degree on private voluntary associations. We use them to give ourselves a collective unity and direction. Farm-City organizations and conferences are of this genre, as are the Urban League and several organizations having an agriculture-and-food focus.

Although it is correct to say that a common goal is to unify, a less elegant but more technical term is that we want to integrate. In an economy of specialization it is necessary to integrate the parts. Agriculture must integrate with its suppliers and marketers, and internally too. Again our national philosophies come to bear: we want to integrate without subservience -- without subjecting one part of our economic system to autonomous control by another. This principle, this objective, is at once the most deep-seated and touchy of all the issues surrounding farm policy today.

The terms of agriculture's integration are so touchy a topic just now because the sector is going through its most difficult and potentially destructive sequence of events since the 1930s. How will agriculture be organized, structured, once this episode is passed? Who will own the land? Who will farm it, and under what terms? These questions are not raised explicitly so often but are implicit in much discussion of the current situation.

I open my review of farm policy in these broadly philosophical terms because I believe that what agriculture is going through is no mere cyclical wavelet, small and quickly passing. It is more fundamental and lasting than

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that. In addition, by chance I am now reading Gibbon's Decline and Fall of the Roman Empire. In recounting Roman history Gibbon generalizes about the tendency of any liberal democratic system to deteriorate into more autocratic systems. It is proper to ask whether U. S. agriculture, which has gloried in its make-up of many proprietary units, can retain that structure in an economy that is moving progressively to conglomerate giantness.

The Three Problems of Agriculture

Agriculture today, in my observation, faces three major problems. Each is distinctive. I will identify all three, then address each separately.

The first issue, or problem, is ancient. It's the instability that marks agriculture as a biological process, where an erratic and scarcely controllable output meets an always-uncertain market. Moreover, individual farmers typically lack financial reserves, and by definition have no protective market power by which to survive, unaided, the sector's high instability. This first problem gave rise to the first commodity price and acreage programs initiated in 1933. It accounts equally for the latest version, enacted as the Food Security Act of 1985.

The second problem is the debt crisis that is bankrupting farmers and their lenders and searing farm families with emotional trauma and a sense of defeat. To date the federal government has given much less attention to this problem than to the first. A number of states have tried to provide some relief. Generally, though, the problem is so big and so complex that it exceeds the capacity of state governments to relieve it.

The third problem is the survival of the system, mentioned above. Is it possible to retain an agriculture of modest sized proprietary units that buy and sell in the market? Is it desirable to retain it -- desirable enough to warrant a defensive national policy?

Commodity and Acreage-reduction Programs. For half a century I have recited the same litany. Agriculture is inherently unstable. It is unstable on the supply side and it is equally so on the demand side -- there's no room for a supply-side argument, a la Professor Laffer, that puts all emphasis on supply. A quixotic Nature frustrates management of output, making it highly variable. If demand were extremely elastic it could absorb the variations in supply without too much price effect. Instead, demand is notoriously inelastic. As a consequence, prices of farm commodities jump around erratically.

Demand, though, has a second big flaw, adding further to the swings in prices. It is unstable. In terms of classroom economics, the demand curve for farm products not only is steep, highly inelastic, but is prone to shift back and forth. Even domestic demand does so, strengthening and weakening in line with changing consumer employment and income. In my judgment a slowdown in growth of our national economy in the last decade has had a damaging effect on demand for food and farm products. Although transitory events such as today's stock market boom can divert attention, the hard fact is that the average working family has enjoyed no significant improvement in real purchasing power since the early 1970s. This datum bears especially on demand for foods of animal origin such as beef, pork, and fluid milk.

Demand for individual foods is sensitive to changing tastes. There is evidence, for example, that demand for beef and pork has given way, to some degree, to a growing preference for poultry. I am referring to a change in taste, not a response to relative price. That is to say, at the same beef-poultry price relationship, consumers now buy less beef than before, and more poultry.

Nonetheless, the big up- and downswing in demand the last decade or so has been on the export side of our market. The export boom of the 1970s and near bust of the 1980s has been publicized so widely that I need say little about it. I only caution against excessive dramatization. Discouraging as has been the loss in export volume the last five years, and cautious as we must be about prospects for the near future, we still must recognize that not all the gains of the 1970s have been lost. We still have a larger export movement of grains and soybeans than we had in the early 1970s. Nor are we going to shrink back to the volume of that time.

The press and air media have been packed with explanations and prognostications about our export trade. Everyone has his ideas. I have mine. In order to be concise I list them in quick order. I only warn that it's impossible to know anything for sure, where farm export trade is concerned.

1. The loss in exports was not caused by the partial embargo of early 1980 in grain shipments to the Soviet Union. That easy excuse has been whipped to death, a favorite ploy in demagoguery. It never was really valid.

2. Nor has lagging promotional effort on our part been a negative factor. We have promoted vigorously and effectively. By the same token, no new frenzy of promotion will turn things around.

3. National economic policies that contributed to an overvalued U.S. dollar have been a negative influence in the 1980s. They are less so now, as the dollar has fallen in value. Even so, we ought not overemphasize this element of the picture, lest too much recovery in exports be expected now that the dollar is lower.

4. Aggregate world demand has leveled off. The total volume of world grain trade has been essentially static since 1980. European economies have been stagnant, and Third World countries, once a fast-growing market, are burdened by debt and hounded by creditors who want debt payments more than commodity sales. Thus, the United States has had to contest with other world suppliers for a static market.

5. Those other suppliers have increased their ability to supply their own markets and to export. This story has been told often. It is getting a new twist just now. In some quarters it is said that we taught competitors such as Brazil how to produce more, and now they are outcompeting us. The complaint is followed by a call to stop giving technical aid to Third World agriculture. This is just another version of isolationism and as such reflects the frustration of the time. The irony of it all is that the competition that is killing us comes not so much from Brazil and similar countries, but from Europe.

6. Lastly, the most significant feature of the farm law that was enacted just before Christmas last year is the lowering of loan rates for export commodities in the interest of recapturing export markets. The most uncertain, even controversial, issue of our day is whether, or to what extent, that outcome will be realized.

My own guess is somewhat negative; I am skeptical, notably with regard to big-volume commodities such as corn and soybeans for which we "make" the world market. Other countries are not going to sit supinely by, letting us crowd them out. I predict that we will sell more grain and soybeans in quantity, but will earn fewer dollars than before. And my private suggestion is that our country work toward a reasonable price level at which to exercise leadership, negotiating with other countries to go along as amicably as possible.

In fewer words, I do not join in the call for an international price war, which would eventually hurt everyone. A little tacit cooperation or coordination, or effective and stabilizing price leadership, would be better.

The Excessive Cost Danger. Some persons say the 1985 farm law will last only a year or two. It will be done in by its high Treasury cost.

The cost will be so high because the law calls for paying participating farmers enough Treasury dollars to offset the reduction in loan rates.

The size of the expenditure will itself be a red flag. But it will be waved vigorously by virtue of concern for who gets those billions upon billions of dollars. To be sure, the $50,000 limit on individual payments is retained for some, though not all, categories of payments. The limit device creates problems of its own. The bigger question, though, arises from a basic conflict in the philosophy of farm programs. Are they intended to rectify depressed incomes of farm families? Or are they an instrument in supply management?

I think it likely that the vast majority of citizens are willing to dispense Treasury dollars to keep a farm family out of poverty. They are less willing to supplement market prices on huge commercial operations. When the 1985 farm law was drafted a sizable minority of Congressmen plugged for "targeting" part of the direct Treasury payments to farm families of insufficient income. My guess is that if the cost of current programs comes under fire, the targeting principle will be brought up again. Payment rates will be scaled upwards for farming operations (not land ownership as such) of commercial but modest size, and scaled downwards for larger units.

Farm Programs and Soil Conservation

Of all the federal programs relating to agriculture, those of soil conservation enjoy the broadest base of support. I can only mention here the distinctive feature of the 1985 farm law that weaves conservation principles into commodity price supports. The Conservation Reserve calls for retiring up to 45 million acres of highly erodible cropland, in the dual interests of protecting the soil and reducing production. More innovative, though, is the so-called Conservation Compliance clause that will put a rule in place by 1990 requiring removal of unprotected highly erodible land from crop acreage bases, and disqualifying the unresponsive farmer from eligibility for several kinds of program benefits including price support. The conservation portion of the 1985 law has wide popular support.

The Second Problem: Debt Crisis

A quarter of a million full-time commercial farmers, according to my estimate, are being dispossessed of their land as they are caught in a massive decapitalization -- asset devaluation -- of U. S. agriculture. A number have left their farms voluntarily or by foreclosure, or have stepped down from owner to tenant status. Others are only hanging on, or are so thinly financed that they cannot survive many more years in the absence of improved earning power or lowered debt-service payments.

The quarter-million farmers are not so many when compared with the Census statistic of 2¼ million U .S. farms. But the majority of the insecure farmers are full-time commercial farmers, of whom there are about 650,000. Most of the million-plus part-time farmers depend on nonfarm income for their living and are less vulnerable.

There is no mystery in the situation, although a lot of false allegations are heard. It is not a case that inefficient farmers are being pushed out. Nor can it be said that the loss of farmers proves that commodity programs are inadequate -- one allegation; or ineffective -- another charge. It's simply a matter that capital values in agriculture are being forced downward from their peak levels of 1980.

Although values in 1980 were too high and needed to come down, the instrument forcing them down was a national monetary policy of high interest rates. Higher interest rates automatically devalue all fixed-capital assets. In addition, the change during the 1970s from fixed to variable interest rates meant that farmers who had borrowed when the rate was, say, 8 percent and expected to pay that rate suddenly found their payment obligations to have doubled or tripled as the interest rate was pushed up to 15 or even 20 percent.

In a summary word, a very high fraction of all farmers who had depended at all heavily on borrowed money found themselves unable to meet their obligations. Their operating performance had not changed, but the terms of finance had done so, radically.

Farmers in trouble are generally the younger farmers. They did not have a chance to build up a big net worth as a cushion against deflation. Older farmers who began farming just after World War II, by contrast, had three decades in which to get on a solid footing. Most of them are surviving intact.

For three years I have been estimating that asset values were due to decrease $300 billion or 30 percent. That means, for a typical average commercial farm, a loss in asset value on the order of a third of a million dollars. This is discouraging for all farmers but devastating for those younger farmers who had not built up a net worth of a third of a million dollars by 1980.

In the heart of the Corn Belt and in Plains states the economic damage and human anguish are intense.

A policy issue presents itself as to whether it is in the public interest to relieve some of the human tragedy that accompanies decapitalization. Or, to repeat the phrasing I have been using, it's a matter of whether it is necessary to create so much turmoil in land markets and the farming community, and to break the spirits and careers of so many farmers, in order to change the numbers on balance sheets and farm mortgages. Or are we civilized enough to find a way to do that without causing so much harm?

The numbers must come down. The question is whether the turmoil and human cost need be so high.

The most credible proposal, in my judgment, is to set up a national mortgage corporation that would negotiate a scaling down of the principal of farmers' loans, subsidize a few points in interest obligations -- though as interest rates decrease this option will be less necessary, and in some cases take over both the loan and the land, and rent the land back to the farmer under a repurchase agreement.

The cost of such a program need not be excessive. It might be of the same order of magnitude as a program to bail out a single bank, such as Continental Illinois.

Regrettably, some of the opposition comes from within agriculture as older farmers who built up a sizable net worth during the glory years are sometimes less than sympathetic with younger farmers who never had that chance. This is another instance where the making of farm policy is impeded as much by divisiveness internal to agriculture, as by lack of public sympathy.

Problem Number Three: Survival of a System

Throughout our national history we have subscribed to the ideal of a proprietary agriculture of modest sized farming units. We can debate whether we have been faithful to that ideal. Data show farm production to be concentrated in a relatively few hands. Yet we have by no means adopted the industrial system of giant firms.

Until the 1980s there was a genuine opportunity for capable young men and women to enter farming. We chose to enhance their chances by providing both educational services and concessions in financing such as those of the Farmers Home Administration. We were not entirely faithless to our ideal.

Nonetheless, from the 1930s to 1980 the really great social contribution to farmers' status was economic growth together with inflation. During almost five decades society continuously up-valued farmers' assets. Under those favorable circumstances it was not hard for farmers to show substantial financial progress. Many, in conformity with human nature, have denied the social contribution and claimed all the credit for themselves.

In the 1980s social forces, mainly public policy, have been just the opposite. Devaluation of assets amounts to extracting values from landholders. Moreover, this decade has seen a blossoming of a social instrument that overshadows all others in its effect on economic enterprise. It is the income tax code. The tax code subsidizes high bracket investors in agriculture, most of whom are nonfarm. It crowds out operating farmers. I have believed that our traditional proprietary agriculture cannot possibly survive in the absence of major reform of the tax code.

As I write this, the U.S. Senate is preparing to consider the tax reform proposal drafted by its Finance Committee. The proposal would close a great many shelters in agriculture and therefore is favorable to an individual proprietorship structure of agriculture. But a lot of Congressional water must pass over the dam before a tax bill is finally enacted and signed. I cannot predict the outcome. My only comment is that the outcome will have a major bearing on the future composition of the U.S. agriculture.

Summary

I have touched on three problems of U.S. agriculture, commodity prices and programs, the debt crisis, and the organizational structure of U.S agriculture. In doing so I have bypassed a host of issues that are by no means negligible. I have not mentioned the terms of international trade -- the bilateral negotiations that have been going on, as those with Japan and Canada; the prospect of international liberalization of the terms of trade; or the genuine danger of increased protectionism in our country.

I have not touched on environmental issues, even though the evidence is convincing that heavy use of certain chemicals in farming can pollute groundwater. This policy area invites the most responsible negotiation between farm and urban interests.

I have not said much about the growing concentration in U.S. agribusiness, and only mentioned the trend toward more conglomerate firms among farm suppliers and marketers.

Perhaps the only concluding general comment I can make is to remind farmers and everyone that no policy issue relating to agriculture relates to agriculture exclusively. A nonfarm interest, however peripheral, seems always to be present. It is good that organizations are at work, seeking first to communicate and then, we may hope, to facilitate accommodation -- jointness of action. Insofar as Farm-City conferences make a contribution, they and their participants deserve the highest accolade.