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1929, 1987, AND WHAT I SEE AHEAD

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Although U.S. agriculture is imbued with the Puritan creed calling for reward proportionate to performance, the historical fact is that the opportunity for individual success in farming conforms closely to the cyclical pattern that is so much a mark of our agriculture.

In everyday words, whether a farmer makes out well or not depends in large measure on when he begins farming; which is to say, when he was born.

My father was of an unfortunate generation. He bought in during the boom years just before World War I, burned out during the war, and tried to pay his debts after the severe price break of 1921. He couldn't do it. That was the atmosphere in which I was reared. Then came 1929 with its stock market crash, followed by the Great Depression of the 1930s. It was all negative.

Then things turned better, and my generation was lucky. My classmates who entered farming in the mid-thirties were at the starting point of a 45-year price uptrend. Most of them can now buy me out ten times. Those who started just after World War II did well too. But the post-Vietnam generation began farming just in time to suffer, in the 1980s, the same experience as my father had during the 1920s.

And so the major question asked today, after seven years of deflation in land values and lagging farm incomes, is just this: is the cycle about to turn up once more?

Many spokesmen, particularly those with a political interest, are declaring their confidence. They broadcast their reassurances that all will be better henceforth. It is true that conditions have stabilized appreciably in the last year. Net farm income is up, foreclosures are fewer, and farm exports finally have recovered a little. But are conditions favorable for sustained gains?

I have three responses.

The first is that no one knows.

The second is my judgment that no, it's too soon for steady, progressive gains.

The third answer is that much depends on what happens in government programs, and also on trends in the economy.

Summary of Remarks, Corn Growers' Seminar, Cooperative Extension Service,
University of Illinois, Fairfield, Illinois, January 4, 1988

The principal reason I have distrusted the optimistic talk is that so much of the improvement in 1987 was based on government programs and the heavy spending associated with them. Net farm income may indeed have crossed the \$40 billion threshold in 1987. But commodity and acreage-control programs cost about \$26 billion. That relationship is far from encouraging. It is especially disturbing in view of what appears to be a new determination to reduce federal spending on all fronts.

A second reason I stay on the cautious side is that world supply and demand remain unbalanced. For the grains particularly, the oversupply is great enough to dampen prospects for price advances any time soon. Moreover, world demand gives little cause for confidence. Europe is in a recession. The Third World debt situation is by no means resolved. It is a major obstacle to revival of world trade in farm products.

Not only the Third World is in debt. So are we. Our own situation is another cause for uncertainty. Our U.S. debt has recently divided, amoeba-like, from being strictly domestic to being foreign as well. For several years I have been saying that although our fiscal deficit and growing national debt are worrisome, they pose fewer problems than our persistent trade deficit and our shift from creditor to debtor internationally. I stay with that point of view. I dare say I am getting company these days.

The real meaning of the stock market break, and comparisons with 1929, is not whether it will usher in a recession. I think it will, but a slow-down need not be severe. The bigger meaning is that it is forcing us to face up to economic policy issues that had been neglected for so long, including the fiscal and trade deficits. We don't know how to deal with those issues. Maybe we can address the budget deficit by printing Federal Reserve bills. But we cannot continue to run a trade deficit of more than \$150 billion. Nor do I think we want to keep incurring debts to foreign nations, or to transfer ownership and control of our productive assets to the Japanese, Taiwanese, and the residents of Singapore, whatever name be given them.

This is the dilemma in which we find ourselves. It calls for caution in offering an outlook for the economy, and for agriculture.

All of which is to emphasize a point that almost every agricultural economist has made lately. More than at any time since the 1930s, the economic situation and prospects in agriculture are determined by economy-wide factors and policies, and not exclusively agricultural ones. In other words, agriculture is not in control of its own destiny.

It follows that I play down to some extent the bearing of trade negotiations, which are now getting so much publicity, and of the design of acreage and price support programs. I don't believe these are as influential as press releases tell us.

With regard to the former, it is true that world trade in farm products is tied up in trade-policy knots. It is not true that other countries are the malefactors and we are the great free trader. The latest technique in managing trade in farm products is the use of direct and indirect export subsidy. We employ that aggressively. A large part of the \$15 billion we spend in deficiency payments, and all the Export Enhancement funds, constitute export subsidization. We are in a subsidy war with the European Community.

Our Ambassadors at Punta del Este are begging the trading nations to call the whole thing off. I am sympathetic but appalled by what I regard as the absence of realism. Few if any nations are willing to end all trade restrictions. Partial gains -- that is, partial freeing of terms of trade -- is the most to be obtained. Why not try for that in the first place?

Is our agriculture "competitive" worldwide? This question is asked repeatedly. I have taken the stand that for our midwest field crops we can compete. I am less certain about other products. The Economic Research Service has just completed a study in which the conclusion is reached that freeing of world trade would give us only modest gains. Surprisingly, our exports of grains and soybeans would not change greatly. The big beneficiary would be exports of beef. Imagine! We would become a sizeable beef exporter. Of course, the study assumed that Japan would open her doors to our beef. The chances of her doing so are about the same as my being elected President. By and large, the study suggests that we would do reasonably well if trade were freed but would not line our pockets with much of the world's gold. Our gains would be modest.

Nevertheless, I can see a little optimism for farm product exports, for two other reasons. The decline in value of the dollar relative to Japanese and European currencies is helpful. Also on the positive side (for us) is bad growing weather in several countries including China and India. I have suspected that the world had a run of good weather in the mid-1980s. If weather turns foul, our exports will turn upward.

To dig into issues in our farm policy would require another talk and a second paper. Farm policy will be reexamined in the election year of 1988. My guess is that payment rates will be trimmed back in the interest of economy. Also, I have been predicting that the issue of size of individual payments, and the incredible maneuvering taking place to circumvent the limit to those payments, would force action to amend the 1985 farm law. So far that has not happened. I remain persuaded, though, that "something's gotta give."

For several years I have proposed that setting aside (diverting) land simply be reimbursed by a straight rental at minimum rate, without a payment limit. The income-supplement portion of deficiency payments would then be paid separately on a scaled basis. So far, the idea has not caught hold.

What all this adds to is a prospect that nothing dramatic is likely to happen in farm affairs in the next year. Agriculture will feel the effects of whatever policies are undertaken to deal with the twin deficits, fiscal and trade; and it will respond to any surprise developments such as in weather and growing conditions. But otherwise, U.S. agriculture will continue to wrestle with a situation that is not as distressing as it was a couple of years ago but still is far from solid and secure.

Eventually, our agriculture will recycle upward again. It is possible that world demand for food will generate a worldwide recovery. I've been placing more bets on biomass, which is the use of organic products for industrial purposes, mainly energy. Corn organizations are pressing hard for subsidization of ethanol. I think they are doing so too soon. The time is not ripe for massive use of ethanol in motor fuel. But eventually we will turn to biomass, and when we do, U.S. agriculture will once again be regarded as a national treasure.