Decoupling: Corporate agenda gathers momentum

By TERRY PUGH

"Decoupling" isn't a term heard very often around coffee row in small towns, but it is high on the agenda in corporate boardrooms and government offices.

Decoupling is defined by economists and agribusiness officials as "the separation of farm income supports from crop and livestock production decisions." It's alleged objective is to allow "market forces" to rationalize agricultural production and trading patterns by eliminating commodity price supports. Farmers would then supposedly make production decisions based on their reading of what the market wants, and any government "subsidies" to agriculture would be limited to "market-neutral" payouts.

Under such a system, commodity prices would decline to "market-clearing levels," leaving those producers unable to make a profit under low-price conditions eligible for a "transtitional" adjustment payment aimed at moving them out of farming. Larger capital-intensive high-volume corporate farms that thrive under these circumstances would expand at the expense of less fortunate family-run operations.

For advocates of decoupling policies, this market-oriented proposal would lead to "greater efficiency in the allocation of agricultural resources." For critics, decoupling translates into a short-term welfare plan for farm families designed to facilitate their exodus from the land.

DECOUPLING OPPOSITE OF SUPPLY MANAGEMENT:

Decoupling, in a nutshell, is the opposite of supply-management.

Under supply-management, farm income is directly "coupled" to commodity prices, and farmers are able to make a living based on returns from sales of crops and livestock that cover their costs of production. In exchange for a reasonable price and a guaranteed share of the market, farmers agree to control production. They cooperate, rather than compete, with other farmers in supplying their domestic market, creating stability in both prices and supplies to consumers. Tailoring supply to demand in this way eliminates waste and speculation.

Decoupling, on the other hand, is based on the assumption that the open market is the most efficient allocator of resources. For advocates of decoupling, market prices for farm commodities should not necessarily reflect costs of production, but rather the "market-clearing" price set by "lowest-cost producers." Under the theory of "comparative advantage," only those producers who can adapt to low prices and remain competitive should remain in business. On a global scale, breaking down tariff and non-tariff barriers to trade in agricultural commodities would suposedly allow the most "efficient" producers access to wider markets.

Decoupling is an integral part of the push by multinational agribusiness corporations and their allies in government for "free trade" in agriculture. The Canada-US Free Trade Agreement and the current round of discussions at the General Agreement on Tariffs and Trade (GATT) talks both centre on proposals to facilitate easier access to new markets by multinationals.

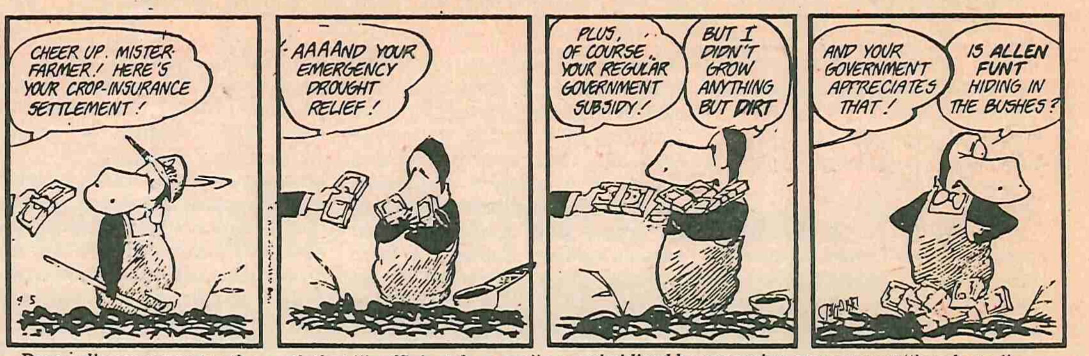
But the elimination of tariff and non-tariff barriers to agricultural imports also has the effect of "deregulating" national farm policies which protect producers' right to supply their domestic markets. Supply-management programs in many countries would be undermined and eventually dismantled if all barriers to imports were removed, because supply-management agencies would be unable to effectively regulate supplies and prices.

LIBERALIZED TRADE:

The efforts by the Reagan Administration, the Canadian government, and multinational corporations like Cargill Grain to implement a policy of decoupling and liberalized agricultural trade will lead to further concentration of economic and political power within the global food system. By voluntarily seeking to limit their own ability to set national agricultural policies, governments that favour "liberalized" trade (along the lines proposed by the US Administration for phasing out 'trade-distorting subsidies' within 10 years), are transferring their sovereignty to the corporate sector. They are shifting the responsibility for regulating social and economic conditions to profit-motivated corporations — in effect "privatizing" and "deregulating" the global food system at the expense of both farmers and consumers.

Under a free trade environment, producers in any given country are expected to produce only those commodities which cannot be produced cheaper somewhere else. By locking countries into a narrow international division of labour, a relatively few corporations which already dominate the world market are able to enhance their own political and economic power.

For the corporate sector, the present GATT negotiations are an important step toward implementing their free trade agenda. A major meeting in Montreal, Quebec, in December of this year marks the mid-point in the GATT round, and both the US and Canadian governments are hoping decoupling policies will be firmly in place by then in their respective countries.



Decoupling aggravates the myth that "inefficient farmers" are subsidized by excessive government "handouts."

Decoupling favored by agribusiness, Republicans

By MARK RITCHIE

Senator Rudy Boschwitz (R-MN), who introduced the most important new 'decoupling' legisiation back in 1985, has re-introduced this bill for consideration in the 1990 Farm Bill debate. Cargill Grain Corporation has already gathered together about a dozen of the very largest US-based corporations into an Agricultural Policy Working Group to finance the lobbying on behalf of Senator Boschwitz's bill.

A number of agribusiness-oriented economists, like Dr. Stan Johnson and Dr. Willy Meyers at Iowa State and George Rossmiller from Resources for the Future have been hired to lend for academic credibility to their lobbying campaign. Clearly, "decoupling" has already become the major Republican farm policy proposal for the 1990 Farm Bill debate.

DECOUPLING DEFINED:

Many critical questions still remain about what is and what is not "decoupling." Supporters are holding conferences, making speeches, and writing articles to spell out specifics. The Cargill Corporation, one of the principal forces behind the revival of decoupling, has been perhaps the most articulate.

William Pearce, Cargill's Senior Vice-President, defined "deocupling" as a process to modify government farm programs "to reduce and ultimately eliminate their capacity to distort production, consumption and trade." Cargill President James Spicola, for example, has defined "decoupling" as farm income supports "provided through direct payments that are neutral to production and trade." Cargill's Vice-President for Public Affairs, Robbin Johnson, called it "reasonable income protection divorced from prices, planting or marketing decisions." Arguing that this income protection "should be only temporary or transitional, Johnson warned that any payments need to be treated, in trade negotiations and in domestic implementing legislation, as structural adjustment assistance to unwind the distortions caused by past farm policies."

Former Cargill Executive Vice-President Daniel Amstutz, now Reagan's chief agriculture negotiator at GATT, defined "decoupling" as a government-paid farm income support program where the payments would be "independent of the current or future value of a farmer's production and marketings, input use or commodity prices. This means if more, less or none of the commodity is produced or if prices are low or high a 'decoupled' payment will not vary." In the same article, Amstutz said that decoupled payments must be only to "provide transitional income support for farmers." "Decoupled payments could be aimed at income support goals such as assisting farmers in a transition period. Or, on a one-time lump sum basis, decoupled payments could facilitate resource adjustment (help farmers change jobs)."

The official US decoupling proposal to GATT defined the range of implications in this way:

"All participants should agree to the following:

Agricultural Subsidies: A complete phase-out over 10 years of all agricultural subsidies which directly or indirectly affect trade.

Export Subsidies: Freeze and phase-out over 10 years the quantities exported with the aid of export subsidies.

Import Access: Phase-out import barriers over 10 years."

"The following kinds of policies would be included in the aggregate measurement of support, to be reduced and eliminated:

Market Price Support: Policies such as price support, import quotas, variable levies, minimum import prices, tariffs, some state trading activities, export subsidies, export credits, government support of marketing boards, interest subsidies associated with producer commodity operations, government contributions to stabilization funds, and government inventory costs.

Income Support: Policies such as deficiency payments, storage payments, stabilization payments, headage or acreage payments, and negative payments such as producer levies.

Other Support: Policies such as subsidized crop insurance, concessional farm credit or interest subsidies, fuel and fertilizer subsidies, some capital grants, marketing programs (including transportation subsidies, processing subsidies and inspection services), research, advisory services, and structural investments."

"Certain types of policies would be permitted, and therefore would be excluded from the aggregate measures. These policies would be either production and trade neutral or have such a small effect as to be inconsequential.

Direct income or other payments decoupled from production and marketing, including those that provide a safety net against natural disaster or other extraordinary circumstances.

Bona fide foreign and domestic aid programs."

Senator Rudy Boschwitz, author of the major legislative proposal calling for domestic "decoupling", uses the following definition. "The goal of decoupling is to make the farmer's planting decisions entirely neutral from the government program. Several conditions must be met before the planning decision becomes neutral.

1) The income support payment, which we call a transition payment, must be made relative to an historic measure of base and yield.

2) The payment must be independent of what is planted in the current year. The farmer can grow whatever he wants and still get the payments.

3) The amount of the payment must be known in advance so the farmer can depend on it.

4) There must be no annual acreage reduction requirement as a condition for getting the payments."

Boschwitz admitted that his legislation would cause an immediate and significant rise in government costs and a sharp fall in farm prices. In the same article he stated that: "Initially, the program would cost more than current programs, but would decline to levels that are less than current law. To make the program attractive to farmers and to elicit a real market response, the loan rates in this program would need to be very low, $1.00 a bushel on corn or less, with correspondingly low rates on other crops."

Resources for the Future, one of Cargill's closest supporters, has written extensively about decoupling, spelling out some of the specific programs that would be banned or significantly altered. For example, they make it quite clear that all US import quotas would be immediately phased out.

"The sugar loan and import quota and the dairy price support and import quota are the most highly trade distorting of US agricultural policies." They also cite the "distorting" impacts of existing soil and water conservation programs, like the Conservation Reserve Program (CRP). Specifically, they criticize the CRP in this way. "By reducing plantings, the program has a net effect of reducing production, consumption and trade while increasing domestic and world prices."

In their book on decoupling, Resources for the Future argued that the only true decoupling proposals would "have no significant impact on resource allocation." Decoupling, by eliminating the difference between world and domestic prices, eliminates both trade distortion and the misallocation of resources. Not all policies that eliminate trade distortions, however, necessarily eliminate resource misallocations. Supply control is a good example of a program that reduces trade distortion effects by maintaining domestic resource misallocation." By expending the definition of deocupling to include a ban on all supply-management programs, Resources for the Future, in the Briefing Book, drew a clear distinction between decoupling proposals, which are viewed as Republican, and supply-management proposals which are often viewed as Democratic, making decoupling a political issue.

Based on the comments and writings of major supporters, deocupled farm policy would be shaped as follows:

★ All current farm programs which are tied to production would be eliminated. This would include deficiency payments, CCC price support programs, marketing orders, and all existing domestic quota programs.

★ All programs of acreage reduction and supply management would be eliminated, including both short and long-term land set-aside programs.

★ CCC loan rates and domestic market prices would be drastically lowered, resulting in a corresponding drop in the world prices. Senator Boschwitz estimated that corn prices would be cut to $1 per bushel, roughly 20 percent of parity, with other crops lowered to similar levels.

★ Farmers would receive these "transition" payments based on previous production levels. The larger you were in the past, the greater your payments would be. These payments would be made without conditions or requirements.

★ All programs of export enhancement and export subsidies would be banned.

★ There would be no restrictions on what crops could be grown by farmers on their land. For example, non-program crops could be grown on any available land. In addition, soil and water protection programs which impact production, consumption, trade, market prices or resource allocation would be banned.

★ The cost of this program would be very high at first, but then would decrease as payments were phased out.

★ Border controls, which are used to regulate imports of beef, dairy products, peanuts, tobacco, sugar, fresh produce and other basic commodities would be prohibited.

IMPACT OF DECOUPLING ON FARM INCOME:

Current decoupling proposals would affect farm income in three primary ways.

1) By lowering price support levels, thus farm prices, by 40 percent or more;

2) By ending all deficiency payments and other direct government payments;

3) By providing of "transition" payments.

ON FARM SURPLUSES:

One important impact of decoupling will be an increase in production, due to two factors. First, there will be an increase in acres farmed. Second, there will be an increase in yields.

As prices fall, farmers will attempt to boost yields to enough to make up for the lower prices, primarily through increased use of fertilizer, irrigation and pesticides. These production increases could potentially create an even worse surplus situation.

By abolishing acreage reduction programs, decoupling will bring millions of additional acres into production. In 1986 and 1987, for example, US farmers had roughly 70 million of fallow acres, including both short and long-term set-aside programs.