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US FARM POLICY AND WORLD HUNGER THE GLOBAL CONNECTION

The League of Rural Voters is a national non-profit organization dedicated to improving the quality of life for rural America through policy research and voter registration.

This report is part of a continuing series of discussion papers on agriculture in the United States prepared by the League of Rural Voters.

HISTORY OF U.S. FARM POLICY

From the earliest days of European colonization, America's commercial agriculture (meaning food production beyond immediate family needs) was dominated by large-scale agriculture. This included the slave plantations of the South, huge Spanish haciendas in the Southwest, and the bonanza wheat and cattle farms of the West. Most of our commercial agricultural production was in the hands of wealthy individuals or foreign investors.¹

By the middle of the 1800's, this condition changed. The federal government intervened, establishing policies that altered the structure of commercial farming by putting family farmers on much of the land. The military defeat of slavery in the South and the opening up of the Middle West by the Homestead Act are examples of the way the federal government intervened to create conditions favorable to a family farm-based system of agriculture.

But from the moment farm families took possession of land - whether they were freed slaves or immigrant families - they found themselves caught in a classic cost/price squeeze. Skyrocketing prices for the items they needed - like seeds, credit, and transportation - could not be covered by the prices the grain monopolies were willing to pay for their crops. Freight rates were controlled by the railroads, while interest rates were set by the big city banks.

This squeeze between rising costs and falling prices caused a series of rural depressions and panics in the late 1800's and early 1900's. Seeing these economic crises as a threat to their survival, family farmers responded with political organizing. Many farmer-based political movements - such as the Farmers Alliance, Populist Party, Greenback Party, and the Non-Partisan League of North Dakota - grew out of the need by desperate farmers to take control over state and local governments in order to protect themselves from the predatory practices of the railroads, banks, and grain monopolies.

In North Dakota, for example, farmers formed a Non-Partisan League which took over the state legislature in 1916. To break the monopoly of the Minneapolis-controlled banks, they established our nation's first and only government-owned bank; and they passed laws to protect farmers from being

exploited by the railroads and grain companies, including the establishment of a state-owned wheat mill.²

Although World War I brought some temporary relief to farmers, it was followed immediately by one of our worst farm depressions, almost a full decade before the infamous crash of the Stock Market in 1929. Some economists argue that the 1920's farm depression was a major cause of the 1929 collapse, leading to the popular slogan, "Depressions are farm led, and farm fed." The 1920's and early 30's posed a serious threat to the survival of family farm agriculture. There were extreme hardships, including hunger and bitter cold, especially in those regions without electricity, phones, or other services.

The severity of this crisis again spawned a resurgence of militant farmer organizing.

In some states, like Minnesota, farmers united with urban workers to form Farmer-Labor Parties which took control of state legislatures during the Great Depression. Once in power, they passed laws designed to protect farmers, workers, and small businesses from the worst effects of the crisis, including blanket moratoriums to prevent farm, home and business foreclosures.³

At the national level, farmers lobbied for emergency assistance and federal legislation to provide long-term relief from the recurring nightmare of farm depressions. This legislation, often referred to as the Parity Farm Programs, had three central features.⁴

First, the Commodity Credit Corporation (CCC) was created to set a minimum floor under farm prices. The CCC was authorized to make loans to farmers whenever the prices offered by the grain corporations fell below the cost of production. The farmer's crops were pledged as collateral against these loans. Once prices returned to normal levels, farmers repaid the loans with interest. By allowing farmers to control their marketing, the CCC made it possible for farmers to receive a fair price from the marketplace.

Second, farm production was managed to balance supply with demand in order to prevent surpluses. This feature was needed to reduce the cost to the federal government of purchasing and storing surpluses.

Third, a national grain reserve was created to prevent consumer prices from skyrocketing in times of drought or other natural disasters.

From 1933 to 1953 this legislation was extremely successful. Farmers received fair prices for their crops, production was managed to prevent costly surpluses, and consumer prices remained low and stable. At the same time the number of new farmers increased, soil and water conservation practices flourished, and overall farm debt declined dramatically. Most important, these Parity Farm Programs were not a burden to the taxpayers. The Commodity Credit Corporation, by charging interest on the marketing loans made to farmers, actually made nearly \$13 million between 1933 and 1952.⁵

The legislative victories by farmers in the 1930's prevented, for the moment, the elimination of family farm agriculture in the United States.

In a few states, farm organizing was subverted by banks and agribusiness corporations through the creation of neo-fascist groups like the Associated Farmers of California. The Associated Farmers received the lion's share of their funds from agribusiness corporations and multi-national farm lenders. One of their most effective tactics was to create conflicts between farmers and farmworkers by using racism, anti-semitism, and provocateurs to spread hatred and violence.⁶

The Associated Farmers destroyed all progressive farm organizations in California. Huge tracts of land came under the control of corporations, banks, and wealthy families. This victory of corporate agribusiness over California's family farmers serves as a reminder of the threat facing family farmers today. The appointment of former California Secretary of Agriculture Dick Lyng as U.S. Agriculture Secretary is the most recent example of corporate agribusiness control over our farm and food policy.

Although family farmers lost in California in the 1930's, they were able to win in most other regions. Family farmers in the South and Midwest were pushed to the brink of extinction; then they organized, forcing through the parity legislation that was needed to stabilize the rural economy.

These parity programs, which were real victories for farmers, small businesses, and labor, were in direct conflict with the economic interests of some powerful corporations and banks. Farmers with a fair, secure income were not forced to borrow large amounts from banks; laws which stabilized grain prices hurt grain monopolies who profited greatly from huge swings in market prices; and effective supply management programs meant that fewer acres were planted, reducing sales of chemicals and fertilizer.

Near the end of World War II, powerful corporations and banks teamed up with economists and other academics to wage an all-out political war against the supply management and price floor programs of the Parity legislation. They used many of the same tactics made popular by Joe McCarthy, including the labeling of soil conservation and supply management programs as "central-planning socialism" and "contrary to our free market way of life."

Their efforts to discredit this legislation led to a fierce national debate over the direction of farm policy. Grain companies argued that they needed lower prices in order to sell more overseas, while agri-chemical companies attacked the supply management provisions. Unfortunately for rural America, the corporations won.⁷

In 1953 President Eisenhower and his Agriculture Secretary Ezra Taft Benson defeated the Parity Farm Programs won by farmers in the 1930's. Price floors and supply management were replaced by "flexible parity." The Agriculture Secretary was given the discretionary power to lower farm prices to "market-clearing" levels in order to get "government out of Agriculture." Rational supply management was replaced by instability. These lower prices forced farmers to produce even more in order to maintain their cashflow, creating even greater surpluses.

A number of corporation-controlled "think tanks" issued reports and recommendations on how to solve this "farm problem." One of these, the Committee for Economic Development (CED), is an excellent example of one of the many groups who issued policy statements on agriculture. Their 1962 report, "An Adaptive Program For Agriculture"⁸ recognized that there were only two possible solutions to recurring agriculture depressions. Quoting directly from their report (page 25):

"The Choices Before Us: (a) leakproof control of farm production or (b) a program, such as we are recommending here, to induce excess resources (primarily people) to move rapidly out of agriculture."

The first option recognized by the CED, "control of farm production," was rejected out of hand as too much "government in agriculture," and contrary to the so-called "free market."

Instead, the CED recommended the second option, the forced removal of a number of families from the land. Quoting again from their text (page 59):

"Our program would involve moving off the farm about two million of the present labor force, plus a number equal to a large part of the new entrants who would otherwise join the farm labor force in the next five years."

To accomplish this forced removal, they recommended that (page 42):

"Price supports for wheat, cotton, rice, feed grains and related crops now under price supports be reduced immediately."

The CED argued that the farmers who were liquidated could be more productively used in other sectors of the economy. In addition, employing them elsewhere would open the way for greater capital investment in agriculture. This would require an increased use of energy-intensive methods - like more mechanization and greater reliance on chemicals - in order to replace the farmers being pushed off their farms.

In addition they cited other "real benefits" of enforced lower prices (page 42).

"The lower prices would induce some of the increased sales of these products both at home and abroad. Some of these crops are heavily dependent upon export markets."

The CED report proposed the elimination of approximately one-third of our farm families - primarily moderate-sized operations. Their strategy was to replace

family farmers with a small number of super-farms (both large corporate-owned and a few large family-managed operations), and several million "small farms" to be financed primarily by off-farm income or welfare. The large farms would identify and politically align themselves with lenders and corporations investing in agribusiness; the small farmers' dependency on government and on the non-farm economy would weaken them politically and tend to diminish their traditional affiliation with progressive movements.

There were dozens of similar policy reports on the "farm problem." Groups ranging from the U.S. Chamber of Commerce to the American Bankers Association all made the same recommendations. This is not surprising since many of the same people served as authors, researchers, and advisors on a number of different reports.

The corporations clearly won in 1953. In 1974, after a decade of silence, the CED published another report on agriculture, "Toward a New Farm Policy."⁹ They took enormous pride in the successful implementation of their recommendations. Quoting from their report (page 8):

"In 1962, when the Committee issued our policy statement An Adaptive Program for Agriculture, the problems of U.S. farming were mainly related to maintaining farm income in the face of continuing surpluses. The diagnosis was that agriculture was using too many resources; fewer farms and farmers could produce all the output then required or even more than could be marketed. As a result of these findings, we prescribed programs for the better use of our resources in agriculture [that], vigorously prosecuted, would enable the people involved in farming to receive higher incomes without government controls or subsidy. In general, policies of this nature have been pursued by the U.S. government, with the result described in the present statement: namely, that the U.S. agriculture today is a far more efficient, far more productive industry."¹⁰

In this 1974 report, the CED recommended that farmers who had been able to survive be maintained on a "direct income subsidy program" from the federal government. This concept of "direct income subsidy" became the cornerstone of the new federal farm legislation passed in the early 1970's; it was called a "deficiency payment" and was linked to a "target price" set by Congress.

In addition to the recently created deficiency payment program, the government also maintained the original Commodity Credit Corporation price support program. However, the price floor has been set at extremely low levels, roughly 50 percent of parity at present, using the same justification for low prices used in the 1950's - the need to boost exports. Although this program is often promoted as a "farm program," it primarily benefits the grain traders and their foreign customers. Farmers don't export grain; grain companies do.

Here's how our current farm program works. A target price is a price level set by Congress and the Secretary of Agriculture. If the prices received fall below this level, participating farmers receive a check directly from the government to make up the difference. This check is called a deficiency payment.

Let's look at corn. The CCC loan rate set by Agriculture Secretary John Block for 1986 will be \$1.92 per bushel (minus Gramm-Rudman cuts). As always, this will effectively establish a floor price at this level. The target price is now \$3.03 (minus Gramm-Rudman). Since the market price is always roughly the CCC loan rate, taxpayers will be forced to make deficiency payments for the difference between the target price and the loan rate--about \$1.10/bushel on corn. On over 7 billion bushels corn crop, this will require almost 8 billion dollars in subsidies. With 2.2 billion bushels of corn being exported, the total value of the exports being subsidized is only \$4.4 billion. Since we will be spending nearly \$8 billion to subsidize this \$4.4 billion in sales, it amounts to an enormous net loss of \$3.6 billion.

But it costs more than \$3.03 to grow corn. In 1983 the USDA said it cost over \$3.20/bushel. This means that farmers are losing money on every bushel harvested, forcing them to borrow even more money to cover their losses. Over the past 15 years this has created an enormous drain on the credit systems of our country, adding to the high interest rates already being charged by the banks.

The end result of this deficiency payment system is that grain corporations and foreign buyers are allowed to buy our grain at prices over \$1.00 below cost of production. We spend huge sums of taxpayers' money to compensate

farmers for part of their loss caused by this subsidy to the grain trade; then we suffer the effects of forcing farmers to borrow enormous sums of money to cover the rest of their losses.

The entire cost of the wheat and corn subsidies will be nearly \$12 billion in 1986, more than the total amount of budget reductions being created by Gramm-Rudman. Many farmers do not want and do not benefit from these subsidies; they could instead be redirected to prevent all Gramm-Rudman cuts.

The only argument used in recent years to justify this system is that we must lower our prices and subsidize grain corporations to gain more export markets. Some economists and politicians still believe that more exports will be a solution to our farm crisis. For them, the concept of lowering farm prices in order to boost exports which would eventually raise overall income has some logic. But the logic has never been supported by economic facts. Volume has never risen enough to compensate for the lower prices. Export earnings have tended to fall with lower prices, even though volume may rise. For example, corn priced at \$2.00 would boost exports to 2.2 billion bushels, valued at \$4.4 billion. Corn priced at \$3.60 would have sales of only 1.6 billion, but valued at \$5.76 billion - almost 25 percent more. This does not factor in the additional costs of imported fuel and fertilizer needed to produce extra bushels being sold at the lower prices.

As the failure of the "lower prices to boost exports" strategy became apparent, politicians began to scramble. A new strategy was put forward - "more credit." Richard Nixon, in response to farmer protests, announced his intention to help farmers by a massive effort to "inject credit into the rural sector."¹¹

With inflation speculation pushing up the "paper values" of farmland, it was possible to continue loaning larger and larger amounts to farmers, year after year. Farmers and ranchers kept losing money on their crops and livestock, but continued to operate on borrowed money that was eagerly offered by private, cooperative, and government lenders who believed land values would continue to rise indefinitely.

In 1978 and 1979 protesting farmers came to Washington with a prophetic message. They warned Congress that agriculture based on paper values for land could not be sustained, and that farm prices needed to be raised to avert a rural collapse. Predicting that over 1/2 of America's farmers would be forced out of business over the next five to ten years, they tried desperately to warn the American public of the coming farm crisis.

In 1981, their worst fears began to come true. The high interest rates of Reaganomics began to force down land prices. Those farmers most vulnerable were forced into bankruptcy or foreclosure. As their land and machinery went to auction, values were forced down for everyone else. A downward spiral of falling values leading to insolvency for farmers and bankers throughout the nation is now in full-swing. Since 1981 farmland prices have fallen over 50 percent, and over 10 percent of the farming population has already been liquidated. A recent credit survey by the Minnesota Department of Agriculture showed that 30 percent of Minnesota farmers--nearly 30,000--will be liquidated within the next year or two.¹² We have farm prices at levels lower than the worst years of the 1930's.

IMPLICATIONS OF THE FARM CRISIS

The destruction of family farmers through enforced low prices has created numerous secondary effects on our entire society.

Impact on the National Economy

Almost 21 percent of our entire workforce is directly linked to agriculture, including 55,000 jobs in our steel mills.

Each time a farm is sold it means fewer customers for the products of our factories; it also means many used tractors, trucks, and other equipment will be put on the market, further depressing these industries. Every farm liquidated means the loss of 5-7 jobs. Every 3 farms liquidated destroys another rural business.¹³

In addition to the millions of jobs at stake, agriculture provides 70 percent of the nation's raw material wealth -- new wealth that is needed to "fuel" our national economy. Every dollar earned by a farmer (or other raw material producer) circulates and multiplies throughout the economy, creating at least 5 additional dollars in goods and services.

Farmers and businesses losing money don't pay any taxes. Neither do unemployed workers. This sharp reduction in tax revenues is occurring at the very moment when the demands on government by bankrupt farmers, unemployed workers, and failing banks and businesses are increasing.

Environmental Impact

Low farm prices always force farmers to increase their production. Like any worker whose wages are cut in half, farmers faced with falling prices must work twice as hard and sell twice as much just to cover their bills. This has led to an abandonment of careful soil and water conservation practices and to the tilling of marginal, highly erodable land. In addition, the destruction of the cattle industry by cheap grain and corporate feedlots has virtually wiped out grazing on hillsides, leaving the farmer no choice but to put corn or soybeans on those fragile lands. After a few years the hills are deeply eroded, with all the topsoil destroyed.¹⁴

The forcing of families off the land results in the control of a great deal of farmland being passed into the hands of large corporations and absentee investors. They have generally treated the irreplaceable soil and water resources with the same narrow, short-term profit orientation that has characterized their treatment of other capital resources, like factories and railroads. The earth is used and abused as long as it can show a high enough profit or serve as a tax shelter for other profits. Once depleted, land is abandoned or covered over for "development" purposes. Groundwater is pumped dry and rivers diverted.

Social Costs

The social costs of the crisis are also extremely high. Alarming rates of spouse and child abuse, alcoholism, and the highest suicide rate among all

professions are examples of the social and personal crisis growing out of the economic crisis.¹⁵

The recent rash of murders by farmers and lenders who snapped under the extreme pressure is unfortunately only the tip of the iceberg.

Impact on World Hunger

Another devastating impact of our low grain prices is on the poor farmers of the Third World. Since the U.S. is the dominant exporter of major grains and oilseeds - controlling over 70 percent of the world's corn and soybean exports - our prices set world prices. By forcing down U.S. prices, grain corporations can underprice local farmers in the domestic markets of many Third World countries, robbing them of any chance to sell their products at a profit.¹⁶

Unable to earn a profit from farming, Third World farmers are driven off their farms and forced into overcrowded urban slums or shantytowns. Their land will no longer be cared for; it may eventually erode or turn into desert - or it may end up being absorbed into ever larger estates of wealthy absentee landlords to produce cattle for export to the United States or Europe.

Some of these poor farmers may hold onto their land, but will be unable to make any profit competing against underpriced, subsidized imports from the U.S. With no chance of earning a profit, these farmers will be unable to afford soil erosion control, higher-yielding seeds, or better equipment needed to boost their productivity.

These local farmers will be replaced by an ever-growing dependence on food imports. In many countries, this amounts to a death sentence for millions of people. Governments will be forced to choose between importing food and importing medicine.

This has become a "deadly connection" in the 1980's. Debt and interest payments have absorbed almost all available foreign earnings of many poor countries, leaving very little to import food, no matter how low the price. In order for these countries to service their expanded debts, cash crop

production must be expanded at the expense of food production for local consumption -- and the less land devoted to food means increased hunger, starvation, and dependence on the U.S. for food aid.¹⁷

Political Implications

The loss of 50 percent of our family farmers over the next few years has long-term political implications that are seldom considered. It would mean that assets worth up to \$500 billion in farmland, livestock, machinery, and buildings would be transferred from farm families to banks, insurance companies, and wealthy individuals.

The struggle for justice against the enormous power concentrated in the hands of banks and corporations is difficult enough already. The replacement of historically progressive family farmers with corporate agribusiness could turn the political climate of the entire rural midwest into something similar to the Imperial Valley of California.

CRITICAL ISSUES IN FARM POLICY DEBATES

There are three central elements to our current farm policy debate. First and foremost, what prices for their crops and livestock should farmers ultimately receive? Second, what is the amount, if any, of public financial support that is necessary or appropriate? And third, what is the role of food exports and imports in creating and potentially solving the current rural economic crisis?

Two conflicting positions emerged during the 1985 Farm Bill debate. The first is often referred to as the "Modified Current Program" position.¹⁸ In hopes of boosting exports, supporters wanted to modify the current program by lowering prices; but they would have increased subsidies a small amount to cover some of the losses farmers would suffer because of these lower prices.

The other position, sometimes referred to as the "Referendum" proposal, would have given the farmers the right to vote in a national referendum, as they did in the 1940s, to approve effective supply management programs based on bushel quotas. Under this proposal, all deficiency payment subsidies would be

eliminated, and CCC loan rates would be raised to fully cover production costs. Let's take a closer look at the main points of agreement and disagreement between these two positions.

Both proposals agree that market prices for farmers are too low to cover costs, and that they have been too low for many of the past years as well. Second, they agree that market prices in the U.S. are closely tied to the Commodity Credit Corporation loan rate set by Congress for our major crops. Since farmers can collectively withhold their crops at the CCC floor level, they can force foreign and multi-national grain buyers to at least pay this minimum price for the commodities. Over the past 50 years there has been a close relationship between CCC loan rates and the market prices, with the only major exception being the period of the Russian wheat purchases in the early 1970's.²⁰

A third area of agreement is that by dominating world agricultural trade, the U.S. sets world prices. The U.S. ships about 80 percent of the world's soybeans that are exported, 70 percent of the world's corn, and nearly 40 percent of the world's wheat. By comparison, the Middle East produces only about 40 percent of the world's oil trade. If we deliberately lower our prices, all other producers will be forced to lower their price to at least a dime below the U.S. level - just to protect their tiny share of the world market.²¹ Likewise, if the U.S. Congress forces up U.S. market prices by raising Commodity Credit Corporation loan rates, other producers would follow suit, continuing to set their price just under the U.S. price.

Fourth, many agree that the total farm debt, nearly \$225 billion at this point, is simply not repayable. Cheaper money at longer term rates is a necessity, but there seems no solution to repaying the debt that currently exists.

Another area of agreement was that farm programs are too costly; that these costs must be cut in order to reduce the deficit--a necessity if we are to bring interest rates and the value of the dollar under control. Many argued for abolishing the deficiency subsidy for corn and wheat, which would have freed up over \$11 billion, more than enough to cover all Gramm-Rudman cuts in 1986.

Finally, most agreed that the supply of farm commodities must be reduced, and that the Federal government must take the responsibility for helping farmers manage their production. High government cost, dollar pressure on prices, and people starving while grain rots in storage bins are but a few of the arguments supporting the demand for federal action in this area.

But here agreement ends. The real debate over farm policy comes down to this: Should farm prices be set below cost of production in an effort to increase export sales, with the farmers' losses partially offset by taxpayer subsidies? Or should farmers be given the right to vote on a program that would combine higher CCC loan rates with effective production controls?

The Food and Agriculture Policy Research Institute at Iowa State University and the University of Missouri have done the most comprehensive and accurate computer modeling for analyzing these federal farm policy proposals. In 1985 they specifically prepared these two general approaches, publishing the following side-by-side comparisons of their impact on farmers.²²

AGRICULTURAL POLICY ALTERNATIVES,
MODIFIED CURRENT POLICY OR MANDATORY SUPPLY REDUCTIONS:
EXPECTED ECONOMIC CONSEQUENCES*

Modified Current Proposal

- Net farm income would be 16 percent lower in 1987 and 8 percent lower in 1990.
- Government costs would increase 39 percent by 1987 but would then decline by 15 percent from current levels by 1990.
- Variability in farm prices would increase in both the short and longer run as loan rates no longer place a floor under commodity prices. However, there would be no change in the variability of net farm income since output variation will tend to offset impacts of price changes on income.
- Income of livestock producers would increase in the short run but show little change in the long run after livestock producers adjusted inventories to reflect lower grain prices.

Mandatory Supply Reduction Proposal

- Net farm income would be 52 percent higher in 1987 and 60 percent higher by 1990.
- Government costs would decline to about 1.0 billion annually and remain at that level.
- Variability of farm prices and net farm income would decline as supply reductions tend to stabilize domestic prices.
- Incomes of livestock producers would be sharply reduced in the short run as inventories are liquidated in response to sharply higher feed prices. After this period of adjustment, reduced herd sizes would generate higher prices and return income to current levels.

* Quoted directly from the original report.

- Land prices would continue to decline reflecting slightly lower farm incomes.
- Land prices for land used by farmers having marketing quota would increase. Land withdrawn from production would likely decline in value.
- Acreage in production would be reduced about 10-15 percent as producers participate in voluntary acreage reduction programs.
- Acreage in production would decline by about 35 percent.
- Demand for machinery would not change from current levels as farm incomes change only slightly.
- Demand for machinery would increase in the short run as farmers use increased income to replace worn out equipment. However, reduced acreage will offset income impacts on demand for machinery over the longer run.
- Volume of exports of corn, wheat, cotton, and soybeans would increase - especially in the long run - in response to lower loan rates and market prices. Value of exports would increase over time although there would be little change in the short run. However, there is considerable uncertainty accompanying these longer term projections.
- Volume of exports of corn, wheat, cotton, and soybeans would decrease modestly in the short run and decline substantially in the long run in response to higher prices. Value of exports will increase substantially in the short run and continue in the long run for corn and soybeans. However, there is more uncertainty accompanying the longer term.

Their conclusions clearly highlight the problems with the Modified Current Program approach, but was written long before Gramm-Rudman became part of the picture. Although the farm bill and Gramm-Rudman were being debated at the same time in Congress, few had the time to look closely at the ways in which Gramm-Rudman would impact the Modified Current approach that eventually won out in the 1985 Farm Bill debate.

The hope of protecting farm income by freezing target prices is now shattered. Former Agriculture Secretary John Block chose to force down farm commodity prices to the lowest possible legal level, creating an enormous jump in the subsidy cost to the American taxpayers. Since the subsidies are determined by subtracting market prices from the target, the lowering of the CCC rate has automatically meant lower market prices and higher subsidies. The subsidy payments for corn and wheat alone, under the Reagan administration's proposals, will total almost \$12 billion - larger than the entire amount needed to be cut under Gramm-Rudman. By raising the CCC loan rates above the target price, it would be possible to totally eliminate these subsidies and restore all Gramm-Rudman cuts.

One argument often made for keeping farm prices below cost of production and supplementing farmers with tax dollars is that it keeps prices down for consumers. Some argue that at least the tax structure is somewhat progressive, whereas the retail food system is regressive; that higher farm prices would equal higher retail prices which would hurt poor people even more.

Unfortunately, this argument ignores the fact that most of our subsidized food products are shipped overseas to the Soviet Union, Europe, Japan and the Middle East - which means U.S. taxpayers are primarily subsidizing foreign buyers at the same time they are subsidizing all U.S. consumers, rich and poor.

In 1986, we will spend nearly \$12 billion to subsidize corn and wheat. If prices for both these crops were raised to the levels adequate to meet farmers' current production costs, it would add only \$10 billion to the \$340 billion U.S. food bill - an increase of less than 2.8 percent, and less than a nickel on a dollar loaf of bread. This increase of \$10 billion in retail costs would result in a savings of \$12 billion in taxpayer costs, creating a net savings of \$2 billion--a savings that could be used to nearly double the food stamps available to poor people. In a letter to Congress from the AFL-CIO Legislative Director Ray Dennison during the last days of the 1985 Farm Bill debate, the unions spoke directly to the arguments for maintaining low farm prices in order to "help" consumers. Quoting directly from his letter

"In urging your support for the Harkin Farm Bill the AFL CIO is aware of opponents arguments that this program would result in higher prices and is

therefore anti-consumer. While always concerned about the interests of consumers, millions of whom are union members, the AFL CIO has painfully experienced the toil that an obsession for the lowest price can have on American industry and in turn the jobs of thousands of America's workers."²³

Another argument for keeping farm prices below cost of production is that if we raise prices to a decent level, "it would price the U.S. out of world markets." Since we supply over 70 percent of the world's soybean and corn, this argument is, on its face, ludicrous. But it is worth taking a closer look at it to understand the role of imports and exports.

A number of major farm commodity organizations contracted with the Food and Policy Research Institute at the University of Missouri to project grain export sales under different price levels. Based on their calculations, there would be only a slight drop in volume of exports if farm commodity prices were raised to a break-even level here in the United States; due to the increased prices, however, actual export earnings would be much greater. Since what is important in balanced trade deficits is dollars, not bushels, any proposals which may increase volume but decrease earnings must be seen as dangerous to the economic health of the nation.²⁴

For example, they project that corn set at current levels of around \$2 per bushel would give the U.S. an export volume of \$2.2 billion bushels with earnings of roughly \$4.4 billion. However, if corn was set at \$3.60, roughly cost of production at this moment, it would generate total sales of 1.6 billion bushels and the new value of those bushels would be over \$5.76 billion - nearly 25 percent higher exports under higher prices. In addition, the additional bushels sold at the lower price level, for lower export earnings, would also require imported fertilizers and fuels costing close to \$1.6 billion to grow them, causing a net loss to our already badly damaged balance of trade of over \$3 billion on just this one crop alone.

Why does it work out this way? First of all, the food demand is very inelastic.²⁵ This means that price changes induce little change in demand one way or the other. One obvious reason for this is the total U.S. dominance of many markets.

Second, the U.S. has a large portion of the world's grain storage facilities. Almost all major grain importers only have facilities to hold one month of grain at a time, which forces them to buy their import requirements on a month-to-month basis. Since most exporters, outside of the U.S. and Canada, lack major facilities for storage, they are forced at harvest to sell their entire crop. Once these crops are disposed of, the only major source left is the United States. The U.S. is practically the only source that importing nations can turn to for up to six months of the year. The Soviet Union does not buy huge quantities of corn, wheat, and soybeans from the U.S. because they view us as their friend; they simply have no other place to turn.

Third, there are a number of nations, like Taiwan, who have such enormous trade balances in the United States that they are committed to buying 100 percent of their grain imports from our country, regardless of the price, just to maintain good trading relations and access to U.S. markets.

Fourth, any U.S. price increase is simply met by a similar increase by all other supplying nations. Everyone is interested in getting grain prices back up to where they can break even or show a profit. Likewise, any attempt by the U.S. to lower our price below exporters is simply met by equal drops in prices around the world. This causes great harm not only to U.S. export earnings, but to the export earnings of all these other nations as well. Since many of these other grain exporters face enormous debt to our New York banks, they must continue to generate the same export earnings from their crops, no matter how low prices fall.

If the United States goes through with its stated intention to lower world prices by up to 40 percent, the foreign earnings of Brazil and Argentina, in particular, will suffer heavily. Argentine President Alfonsin, in an interview with columnist Jack Anderson,²⁶ has stated his nation's response to U.S. intentions to lower prices in an effort to put his country out of business. He repeated his earlier pledge to meet and exceed any U.S. price decreases in order to maintain their world market share. He has previously stated they would need to maintain their cash flow to keep making bank payments no matter what happens, and that they have 300 million acres of unplowed land to put under production if necessary. He says that if the U.S. cuts prices there will be no reduction in exports from other countries in a

classic supply and demand response; that instead we will see what we have always seen in the past: countries will be forced to increase production and exports to maintain cash flows, thus actually reducing the number of bushels that can be sold by the United States.²⁷

The idea that lowering farm prices will solve our farm crisis has little merit but remains extremely popular. Gramm-Rudman may, however, bring a touch of reality back to this debate. It will seem pretty indefensible to cut infant health care and school lunches to keep a farm policy that in 1986 will cost almost \$10 billion just to subsidize corn and wheat exports worth less than \$7 billion.

The final argument used against any increase in commodity prices is that only the big corporate farmers would benefit, allowing them to grow ever stronger and larger. This is clearly an important concern, and is addressed directly in almost every proposal brought by Democrats to Congress. Senator Tom Harkin, in his Farm Policy Reform Act, included targeting provisions that would require family farms up to a \$200,000 gross income to set aside only a flat portion of their production, while farms over this size would face a set-aside rising directly with an increase in their gross income size. Targeting to benefit family farms is extremely important in any farm policy proposal, but must be carefully worded. Often these proposals pit small farmers against so-called "big farmers," damaging the coalition building needed in rural America if we are to pass good farm legislation. A thousand acres may be large in some states and small in another; but they are all probably in trouble, needing a change in the overall policy.

This struggle between those who believe we should raise farm prices and eliminate subsidies and those who believe we should lower farm prices to boost exports will be an important and interesting one in the next year. The latest farm polls are now becoming available on these issues, with some surprising results. In a recent Kansas poll, for example, 81 percent of those responding supported the rights of farmers to vote on a referendum, and over 75 percent supported the approach which would raise commodity prices and impose effective supply management controls.²⁸

Perhaps it shouldn't come as a surprise that mandatory supply management has such strong support. A long list of crops--from peanuts and tobacco to almost all fresh fruits and vegetables--have used supply management as a cornerstone to maintain fair prices and low government costs. Furthermore, most of these commodities are marketed through producer-controlled cooperatives, capturing even more of the marketing dollar for the producer and reducing consumer costs.

VISIONS FOR THE FUTURE

Part of the problem within the debate of these issues is the lack of any vision - either for our emergency crisis, or for the long-term development of agriculture. What this means, however, is that we can go directly to people in the rural and urban communities; we can solicit their vision - a vision needed to give life and substance to the debate.

We have some stark choices to make. We can allow things to go on as they are now and watch the replacement of family farm agriculture with the absentee owner agri-business we now have in the Central Valley of California.

Or we can decide that policies to keep family farmers on the land are vitally important to our economy and to our environment. We could, for example, follow the lead of Holland, a country that has decided in favor of keeping profitable, healthy families on the land. Their country is nearly 14 times more densely populated than our own is, much more industrialized, and has a higher standard of living; yet nearly 4 percent of their population is still farming on very productive and highly efficient units.

In contrast, the U.S. has less than a half percent still farming, which will be cut in half again before 1990. Holland, along with the rest of Europe, has consistently set farm prices at levels adequate to cover all production costs and to begin equalizing the standard of living between urban and rural people. Beyond this, they have enacted policies designed to help lower-income

and part-time producers improve their farming enterprises and bring their income up to average levels.

Dutch farm policy is also designed with major consideration for the environment. Last year, the Dutch Minister of Agriculture halted further expansion of hog and poultry farms because the rich manure being spread over the available acres had reached the maximum safe levels. Any further expansion of herds would have been a threat to the water table that sits so closely under the surface of the land. Although this was a difficult adjustment for farmers, there was widespread support from even the most conservative of them. Earning a decent income year after year has given many European farmers the cushion needed to soften tough blows like this.

Most important, however, is that Dutch and European farm policy includes consideration of the impact on the rest of the world, especially on people in Third World nations. Since Europe has a dominant position in dairy exports comparable to U.S. dominance in cereals and feed grains, their dairy policy provided an excellent example of this. Like the U.S., they set the world price and every other producer is forced to adjust their prices in response. And, like U.S. cereal exports, massive expansion of European dairy exports had come primarily at the expense of local farmers in the Third World. Europe was expanding her dairy exports by shipping them at extremely low, subsidized prices, just as the U.S. is attempting to do in cereals. These subsidized exports competed directly with local producers, putting many of them out of business, while more and more scarce, hard currency was used to pay for cheap, but economically deadly, milk imports.

Once some European dairy farmers became aware of this situation, they began to look for other solutions. What they proposed was the imposition of strict production quotas on Europe's dairy farms, to insure that Europe would no longer be depressing milk prices around the world and displace poor dairy

farmers in the Third World. They labored for producer quotas with small increases in milk prices to cover the impact these policies would have on dairy farmers, especially the younger and lower income producers. In 1984, these policies were established by the European Parliament, calling for an 8 percent overall decrease through quotas. Although farmers did not win a price increase large enough to cover their full losses, there is wide support, due to their understanding of their responsibilities to the rest of the world.

There are many choices to make, but we need to be developing a vision. Creating a grassroots planning process which goes directly to the countryside and elicits from people their ideas and suggestions would be the key to actually giving light to this vision. The key question is one of values; we need to ask what it is we are trying to preserve, to enhance, to promote. Caring for the soil, allowing hungry people the opportunity to feed themselves and a fair return for the labor of farmers and workers, clearly must be central to whatever policies and solutions we pursue.

WHY BOTHER?

The wheels are already greased and in motion to grind up and spit out up to one-third of America's family farmers before the 1988 elections. It would take an enormous effort to address these issues, so why bother? First of all, what's at stake is nearly \$500 billion in food producing resources which is about to be transferred out of the hands of working farm families and into the hands of corporations, banks, and wealthy individuals.

Second, many bitter and desperate rural people, faced with losing everything they've worked for, may become involved in the right-wing organizing going on throughout the countryside. It is very important to see this danger as a threat to the democracy as a whole and to take an aggressive position in dealing with the source of this problem - specifically, the destruction of our rural economy.²⁹

Finally, rural people make up 30 percent of the electorate, and they are the majority in some of the crucial Senate race states in 1986.³⁰ In a recent Harris poll survey, a majority of the people in farm states stated that given

a choice between a Democratic candidate and a Republican candidate, they would choose a Democratic candidate by a margin of 54 percent to 41 percent.³¹

The recent shift in the Midwest toward the Democrats can be attributed mostly to the farm situation. It is only recently that the plight of the farmers has been so well publicized, and their situation is now associated with Ronald Reagan and the Republican Party. Midwesterners are turning on Republicans with a vengeance. In a number of states, Republican-elected officials are resigning their parties or switching to the Democrats in protest over Republican Party insensitivity to the farm crisis. In a recent Iowa poll taken in November, disapproval of Reagan's handling of the economy was 53 percent, and 77 percent disapproved of his handling of the rural economic crisis.³²

Finally, farmers and farm movements have become important elements in a broader political development in this country. Their economic analysis has helped to clarify other raw material and natural resource issues, and their political power, though damaged in this economic crisis, is still a potent force others can use to gain their objectives.

If our political leaders can articulate a vision, the nation will recognize this leadership and respond.

Ronald Reagan's proposal to "Export the Farmers" can no longer be written off as simply a cruel joke. What is at stake is not merely our weekly food bill or balanced budgets, but the kind of world we will leave our children. We can afford nothing less than our finest effort.

FOOTNOTES

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2. Robert L. Morlan, "Political Prairie Fire" University of Minnesota Press, 1955.
3. John L. Shover, "The Cornbelt Rebellion" University of Illinois Press, 1965.
4. Gibert Fite "George H. Peek and the Fight for Farm Parity" University of Oklahoma Press, 1954.
5. U.S. Representative Harold Cooley, "I Can See Farm Bankruptcy if Price Supports are Removed" U.S. News and World Report, Aug. 30, 1957: also see Robert L. Toutz, "Legal Parity: Implementation of the Policy of Equality of Agriculture," Agricultural History 29:174 - 181, October 1955.
6. A.V. Krebs, "The Corporate Reapers: Eradicating the Family Farm System in America," Center for Rural Studies, 1986.
7. Mark Ritchie, "Loss of Family Farms," Center for Rural Studies, 1979.
8. Committee for Economic Development, "An Adaptive Program for Agriculture" New York, 1962.
9. Committee for Economic Development, "A New U.S. Farm Policy for Changing World Food Needs" New York, 1974.
10. U.S.D.A. "Economic Indicators of the Farm Sector: Production and Efficiency Statistics, 1983"
11. Richard Nixon, "State of the Union" speech, 1973.
12. Minnesota Department of Agriculture, "Farm Financial Survey, 1985"
13. Doug Wertish, "The Effect of Losing 10 percent of the Faribault Area Farmers" Faribault Area Vo-Tech Institute (Minnesota) 1985.
14. For an excellent look at environmental impacts of farm policies see Joe Petulla "American Environmental History" Boyd and Fraser, 1977.
15. No single author has yet compiled a comprehensive look at the full personal implications of the crisis, but a number of state mental health departments and the Center for Disease Control in Atlanta, Georgia have developed important new studies which should become more widely available during the next year.

16. Mark Ritchie "U.S. Farm Policy Impact on World Hunger" League of Rural Voters, 1985.
17. James Wessel, "Trading the Future," Institute for Food and Development Policy, 1983 and Mark Ritchie "Disappearance of Family Farm Agriculture in the U.S." Speech to World Food Assembly, Rome 1984.
18. The single best example of this approach was the legislation proposed by Congressman Foley in the 1985 Farm Bill debate, and approved by the U.S. House of Representatives Agricultural Subcommittee on Wheat, Soybeans, and Feed Grains on June 16, 1985.
19. The best example of this approach was the legislation proposed by Congressman Alexander, HR. 2383, in the 1985 Farm Bill debate and the amendment proposed by Congressman Bedell and passed by the full House Agriculture Committee.
20. Historic records of market prices and CCC loan rates can be obtained on a state-by-state basis from the U.S.D.A.
21. Dr. William Wilson "Structural Characteristics of the International Wheat Market" U of N.D. 1985.
22. Food and Agricultural Policy Research Institute, (expansion of CAST Report No. 104), U of Missouri, 1985.
23. Letter to Congress from AFL-CIO Legislative Director Ray Dennison, November 1985.
24. Food and Agricultural Policy Research Institute "An Evaluation of Proposed Program Designs for the 1985 Farm Bill" U of Missouri, 1985.
25. Several recent studies have looked at the issue of world grain price elasticity, including "The Impact of U.S. Wheat Prices on U.S. Exports," Chase Econometrics, and the study cited above by Dr. William Wilson.
26. Jack Anderson interview with Argentine President Alfonsin, April 7, 1985.
27. For another interesting look at this issue see the Heritage Foundation syndicated feature "How a Strong Dollar Drives Farm Subsidies Up" by Warren Brookes, Richmond (VA) Times Dispatch, 2-4-1985.
28. Poll conducted by the Kansas Farmer, November 1985.
29. An excellent series of articles looking at this problem was published by the Rochester (MN) Times Bulletin, November 1984.
30. Mark Ritchie "Rural Voter Re-Alignment" non-published report, 1985.
31. Harris Survey, 10-21-85
32. Des Moines Register "Iowa Poll" 11-3-85.