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U.S. FARM POLICY
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Certain aspects of the U.S. farm crisis have by now become familiar images in the media: farmers saddled with debts, unable to get fair prices for their crops, forced to sell family farms. But in recent months, accounts of farm families' hardships have yielded to detailed descriptions of the failings of current U.S. agriculture policy, as embodied in the 1985 Farm Bill, and discussions of such arcane matters as parity, target prices, subsidies, and non-recourse loans. The crisis "down on the farm" has thus been preempted by the crisis "up in Washington." Even organizations and publications that supported the 1985 Reagan-backed Farm Bill—including the *Washington Post*, the *New York Times*, the American Farm Bureau Federation, and commodity groups like the National Corn Growers—are now clamoring insistently for change.

The question of what changes need to be made has provoked considerable disagreement. But there is almost universal consensus that present policy is in total shambles. In 1985, the Farm Bill's supporters claimed that by cutting prices of agricultural products it would boost U.S. farm exports, which would eventually cause prices to rise again; furthermore, in the process the United States would gain a larger share of the world agriculture market. Such, at any rate, was the promised scenario. In just one year, however, events have proved those predictions to have been overly optimistic:

• During three months of 1986, for the first time in 25 years, U.S. food imports actually exceeded food exports.

• More generally, lower export prices have not caused the volume of exports to increase. Often, in fact, they have had the opposite effect. Other exporting nations, forced to lower their prices to meet U.S. prices, have to export ever greater amounts of their products just to maintain the foreign exchange earnings they need. Thus the world market left for U.S.

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exports is actually reduced rather than enlarged. U.S. grain exports have now dropped to their lowest level since the mid-1970s.

- Prices of agricultural products have fallen by 25 to 50 percent, causing an increased number of farm liquidations and rural bank and business failures. For example, in 1986 there were more than 125 U.S. bank failures, of which farm banks accounted for nearly half. This is up from only 10 bank failures nationwide in 1981.
- Taxpayers' costs for deficiency payment subsidies to farmers—intended to ease their adjustment to the lowered prices designed to boost exports—were over $26 billion for 1986, nearly twice what the U.S. Department of Agriculture estimated during the 1985 debate. Because U.S. export earnings are falling, we are now spending more in export subsidies than the exports are selling for.
- Even worse, the largest beneficiaries of these subsidies turn out to be *not* hard-pressed family farmers, but multinational grain exporters and large corporate farms.
- Farm surpluses have become so massive that there is nowhere to put next year's crop. Some U.S. ports are so clogged with stored grain that it has become difficult and costly to load grain ships. Up to 2,000 river barges have been taken over by the U.S. Department of Agriculture (USDA) for grain storage rather than being used for shipping.

Understandably, resistance to the present U.S. farm program has been on the rise. Among farmers surveyed by the League of Rural Voters during the summer of 1986, twice as many opposed current policy as approved it; these farmers tended to favor an end to subsidies and the imposition of effective supply management—the exact opposite of the current Reagan approach. Prior to a recent national referendum among wheat producers on mandatory supply management and higher prices, the grain corporations and their allies in the Farm Bureau, National Wheat Growers, and the Fertilizer Institute spent millions of dollars on slick propaganda to persuade farmers that higher prices and surplus management were the moral equivalent of Bolshevism. Reagan and the USDA joined in this massive lobbying effort. But by a wide margin, farmers solidly supported supply management and higher prices. This commitment to change has had effects in the political sphere: Republican senators in both Dakotas lost their seats on the basis of their farm positions.

Pressure is coming from outside America as well. U.S. allies have become more outspoken as they have found their own farm economies seriously damaged by U.S. policies. Debtor countries that rely on farm exports to help them service their debts are also voicing opposition; in Thailand, for example, there were demonstrations outside the U.S. Embassy to protest our 1985 Farm Bill because it lowered the world market price of rice, Thailand's most important export crop. Furthermore, poor Third World nations are voicing concern: because subsidized U.S. food exports are displacing their own producers, they are finding themselves dependent on food imports from the United States, which leaves them with little foreign exchange to import capital goods, oil, medicine, and other necessities.

These pressures, both domestic and foreign, will come to bear on the 100th Congress. Replacing the disastrous 1985 Farm Bill will be high on the list of legislative priorities. On one side of the debate will be those who argue for supply management and higher prices—the approach that was defeated by the 1985 Farm Bill and widely supported by farmers surveyed by the League of Rural Voters. On the opposing side will be those who were behind the current program and have come up with a variety of different programs to take its place. A great deal is at stake—the fate of our nation's family farms, the nature of the U.S. agricultural sector, and possible shifts in the concentrations of wealth and power in this country, shifts that will affect the quality of American democracy.

Origins of the Crisis

America's current rural crisis can be traced back through a variety of turning points, including the collapse of farm prices in the early 1980s, the "boom" in farm debt in the 1970s, and the dismantling of depression-vintage commodity price programs during the 1950s. These events should be seen, though, as part of a cycle of crisis that has recurred throughout history. In the first phase of such a cycle, prices for commodities fall below the costs of producing them. In the second phase, farmers are forced to borrow in order to cover the losses caused by those low prices, hoping all the while to hold on until "times get better." In the third and final phase, farmers find themselves unable to repay those debts, and are thus forced to sell out and leave their land.

This cycle has repeated many times in the United States since the emergence of family-based commercial agriculture after the Civil War. The basic problem has been farmers' inability to effectively manage the total output of the agricultural sector; the resulting tendency toward overproduction puts them in a weak bargaining position when selling their products, and prices tend to drop. During the late 1800s and early 1900s, this cycle caused a number of rural depressions or panics. Family farmers responded by organizing political movements to protect themselves and to demand government action; working in conjunction with labor, they played a key role in seizing control over a number of state legislatures. But political action at the state level could not successfully counteract the national and international causes of falling prices and huge surpluses: without help from Congress, state governments could not control the price-fixing of multinational grain monopolies or help farmers balance the nation's total production with market demand. By the 1920s, farmers recognized that they needed help at the federal level to keep farm prices from collapsing and to control farm output.

It took almost a decade to win the necessary federal legislation. Often referred to as the parity farm program, this legislation successfully placed a floor under prices, and also balanced supply with demand through effective surplus management.

The parity program had three central features. First, it established the Commodity Credit Corporation to establish minimum price levels. The CCC was authorized to make loans to farmers whenever the prices offered by grain corporations or food processors fell below the cost of production. The farmers' crops, instead of being sold at below-cost prices, were pledged as collateral against these loans. Since this in effect shut off the flow of products from the farms to the market, buyers essentially had no choice but to offer prices higher than the loan level set by the CCC. Thus prices inevitably returned to normal levels, enabling farmers to sell their crops and then repay the CCC loans with interest. By allowing farmers to control their marketing, the CCC made it possible for them to receive a fair price from the marketplace, without subsidies.

Second, the parity legislation contained production control programs. These enabled farmers to balance production with demand, thus preventing surpluses. Since government storage of surpluses was expensive, this feature of the parity program was crucial to reducing government costs.

Third, a national grain reserve was established to prevent consumer prices from skyrocketing in times of drought or other natural disasters. When prices rose above a certain predetermined level, grain was released from government reserves onto the market, helping to drive prices back down to normal levels.

From the early 1930s until 1953, this legislation was extremely successful. Farmers received fair prices for their crops, production was controlled 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 expanded dramatically, and overall farm debt declined. Perhaps most important, these parity programs did not impose a huge burden on taxpayers. The CCC, which charged interest when it lent money to farmers, actually made $13 million on its storable commodity loans between 1933 and 1952.

Although this parity legislation was essential to saving family farm agriculture, it conflicted with the economic interests of a number of powerful corporations and banks. For example, government intervention to stabilize prices hurt grain speculators, who had benefited from large price fluctuations by buying farm products when prices were low, storing the products, and then selling when prices rose. In addition, effective supply management, by reducing the acreage being farmed, cut into the sales of pesticides, insecticides, and fertilizer by farm chemical and oil companies. Grain corporations suffered as well: because they receive the same margin of profit on every bushel of grain sold, their interests are served by the kind of high-volume, low-price agricultural market that the parity program served to prevent. Banks and insurance companies also disliked parity, since farmers with stable, secure incomes were much less likely to go into debt to them.

As early as 1943, corporate policymakers representing these interests, along with planners from both the government and academia, began mapping out a postwar farm policy more favorable to their own economic interests. Their economic objective was to encourage the expansion of energy-, chemical-, and capital-intensive methods of production; their political objective was to give the industrial and financial sectors of the U.S. economy greater control over agriculture. They saw that in order to accomplish these goals they would have to force millions of farmers—especially poor Southern blacks—out of farming. Not only would this stimulate the growth of industrial-style agriculture, it would also make a huge labor pool available for the industrial boom planned for the North.

These interests intended to force farmers off their land by pushing commodity prices below the costs of production. To do that, however, they first had to repeal the parity legislation passed in the 1930s. It is in this dismantling of parity that the roots of the present crisis lie.

In its war against price support and supply management programs, corporate agribusiness used a variety of strategies during the early 1950s. Supply management, for example, was labeled as "socialist"—an effective tactic that had been popularized by Senator Joe McCarthy. University professors were drafted into the national propaganda effort to convince both farmers and the general public that America needed fewer farmers and that the parity legislation of the 1930s and 1940s was standing in the way of modernizing agriculture. These positions were supported by reports and policy recommendations churned out by corporate-funded think tanks.

One such group, the Committee for Economic Development (CED), issued a report in 1962 called "An Adaptive Program for Agriculture"[1] that is still one of the most articulate statements of the corporate view. (Though published in 1962, it represents many of the key arguments being made in the 1950s.) It stated that "the choices before us" were "leakproof control of farm production or . . . a program, such as we are recommending here, to induce excess resources (primarily people) to move rapidly out of agriculture." The CED rejected the first option, "control of farm production," as too much "government in agriculture" and contrary to its view of a "free market." Instead, it recommended the second option: "Our program would involve moving off the farm about 2 million of the present labor force, plus a number equal to a large part of the new entrants who would otherwise join in the farm labor force in the next five years." To accomplish this removal, the CED advocated that "price supports for wheat, rice, feed grains, and related crops now under price supports be reduced immediately."

Ostensibly, the displaced farm families would be more "productively used" in other sectors of the economy, and decreasing the number of farmers would open the way for more mechanization and greater reliance on petroleum-based products such as fertilizer and pesticides. The CED also cited the timeworn argument that lower farm prices would lead to more exports. In addition, the report envisioned a restructured U.S. agricultural sector. Medium-sized family farmers would be replaced by a small number of huge superfarms and several million small farms supported mostly by off-farm income or welfare. The large corporate-type farms would align themselves politically with agribusiness, while the remaining family farmers would be dependent on government subsidies and relatively low-paying off-farm jobs, which would weaken them economically and politically.

There were dozens of reports like the CED's. Groups ranging from the U.S. Chamber of Commerce to the American Bankers' Association all made the same recommendations—which is not surprising, given that many of the same people served as authors, researchers, and advisors on a number of different reports. By 1953, agribusiness had won its fight. New legislation replaced price floors and supply management with "flexible parity." CCC loan levels were reduced: the agriculture secretary was given the discretionary power to lower farm prices to "market-clearing levels in order to get government out of agriculture."

This destruction of the 1930s parity legislation marks the beginning of our present farm crisis cycle. As supply management programs were dismantled and prices fell, farmers were forced to begin borrowing to cover their expenses. Many were unable to hang on and left farming; the farm population dropped by 30 percent between 1950 and 1960, as the planners had intended, and by another 26 percent between 1960 and 1970. But not every farm family went quietly. A new protest movement grew out of this crisis, giving birth to the National Farmers Organization. In an attempt to force up prices, these opponents of government policy staged a series of sometimes violent holding actions.

Congress eventually responded to this political unrest by passing a new farm program in the early 1970s. The farmers still in operation were to be maintained on a direct income subsidy program from the federal government. Under this program, Congress determined a target price for farm products somewhat higher than the CCC loan levels (which had been drastically reduced during the 1950s dismantling of parity legislation). If the prices of farm products fell below this target level, participating farmers received a check—a "deficiency payment"—directly from the government to make up the difference.

Let's look at corn as an example. In 1986, the CCC support loan rate for corn was around $2 per bushel and the target price around $3. Under Reagan's farm bill, taxpayers were forced to make deficiency payments to cover the difference between the loan rate and the target price—roughly $1 on each bushel of corn. But since it cost more than $3 for the average farmer to grow a bushel of corn, most farmers lost money on every bushel harvested, even with this huge subsidy. To keep farming, farmers have been forced to borrow against their land to cover their losses. Grain traders, corporate feedlots, and foreign buyers, on the other hand, can buy U.S. grain at prices at least $1 below the cost of production.

Thus the farm program initiated in the early 1970s set the stage for the second phase of the farm crisis cycle—the infusion of massive amounts of credit to cover the annual losses caused by low target prices. As long as inflation was pushing up the paper value of farmland, and as long as lenders assumed land values would keep rising indefinitely, farmers could continue to operate on borrowed money. Some farmers jumped aboard this inflation-fueled train; others were more cautious. By the late 1970s, however, it had become clear to most that a crash was almost inevitable.

In 1978 and 1979, more than 40,000 farmers, led by the American Agricultural Movement, came to Washington with a warning: agriculture based on inflated paper values for land and subsidies rather than fair market prices could not be sustained; farm prices needed to be raised and subsidies abolished in order to prevent a rural collapse. Unfortunately, this message was largely ignored, both by Congress and by the nation as a whole. Farm debt was allowed to keep rising, finally peaking at over $225 billion in the early 1980s—an almost 1,000 percent increase over the $20-billion total farm debt before the target price program was introduced in the early 1970s. Interest payments on farm debt soon exceeded net farm income, accounting for nearly 30 percent of many farmers' production costs. As more and more capital was drained from agriculture through interest payments, the way was prepared for the third and most devastating phase of the farm crisis cycle—the forced liquidation of family farms, with ownership being transferred to corporations, banks, speculators, and the federal government.

In 1981, the bubble finally burst. The high real interest rates maintained by the Reagan administration pushed the most vulnerable farmers into immediate bankruptcy or foreclosure. As their land and machinery were auctioned off at distress prices, prices were driven down for everyone else, setting off a fall in land values throughout the nation. Since 1981, farmland prices have dropped over 50 percent, forcing between 10 and 20 percent of our farming population off their land. In addition, roughly 30 percent of America's family farmers have fallen perilously close to insolvency. This group holds two-thirds of the total farm debt—nearly $150 billion.

The overall impact of the farm crisis on the U.S. economy can be visualized as a series of waves. First, a large number of farmers are forced into bankruptcy because they cannot service their debts. As their farms are liquidated, reduced land and machinery values will lower the salvage value of the farmers' holdings, preventing lenders from collecting enough to cover the debts the farmers had incurred. The total uncollectable debt will be between $25 and $50 billion.[2] And it is not just banks that are hurt—the creditworthiness of other, less indebted farmers also suffers as a result of this drop in values.

Next, this decline in asset values and creditworthiness affects the surrounding communities. Farmers purchase fewer capital items, since local suppliers tend no longer to be able to extend credit even for short-term purchases. Local communities suffer losses because of reduced retail sales, bankruptcies, and failure to pay on accounts receivable. Business failures and unemployment rise: each farm failure wipes out three to five jobs; for every six farms that fail, one business is bankrupted. In addition, the dramatic decline in land values has eroded the property tax base of many rural communities and school districts. In constant 1967 dollars, the value of taxable agricultural assets has declined over $10 billion during the past five years. Thus tax revenues tend to decrease just as demand for public assistance increases.

In the final wave, these loan losses are spread out over the entire society. As local banks and businesses become insolvent, credit markets raise interest rates in the hope of covering anticipated losses. Eventually these higher rates will spill over into national financial markets, affecting nonrural borrowers, including businesses, government, industry, and consumers. The interest rate rise could be as much as one-and-a-quarter percent, which would cause the loss of 175,000 to 275,000 jobs, a $30- to $50-billion drop in the gross national product, and a $14- to $21-billion increase in the federal debt.[3] This can only worsen the U.S. budget deficit crisis. Furthermore, Congress has already committed up to $20 billion to bail out the nearly insolvent Farm Credit System; now the commercial banks are pressing for similar assistance.

The farm crisis, then, can in no way be considered as a problem limited to one sector of the U.S. economy and society. The public at large will be forced to bear some of the burden—through higher interest rates, larger government deficits, an economic slowdown, and an increase in taxes to cover the government expenditures needed to deal with the ultimate social and environmental consequences.

The 1985 Debate

For over nine months in 1985, the direction of U.S. farm policy was the subject of intense debate as Congress shaped the 1985 Farm Bill. Three central questions were focused upon. First and foremost, what prices should farmers ultimately be paid for their crops and livestock? Second, what—if any—public financial support is appropriate? Third, what role can exports and imports play in creating or potentially solving the current crisis?

Two primary positions emerged during this debate. In one camp were President Reagan, House and Senate Republicans, and a few conservative House Democrats, all essentially advocating that America continue the farm policy direction pursued since the early 1970s. Their position, often referred to as the "free market" or "modified current" program, was based on the hope that deep cuts in farm prices could boost farm exports enough to eventually raise prices. The main disputes within this group were over how much to cut prices and then how much to subsidize farmers to help them cover some of their losses. As a compromise, members of this camp agreed to lower prices while increasing subsidies through the November 1986 election, and then to cut prices more dramatically and to cut subsidies as well. The final House version of this bill was authored by Tom Foley of Washington State, senior Democrat on the House Agriculture Committee, and Ron Marlenne of Montana, key Republican on the Agriculture Committee.

The opposing position, often referred to as the "supply management," "zero subsidy," or "referendum" approach, held that farm prices should not be lowered but rather raised to cost-of-production levels, and that there should be a referendum to allow farmers to determine what production controls to impose in order to balance supply with demand. Under this proposal, all deficiency payment subsidies would have been eliminated, saving an estimated $20 to $30 billion over the Reagan administration's proposal. Senator Tom Harkin (D.-Iowa) and House Deputy Whip Bill Alexander (D.-Arkansas) cosponsored this legislation, called the Farm Policy Reform Act.

The fundamental dispute between the two sides was this: Should farm prices be deliberately set below cost of production, with losses partially offset by taxpayer subsidies, in the hope of eventually gaining increased export sales? Or should farm prices be set *at* cost of production, making government subsidies unnecessary but requiring effective surplus management to keep the government from having to spend large sums on storage and disposal of excess farm products?

Behind these two positions in Washington there was, of course, strong pressure from various interest groups. The most powerful lobbyists for continued low farm prices and emphasis on exports were the major grain corporations, such as Cargill and Ralston-Purina, their supporters in the American Farm Bureau Federation, and a number of national commodity promotion councils, like the National Wheat Growers Association and the National Milk Producers Federation. In addition to engaging in high-powered lobbying, these organizations made large financial contributions to a number of key congressional players. One of the most active groups, the National American Wholesale Grocers Association, hired former agriculture secretary John Block as its president immediately after the passage of the Reagan Farm Bill, which is estimated to have saved over $1 billion per year for its members. Furthermore, many of these agribusiness corporations and trade associations formed a front organization, cynically called the Farm Coalition Group, to lobby against the supply-management proposal sponsored by Tom Harkin.

On the opposing side, groups advocating supply management formed a National Coordinating Committee with strong support from trade unions, civil rights organizations, and churches. Lacking the millions of dollars their corporate opponents had for lobbying, backers of the Farm Policy Reform Act focused on building their strength through local organizing and national coalition building. Two supply management proposals along the lines of the Harkin proposal passed out of the House Agriculture Committee and made it to the floor. The first was defeated when 47 urban Democrats joined House Republicans in voting against it. The second, an amendment to a spending bill made by Appropriations Committee chairman Jamie Whitten, narrowly passed the full House. But this proposal was defeated on a strict party line vote by the Senate Appropriations Committee. After that defeat, Reagan easily pushed through his own proposal, signing the bill just before the 1985 Christmas recess.

The Impact of the 1985 Farm Bill

The Food and Agricultural Policy Research Institute (FAPRI) conducted a series of studies on the likely effects of the 1985 Farm Bill.[4] It predicted that net farm income would drop dramatically, from about $25 billion in 1986 to $13 billion in 1988. Government costs would skyrocket, making the bill the most expensive in U.S. history: 1986 subsidies alone would be between $20 and $25 billion. Export earnings would drop as commodity prices fell; as a result, the cost to taxpayers of subsidizing exports would be greater than the value of the exports being subsidized. For example, $6 billion would be spent to subsidize corn exports worth only $2 billion, and $4 billion would go to subsidize wheat worth only $2.6 billion. Because loan rates would no longer place a floor under commodity prices, prices would be more variable over both the short and the long run. Land prices would continue to decline, reflecting slightly lower farm incomes. Farm debt and financial market problems would be aggravated: with net farm income falling and interest rates remaining high, only about 20 percent of current farm debt would probably be fully serviced in 1988, as opposed to 35 percent under present conditions. Thus in 1988 the annual interest shortfall on debt payment would be around $6.8 billion, compared with $2.5 billion currently.

Generally, the FAPRI predictions have proved accurate. The major discrepancy is that prices and exports have fallen further and taxpayer costs risen higher than FAPRI predicted, to the detriment of both the U.S. budget deficit and the U.S. trade deficit. In 1986, farm subsidies alone were more than twice the entire total of Gramm-Rudman budget cuts, and, as noted earlier, for part of the year the United States imported more agricultural products than it exported.

None of this should have come as a surprise. In addition to the FAPRI predictions, there were other signs that the 1985 Farm Bill would fail to increase export earnings and improve farm income. Even before the bill was passed, Argentine President Raúl Alfonsín reiterated his pledge that, in response to any U.S. attempts to put Argentina out of the export business, his country would maintain its share of the world market by meeting and exceeding U.S. price drops. (Earlier he had stated that Argentina had to keep making its debt payments no matter what happened, and that it had 300 million acres of unplowed land to put under production if necessary.) Taking a broader look at the world market, Alfonsín also pointed out that if the United States cut prices and increased exports there would be no corresponding reduction in exports from other countries, as in a classic supply-and-demand situation. Instead we would see what has always occurred in the past: countries would be forced to increase production and exports in order to maintain cash flows, thus actually reducing the number of bushels the United States could sell.

Thus the 1985 Bill has created an economic dynamic in which the agricultural sectors of all countries lose. Though senior officials have not wanted those losses to hit U.S. agriculture, they have quite openly voiced their willingness to let them occur everywhere else. For instance, former agriculture secretary John Block told a recent meeting of the U.S. Feed Grains Council that "bleeding European treasuries is essential." The threat that the United States will bankrupt the European Community is seen as a way to force Europe to open its domestic markets to U.S. products and also to support the United States on other matters. Such economic pressure has not had the desired results, however: because European countries are determined to look after their farmers, they can respond to U.S. actions by increasing their domestic agricultural subsidies. Thus U.S. influence has not been enhanced, and U.S. market share has not increased; instead, there have been subsidy wars.

The Third World, on the other hand, is much less able to insulate itself; the 1985 Bill's impact on Third World countries has been devastating. The intentional lowering of U.S. prices has drastically lowered world market prices—a situation exacerbated by Europe's lowering its prices under U.S. pressure. With world prices now forced below the costs of production, unprotected Third World farmers are being squeezed out of their domestic markets.

Rice is an excellent example. The 1985 Farm Bill includes special provisions for rice and cotton called marketing loans. This promotion program provides an extra subsidy above the normal deficiency payment. According to latest estimates, U.S. taxpayers will spend $17 to export each additional hundredweight of rice, which is worth only $3.50.

The side effects of these enormous subsidies were felt most immediately in Thailand, the world's second largest rice exporter after the United States. While rice constitutes only a tiny fraction of total U.S. exports, it accounts for 15 percent of Thailand's desperately needed foreign exchange, and is the only source of income for most of Thailand's 4 million farmers. Thus America's intentional cutting of world prices meant a precipitous $60-million drop in Thailand's foreign earnings, which threw its economy into a tailspin. The economic crisis there has grown so desperate that students, workers, and peasants have held protests outside the U.S. Embassy in Bangkok. Nevertheless, Thailand must continue to export rice to service its debt, even if it is forced to lower its price below the Thai production cost of $114 per ton.

This has repercussions throughout the Third World. For example, the World Food Program, which is providing food aid in the form of rice to starving peasants in drought-stricken regions in northern Cameroon, is buying the extremely cheap Thai rice instead of rice produced locally in Cameroon. This has destroyed the local commercial market for Cameroon rice farmers, forcing them to reduce their production of this primary staple crop. As a result, Cameroon has had to increase its dependence on food imports, which leaves it little foreign exchange to import capital goods, oil, medicines, or other necessities. At the same time, Thai farmers are being bankrupted, the Thai government is unable to service its foreign debt, U.S. taxpayers are being fleeced, and U.S. rice farmers continue to go broke.

John Block stated the Reagan administration's position on whether hungry nations like Cameroon should pursue the goal of feeding themselves. "The push by some developing nations to become self-sufficient in food may be reminiscent of a bygone era. Those countries could save money by importing more and more food from the United States. Modern trade practices may mean that the world's major food-producing nations, especially the United States, are the best source of food for some developing nations."

U.S. Senator Rudy Boschwitz (R.-Minnesota) was even more blunt in a letter to *Time* magazine: "If we do not [lower our farm prices] to discourage these countries now, our worldwide competitive position will continue to slide and be much more difficult to regain. This [discouragement] should be one of the foremost goals of our agricultural policy."[5]

Since most industrialized countries protect their farmers, the only place where the United States could "discourage" producers would be the poorer countries of the Third World. With U.S. farm prices below production costs, U.S. grain corporations are able to enter the domestic food markets of many Third World countries and undersell local farmers, robbing them of any chance to sell their products. Unable to earn a living in agriculture, many of these poor farmers are driven off their farms and forced into overcrowded urban slums or shantytowns. The land will no longer be cared for; it may eventually erode or turn into desert—or it may end up being absorbed into wealthy absentee landlords' estates to produce cattle for export to the United States, Europe, or Japan.

Other farmers may be able to hold onto their land, but will be unable to make any profit competing against underpriced, subsidized imports from the United States. They will certainly not have the means to afford soil erosion control, higher-yielding seeds, or the better equipment needed to boost productivity. Thus their products will gradually be replaced by food imports bought with scarce foreign exchange diverted from necessary purchases like medicine or fuel.

For the United States to pursue farm policies based totally on the dream of increased exports is particularly absurd at a time when countries that were formerly dependent on food imports—such as India, Indonesia, China, and Bangladesh—are now exporters of grain. Furthermore, studies have shown that U.S. agriculture may in fact benefit from increased food production in Third World countries. This increased production may raise Third World incomes and standards of living, stimulating demand for more varied diets—added amounts of meat, for example—and eventually causing increased imports of grain and other agricultural products from the United States.

Besides bypassing the benefits that might be associated with increased Third World agricultural production, the United States is also racking up costs to itself—particularly to its banking system. Domestic U.S. farmers are unable, as we have seen, to keep up with payments on the massive debts they have incurred. In addition, Third World debtor countries are having increasing troubles meeting their debt-servicing requirements because of the drop in their commodity export earnings and their decreased oil revenues. One of the largest agricultural lenders among U.S. banks, Bank of America, has admitted that existing bad domestic loans in agriculture and other industries, plus questionable loans to Mexico, now total well over 110 percent of the bank's total equity. In other words, the bank holds more bad debts than it is worth.

Another area jeopardized by the 1985 Farm Bill is the environment. Environmental problems are common in the Third World, as the scenario sketched above indicates; also at stake, though, is U.S. land. In the U.S. debate, lower farm prices have been justified on the basis that they will compel farmers to increase productivity by intensifying their production methods. In fact, this intensification has led to the abandonment of careful soil and water conservation practices, forcing many farmers to begin tilling marginal, highly erodible soil. Furthermore, cheap grain prices have accelerated the destruction of family-operated cattle ranches by corporate feedlots; without cows to graze on hillsides, farmers have little choice but to plant corn and soybeans on these fragile lands. After a few years, the hillsides wash away, sending the topsoil down to clog and pollute our nation's rivers.

In addition, there is the overall problem of the transfer of farm ownership. The forced removal of many families from their land has put millions of acres of farmland into the hands of large corporations and absentee investors. They are treating our irreplaceable soil and water resources with the same narrow, short-term profit orientation that has characterized corporate treatment of other capital resources, such as steel mills and railroads. The earth is used and abused as long as it can yield a high enough profit or serve as a tax shelter to hide other profits. Once depleted, land is abandoned or paved over for development purposes; groundwater is pumped dry and rivers are diverted.

True, the 1985 Farm Bill does contain provisions that major environmental groups had fought long and hard for, such as prohibitions against breaking fragile prairies or draining swamps, and a paid, environmentally oriented land bank program. But these stipulations were accepted by Reagan only as part of a trade-off. In general, the Bill is a serious environmental disaster, forcing ever increasing intensification on the 30 million acres of U.S. land being cultivated.

The 1987 Debate

This winter will be the watershed for the U.S. family farm system. The 100th Congress will be the scene of an intense debate over U.S. agriculture policy. On one side there will be the renewed, strengthened advocates of the kind of parity pricing with supply management program contained in the 1985 Harkin proposals. In the House, Democratic caucus leader Richard Gephardt is playing a major role in moving a new version of the Harkin bill, called the Save the Family Farm Act; and newly elected Speaker Jim Wright was a strong supporter of the Farm Policy Reform Act in 1985. The recent election of several more sympathetic farm-state senators ensures that the Senate Agricultural Committee will be far more favorable to the supply management approach. On the opposing side will be the same collection of grain companies, Farm Bureau officials, university professors, and an odd mixture of liberal and conservative Democrats—although fewer than in 1985.

The 1987 debate will differ from 1985's in two important respects. First, it is absolutely clear that current policy has failed completely. Nearly everyone agrees on this point, which means that those who supported the Bill in 1985 have had their credibility severely damaged. This leads to the second important changed condition: opponents of the Harkin position are now splintered. Since they can no longer hang onto the Reagan approach, they are moving in different directions, not all of which have clearly emerged. Three of the most important have, however, been tried out in public.

The first is the new direction being advocated by the grain corporations—the chief architects of the 1985 Bill. They believe that, because their failed program handed out billions of dollars to the largest corporate farms while putting farm families out of business, farm programs are now so thoroughly discredited that they can go in for the kill. Last July, Continental Grain Company chairman Michel Fribourg opened up the latest round of attack. First he detailed U.S. agriculture's problems, blaming them all on government programs. Then he made his policy recommendations: "First, national support prices, target prices and other government incentives should be gradually lowered and geared toward efficient farmers only, reducing ultimately to zero the present disparity among national programs. Second, all governmental distributions in farm trade, including tariffs, quotas, export, and import subsidies should be gradually eliminated." He admitted that this wouldn't come easily: "All this would be a formidable undertaking, requiring direct aid to farm families during a transition period and an evolution in national attitudes as well as programs. But only this kind of international effort, initiated by Washington, can end the excessive government controls now strangling the world's agricultural trade."[6]

It is clear that the grain corporations, aware that some change is inevitable, are advocating the extreme program outlined by Fribourg because it would grant them even further license in international trade and would also eliminate many "unnecessary" farmers, with taxpayer funds easing that transition. Fribourg's proposal has also received some government backing; immediately after it was presented, U.S. Commerce Secretary Malcolm

Baldridge seconded it, calling for a "10-year phase-out of all farm subsidy programs that restrain U.S.-European trade."

University economists have been another key player in the farm policy debate. In 1985, except for the experts at FAPRI, who developed computer models to help guide their analysis, most economists simply took their cue from their largest financial supporters—the USDA and the major agribusiness corporations—and backed the Reagan bill. But now this cozy relationship is splitting down the middle. Unable to swallow the new corporate line that Fribourg presented, agricultural economists have begun to grope for their own approach. One popular idea has been to establish a retail food tax in order to create a pool of funds that could go to subsidize selected farmers. Economists cite public opinion polls that indicate consumer support for such a tax. But this scheme overlooks a crucial fact about the international economy: because a large portion of U.S. farm output is exported, a retail food tax would force U.S. consumers to heavily subsidize overseas sales, while our cheap exports would continue to depress agriculture in poor Third World countries.

The third and perhaps most serious suggestion for an alternative is an expansion of the so-called marketing loan provisions of the 1985 Farm Bill to include wheat, corn, and related crops. This approach, currently being used for rice and cotton, is backed primarily by Republican Senators Dole, Boschwitz, and Cochran. Marketing loan programs remove the floor under prices traditionally maintained by the CCC loan program. The prices drop dramatically, of course, but taxpayers make up the difference with enormous new subsidies. The big beneficiaries are the marketing corporations, foreign buyers, and the giant U.S. breakfast cereal companies. The losers are the taxpayers and farmers in both the United States and around the world. Incredibly, some liberal Democrats like Senator John Melcher have fallen in behind the Republicans on this proposal. The Office of Management and Budget, however, remains adamantly opposed to this approach, as it could readily double already astronomical taxpayer costs.

While the opponents of supply management have splintered, its supporters have regrouped and strengthened themselves. A clear political shift has taken place in the countryside. In February 1986, the original National Coordinating Committee that lobbied for the Harkin proposal was expanded into a National Save the Family Farm Coalition. Credit and emergency relief proposals were incorporated into a comprehensive package, and a complete campaign was designed, including lobbying, boycotts, litigation, direct action, and voter mobilization.

In September 1986, a United Farmers and Ranchers Congress was held in St. Louis. The 2,000 delegates represented over 15,000 farmers and small-town residents from 38 states. By a vast majority, the Congress came out for parity pricing with supply management, and issued three mandates: overturn the Reagan Farm Bill, increase direct actions, and turn out a united farm vote in November. For this last effort, the League of Rural Voters coordinated a radio- and television-based get-out-the-vote campaign; by concentrating on key states like the Dakotas, rural organizers had an enormous impact on voter turnout and on the elections. A number of races became referendums on the Harkin Farm Bill approach. Two incumbent farm-state senators who opposed supply management were replaced; several other races, including Idaho and Wisconsin, were turned into cliff-hangers; and those up for reelection in 1988 have been put on notice.

The Likely Impact of Supply Management

Clearly, the supply management approach is the choice of rural America. The central features of such a policy are straightforward. The price floor set by the CCC loan rate would be raised, so that farm prices would at least equal the costs of production. Farmers would vote on the specifics of a supply management program that would control production in order to reduce surpluses. Subsidies would be totally eliminated.

Some aspects of this approach deserve further explanation. The supply management program, for example, would allocate to each producer a "base" of production determined by taking an average of his production over the past few years. Then, if the nation as a whole needed 15 percent less corn than is normally produced, each grower would simply reduce production below base level. At the end of the year, the program's effectiveness would be assessed, and any necessary adjustments would be made in the following year's production goals.

The Harkin proposals also include a wide range of measures designed to address the damage that the 1970s programs inflicted upon U.S. rural communities, farm families, and the rural environment. For example, under the supply management approach, large operators would be required to absorb more than a proportional share of any production cuts needed to balance supply with demand. This provision would protect family-sized producers from the full impact of any necessary reductions in output, and huge producers would have an incentive to return to more moderately sized operations.

In addition, the bill makes important stipulations regarding the environment. Existing government surplus stocks would be used to expand and strengthen the Conservation Reserve Program, and all set-aside acres would be required to meet acceptable conservation practices. Even more important, terminating the target price program would remove a major incentive farmers have had to use more chemical-intensive agricultural practices; instead, supply management would encourage reduced usage of chemicals and fertilizers, thus providing greater protection to our groundwater resources.

The Save the Family Farm Act would also greatly expand food and nutrition programs, incorporating the proposals of such groups as the Food Action and Research Coalition. Out of anticipated government savings, $5 billion would be allocated to nearly doubling our current spending on hunger relief.

Though some of the underlying conditions have changed, the overall beneficial effects of supply management remain the same as in 1985. According to FAPRI estimates, if such an approach had been enacted at that time, the government costs of the farm program would not have risen but would instead have declined to about $1 billion annually and stayed there. Net farm income, rather than falling, would have been 52 percent higher in 1987 and 60 percent higher by 1990. Farm prices and net farm income would have been stabilized, and land used by farmers under marketing quotas would have gained in value (land withdrawn from production would probably have declined in value). The volume of exports of corn, wheat, cotton, and soybeans would have decreased—modestly in the short run, substantially in the long run—because of higher prices; but the *value* of these exports would have shown a marked short-term increase, which for corn and soybeans would likely have continued in the long run.

Thus passage of the 1985 Farm Policy Reform Act would not only have stemmed the damage being done to U.S. agriculture—it would also have brought considerable benefits. Nevertheless, a large number of liberal urban Democrats refused to support this bill. As the debate over supply management gears up anew in Congress, it may be worthwhile to examine the reasons they had for doing so.

The main argument against higher commodity prices held that this system would raise food prices, hurting low-income U.S. consumers. Opponents argued that the current farm program, paid for with federal taxes, is generally progressive, whereas the Harkin Bill, shifting costs directly to consumers, would be regressive, falling hardest on the poor. This line of reasoning overlooked the fact that most heavily subsidized U.S. crops are shipped overseas to the Soviet Union, Europe, Japan, and the Middle East, which means that U.S. taxpayers are subsidizing foreign buyers.

In fact, raising crop prices to meet farmers' production costs would increase food prices by only $10 billion over the current $340-billion U.S. food bill—an increase of less than 3 percent, compared with the 6 percent current annual inflation rate for food. Since the Save the Family Farm Act also contains provisions for doubling the funds available for food assistance, the poor would not be hurt by this small increase in food prices. (It is worth noting that in 1985 the entire Congressional Black Caucus voted for supply management and higher prices.)

The other major argument against raising farm prices to production cost levels is that high U.S. prices would make U.S. products uncompetitive in world markets. This argument needs to be examined more closely in order to understand the role that imports and exports play in the world economy.

A study by FAPRI[7] projecting the effects different grain prices would have on grain export sales showed that there would be only a slight drop in volume of exports if commodity prices were raised to a break-even level; because of increased prices, however, actual export earnings would be much greater. For example, at current corn prices—roughly $2 per bushel—the United States exports 2.2 billion bushels annually with earnings of roughly $4.4 billion. Yet if corn sold for $3.60 per bushel, the current cost of production, total sales would fall to 1.6 billion bushels but earnings would be over $5.76 billion—nearly 25 percent higher than under current prices. Furthermore, the corn sold at the lower price must be produced by more intensive methods, which require imported fertilizers and fuels costing $1.6 billion. Thus current corn prices end up adding nearly $3 billion to our already swelling trade deficit.

Why does it work this way? For one thing, the demand for food is very inelastic: price changes induce little change in demand one way or the other. In addition, the United States has a large portion of the world's grain storage facilities. Because most grain importers can only store one month's supply of grain at a time, they have to buy grain on a month-to-month basis; because most grain exporters, outside the United States and Canada, also lack major storage facilities, they have to sell their entire crops at harvest. Thus for almost six months out of the year, practically the only major source capable of meeting grain importers' month-to-month needs is the United States. The Soviet Union does not buy huge quantities of corn, wheat, and soybeans from us because it regards us as a friend; it simply has nowhere else to turn.

Moreover, there are a number of nations, such as Taiwan, that have such enormous trade surpluses with the United States that they are committed to buying 100 percent of their grain imports here, regardless of price, simply to maintain good trading relations and access to U.S. markets. Though there may be some adjustments in these trade balances in future, the U.S. market will continue to be so important to these countries that they will remain obliged to buy a certain amount of U.S. grain.

Furthermore, because the United States dominates world food trade, domestic prices become world prices. The United States ships about 80 percent of the world's soybeans, 70 percent of the corn, and nearly 40 percent of the wheat. By comparison, the Middle East ships only 40 percent of the world's oil exports. Because of this U.S. dominance of the world agriculture market, any U.S. price increase is simply met with a similar increase by all other supplying nations. Likewise, any U.S. attempt to lower its prices below those of exporters results in equal price drops around the world. This causes great harm to the export earnings not only of the United States but also of these other countries. Since many of them face enormous external debts, they must increase production so that their exports generate the same earnings no matter how low prices fall. The result is a downward price spiral in which all nations suffer.

After 1987

The task of establishing a sound and humane agricultural policy is not a hopeless effort. Other nations have chosen to support family-farm agriculture and have made the policy changes needed to accomplish this objective. The Netherlands, for example, is nearly 14 times more densely populated than the United States, is highly industrialized, and has a comparable standard of living; yet the percentage of its population still in farming is nearly eight times that of the United States. Along with other countries in Europe, the Netherlands has consistently set farm prices at levels adequate to cover costs of production in order to enable their farmers to make a decent living, to preserve their land from abuse, and to promote the health of their economy.

Whether the United States is to pursue a similar course will be determined by the 1987 congressional debate. Unless we reestablish a fair world price for all commodities, as well as a system for managing production levels, we will be unable to prevent the increasing concentration of land ownership and control in the hands of a few.

Notes

[1] Committee for Economic Development, "An Adaptive Program for Agriculture" (New York: 1962).
[2] Food and Agricultural Policy Research Institute, University of Missouri, and Wharton Econometric Forecasting Associates, "Economy-Wide Impacts of the Farm Financial Crisis" (1985).
[3] *Ibid.*
[4] Food and Agricultural Policy Research Institute, University of Missouri, "The Administration Proposal for the 1985 Farm Bill: An Evaluation and Analysis" (1985).
[5] *Time*, March 18, 1985.
[6] Michel Fribourg, "A Global Linking of Farm Policies," *New York Times*, July 21, 1986.
[7] Food and Agricultural Policy Research Institute, University of Missouri, "Agricultural Policy Alternatives, Modified Current Policy or Mandatory Supply Reductions: Expected Economic Consequences" (1985).