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THE CHANGING ECONOMICS OF AGRICULTURE: REVIEW, EVALUATION, AND FUTURE DIRECTIONS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON AGRICULTURE AND TRANSPORTATION

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

NINETY-SEVENTH CONGRESS

SECOND SESSION

MARCH 29, APRIL 15, 28, 29, AND MAY 20, 1982

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U.S. GOVERNMENT PRINTING OFFICE

97-160 O WASHINGTON: 1982

JOINT ECONOMIC COMMITTEE

(Created pursuant to sec. 5(a) of Public Law 304, 79th Congress)

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THE CHANGING ECONOMICS OF AGRICULTURE: REVIEW, EVALUATION, AND FUTURE DIRECTIONS

MONDAY, MARCH 29, 1982

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON AGRICULTURE AND TRANSPORTATION
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 6226, Dirksen Senate Office Building, Hon. James Abdnor (chairman of the subcommittee) presiding.

President: Senators Abdnor, Symms, and Proxmire; and Representative Richmond.

Also present: Louis C. Krauthoff II, assistant director; Douglas M. Ross, and Keith B. Keener, professional staff members; Robert Tosterud; legislative fellow; and Dale Jahr, Senator Abdnor's staff.

OPENING STATEMENT OF SENATOR ABDNOR, CHAIRMAN

Senator ABDNOR. The Subcommittee on Agriculture and Transportation will come to order.

We welcome you gentlemen to our hearing today. It is a great honor to have each of you appear before this subcommittee. My colleagues and I consider this an historic occasion. Your presence here today demonstrates your continued commitment to the agricultural community. It was under your combined stewardship that U.S. agriculture matured and became the greatest industry on the face of the earth. Your public service contribution extends far beyond U.S. agriculture. As a direct result of your guidance, decisions and policy actions, U.S. and world consumers are being provided with the most abundant, nutritious and low-cost food supply of all time.

I strongly believe that agriculture is the most significant contributor to the present greatness of our social, political, and economic way of life. In contrast, Leonid Brezhnev was recently quoted as saying "The greatest economic and political problem facing the Soviet Union is the supply of food." The effectiveness of our democratic, free enterprise system, in my opinion, is best exemplified by the success of our agriculture. It is understandable that U.S. agriculture is the envy of the world. I consider it a tragic shame that similar tribute is not given U.S. agriculture by our own citizens. Rather, the typical U.S. citizen reads in the popular press about a farm bill which is often characterized as some sort of shady Government handout, a giveaway to modern robber barons in bib overalls. The greatest insult is the implication that farming is some kind of rural welfare—the idea that farmers are engaged in a largely subsidized, nonproductive effort. It is not surprising that the conclusion many would draw is the shocking notion that there would be a net benefit to society if we were to phase out the family farm in the United States. This extremely dangerous and highly counterproductive attitude has plagued agriculture for decades and it's time to put an end to it. I actively sought membership on the Joint Economic Committee with the designed purpose of using the JEC as a new forum for agriculture—a forum within which to professionally display and explore agriculture's contributions, problems and potential.

As you gentlemen are well aware, the current economic condition of agriculture is not good. The Department of Agriculture recently projected a $16 billion net income for agriculture in 1982. In 1967 dollar terms, this $16 billion becomes $5.5 billion in purchasing power and therefore represents the lowest real farm net income ever recorded in any year, including those of the Great Depression years. While a direct comparison with the 1930's may be statistically questionable, it nevertheless makes a remarkable and shocking statement. And 1982 is not an aberration but, rather, is consistent with a 10-year trend beginning in 1973. This chart [indicating] illustrates the discouraging decrease in income.

[The chart shown has been drawn from information in the following table:]

U.S. real net income in 1967 dollars

	Billions
1930–34 (yearly average)	6.9
1973	25.1
1975	15.2
1978	13.5
1980	8.1
1982 (projected	5.5

Senator ABDNOR. While income has been falling, farm debt has been climbing dramatically. For the third year in a row, farmers will have to cope with cash flow problems by rescheduling debt payments, taking on more debt, postponing large capital expenditures and/or liquidating assets. Farm debt has nearly doubled in the past 5 years.

This next chart illustrates this alarming trend in falling income and rising debt. In each of these selected years, a single dollar of income had to support so many dollars in debt burden. In 1973, a single dollar of income supported just under $2 in debt. By 1980, each income dollar was supporting over $7 in debt. The projection for 1982 is indeed eye opening. Each dollar will have to support a formidable $12 in debt. That burden will certainly crush many operations.

[The two charts shown pertain to information contained in the following table:]

	Farm debt to net income ratio	Value of farm assets (1967 dollars)
1973	1.96	315.1
1974	2.84	359.5
1975	3.34	341.1
1976	4.83	357.5
1977	5.58	389.4
1978	4.50	406.1
1979	4.16	446.7
1980	7.93	462.0
1981	7.62	441.8
1982	12.16	431.9

Senator ABDNOR. The final chart I have for you today is a trend that disturbs me greatly. The real value of farm assets has declined for the past 2 years. Because of low prices and low returns, the market reflects a lower value in farmland and other assets. Realizing that a great deal of loans are made on value of the farmers' assets, a deteriorating asset base can only spell disaster for those already facing a severe cash-flow squeeze.

Clearly, the U.S. farm sector has been able to survive the last 3 years due primarily to three factors: productivity gains, expanding exports, and perhaps, artificially inflated asset values. Many experts contend that the future holds only relatively marginal gains in both productivity and exports and, as a consequence, a more realistic realinement of the value of farm assets.

The Congress and the administration must now address the fact that a major restructuring of the U.S. agricultural sector is taking place. The important questions to consider are:

What kind of Federal actions should be taken, if any, to influence this restructuring process;

What is agriculture going to look like during and following this restructuring; and

What are the implications of agricultural restructuring on the rest of the U.S. economy and world food supplies?

The attention of the administration, Congress and the best professional minds in the country need to be focused on these and other critical issues.

This hearing is the first in a series of five subcommittee hearings to be held during the next several weeks. In total, they represent a comprehensive congressional initiative to develop recommendations for a program for agricultural economic recovery.

I, along with the subcommittee, the administration, Congress, the Nation's farmers, and the American public, anxiously await your comments. In my opinion, there are few things occurring in our economy at this time more worthy of our attention than the future of food production in this country. Again, thank you for coming.

I am happy to welcome a number of our Joint Economic Committee members with us today and, Mr. Bergland, I think we'll start off with you if we might, unless Senator Proxmire has any remarks.

OPENING STATEMENT OF SENATOR PROXMIRE

Senator PROXMIRE. I'd just like to make a very brief statement.

I can't tell you how impressed and honored I am to have four great Secretaries of Agriculture as we have testifying before us today. You gentlemen spent a period of more than 30 years there and all of you brought very considerable talent and ability. Your ideas obviously differ and that's one of the reasons why I think this is going to be a good and provocative and interesting and useful hearing. I want to thank Chairman Abdnor for holding this hearing. I can't remember a time when we've had a more capable and illustrious panel—and we have had many of them appear before this committee—on an issue as crucial as agriculture.

One more point I'd like to make and that is that in our State, and I'm sure it's true throughout the country, farmers are in very serious financial shape, as the chairman has shown so well with his charts. Some people think it's worse in some respects than we've ever had. Of course, farmers, like everybody else, were worse off in the 1930's, but in relationship to the rest of the economy and in looking at the long-term outlook, I think that the farmers are deeply concerned and we urgently want to get the kind of thoughtful and useful recommendations that you gentlemen can make.

Also, this is the Joint Economic Committee, not the Agriculture Committee, which I think serves a very useful purpose too. We can look at it a little more broadly and we can think of agriculture in terms of the whole economy as well as in terms of the very serious plight of our farmers.

Thank you, Mr. Chairman.

Senator ABDNOR. Thank you, Senator Proxmire.

Congressman Richmond.

OPENING STATEMENT OF REPRESENTATIVE RICHMOND

Representative RICHMOND. I just want to welcome the four former Secretaries. I've had the privilege of working closely with two of you, Mr. Bergland and Mr. Butz; and Mr. Freeman and Mr. Brannan—Mr. Brannan is the author of the Brannan plan, one of the most famous supply control plans we've ever had.

I'm particularly interested this morning in hearing your advice on export sales and how on earth we're ever going to sell processed foods to the Japanese. That's my bottom line and has been for quite some time. We have a $20 billion deficit with the Japanese. They are treating us like a colony. They are buying our raw materials. They won't buy our processed goods and obviously the answer is somehow or other to sell beef instead of corn, hogs instead of soybeans, and I'd like to hear from you four gentlemen on how we're going to do it. Thank you.

Senator ABDNOR. Thank you, Congressman.

Before I proceed, I will, and without objection, place the written opening statement of Senator Hawkins in the hearing record at this point.

[The opening statement of Senator Hawkins follows:]

WRITTEN OPENING STATEMENT OF SENATOR HAWKINS

Florida has a large stake in the economic recovery of U.S. agriculture. Our State ranks twelfth in receipts from marketing farm products. Farm cash receipts exceeded $3.6 billion in 1981, placing Florida higher than any other State in the Southeast. This means that 6 percent of Florida's personal income comes from agriculture, while nearly 14 percent (66,000 people) are employed in the processing of food. In fact, food processing is Florida's largest manufacturing industry.

Florida's agriculture and its related industries are, of course, highly vulnerable to weather conditions. For example, January freezes in 1981 and 1982 hurt citrus and vegetable yields, and the drought that plagued the State throughout the spring and summer of 1981 lowered water reserves to dangerous levels and was the cause of lowered receipts for many important cash crops.

Looking ahead, the Federal Reserve Bank of Atlanta recently concluded: "On balance, the outlook for Florida agriculture is less than favorable for 1982. Without good rainfall to restore water reserves, Florida's agriculture picture could be one of the bleakest in many years." This statement describes the position of Florida agriculture: A major industry whose fate is determined as much by nature as by man.

Senator ABDNOR. Mr. Bergland, on Congressman Richmond's point about exports, we have had some of our greatest years under your term of office and let's hear from you first, if we may.

Please proceed, Mr. Bergland.

STATEMENT OF HON. ROBERT BERGLAND, FORMER SECRETARY OF AGRICULTURE

Mr. BERGLAND. Thank you very much.

Mr. Chairman, members of the subcommittee, I was raised on my parents' family farm in northwestern Minnesota. During the 1930's, there were more than 7 million farms similar to my parents that we now would call subsistence enterprises. Mother and dad had 360 acres of land, with 13 separate farming enterprises—a few cows, a few chicken, a little of everything, and not much of anything. They were fiercely independent and resourceful, living on little or no cash income, not dependent on foreign oil sources nor any foreign country as a market.

In 1940, there were 30.5 million people living on farms in the United States. About that time, and certainly after World War II, the development and application of high technology in agriculture caused a major upheaval in the structure of farming. During the 1940's, 7.5 million farm people left the business. This outmigration continued during the 1950's as another 7.4 million people left. Another 5.9 million left in the 1960's. By 1970, the farm population had declined to 9.7 million people. In three decades, almost 21 million people had left the farm sector, migrating to the cities and towns in what has been called the largest movement of people in history.

By 1970, the number of farms had fallen to 2.7 million. During that same 30-year period, the size of farms had grown correspondingly with the average size increasing from 216 acres in 1940 to 389 acres in 1970.

During that period, farming evolved from an isolated subsistence style into two distinct groups.

In the last 2 years of my time at USDA we conducted and published what we call the "Structure Study." From this study we learned that by 1978 we had about 2.6 million farms in the United States. Of that number, 1.7 million have agricultural sales of less than $20,000 per farm per year. Taken together, they produce only 10 percent of the food that finds its way to the marketplace.

The myth is that those small farms people live in poverty. The fact is they share $27 billion in nonfarm income and are on parity with our urban citizens in terms of net income. Generally, they have been passed over in Federal planning for research, marketing, credit, and other standard kinds of agricultural programs. In my view, there are tremendous opportunities for increasing productivity on these small farms, but it must be intensive in nature utilizing human energy.

On the other end of the structural scale, we have 64,000 farms with gross incomes of over $200,000 each, and taken together they produce 40 percent of the food and fiber that finds its way to the marketplace. They tend to be concentrated in industries like livestock feeding and production, fruit and vegetables. These large farms do receive the lion's share of Federal subsidies, most of which are not easily identified, especially in the tax field. Large-scale farming enjoys a tremendous tax advantage over those who are just starting to get in the business and is one of the major reasons why we continue to see such a high rate of attrition.

In between, we have about 800,000 farms which are big enough to keep the family fully employed, small enough so most of the work is done by members of the family utilizing high technology. We usually call them the commercial family farms and taken together they produce about one-half of everything that finds its way to the marketplace. It is within this group that we find the real innovators and, interestingly, the most efficient management of resources.

In my view, Federal programs should be targeted to help people get started and to increase their production to levels which allow them to achieve the economies of scale, but beyond which no Federal aid will continue. Such targeting would have to include a complete revision of the Tax Code, with limits on capital gains and investment credit, prospectively, of course along with a completely overhauled Government credit mission and coming to terms with the reality that you don't save the small family farm by increasing farm price-support levels.

In 1950, the year I started farming, agricultural exports were about 9 million tons, much of which was heavily subsidized by the U.S. Government. Those exports tripled by 1960, doubled again by 1970, and then almost tripled again by 1980, exceeding 127 million tons for grains alone, an alltime record high, in spite of the Russian grain embargo.

All agricultural exports earned $43.3 billion in hard currency in 1980, making the United States the world's leading grain supplier.

We provided world markets with 70 percent of the trade in coarse grains, 45 percent of the wheat, 78 percent of the soybeans, 40 percent of the cotton and 25 percent of the rice, plus the value of processed commodities like soy products, wheat flour, livestock and livestock products.

While these exports certainly strengthen the vitality of the total American economy, they also introduce an element of uncertainty which severely complicates our agricultural economy. While the United States is an open market economy, with relatively little protectionism, we are trading with countries in which the governments frequently intervene in order to insulate their internal economies, their producers and consumers from world market fluctuations. This means that a relatively small change in world weather conditions can, and, as we see this year, will have a disrupting effect on the farming economy of the United States.

Because of our dominance in world agricultural trade, we have, in effect, became the world's agricultural economic shock absorber.

The agricultural economic depression we are now witnessing does not affect all sectors of agriculture evenly. The 1.7 million small farms in the country, for example, don't depend on farm prices for their livelihood. For the most part, they depend on non-farm jobs.

Among the 800,000 or so commercial farms producing heavily for export, I think we will find that the heaviest financial blow will fall upon the persons who have started farming within the past 5 years or so, who have not had time to build equity, and who, in some cases, have enormous debts piled up in the hope that the inflationary trends, starting 1973, would continue.

It is almost certain that exports of agricultural products will continue to climb, introducing even more instability in the U.S. farming economy. I think we, too, as a nation, should develop ways of insulating our economy from this commodity price volatility by stepping up the use of bilateral agreements such as those now in place with the Soviet Union, Mexico, and China.

Without such aggressive intervention by our Government, I predict this price volatility will create high expectations in some years and a depression in others. Such an economic climate will severely disrupt our own economic planning and policies for there is a lot of truth remaining in the old Populist slogan that, "As farming goes, so goes the nation."

Thank you very much, Mr. Chairman.

Senator ABDNOR. Thank you, Mr. Bergland. I really appreciate that great contribution.

Our next witness is the former Secretary of Agriculture Orville Freeman. I was just delighted when you said you would make the effort to come down here because I know you too have a great contribution to make here.

Mr. Freeman, please proceed.

STATEMENT OF HON. ORVILLE FREEMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, BUSINESS INTERNATIONAL CORP., AND FORMER SECRETARY OF AGRICULTURE

Mr. FREEMAN. Thank you very much, Mr. Chairman.

It's a very real privilege to appear before this subcommittee of the Joint Economic Committee. I'm particularly pleased to be here because this subcommittee perhaps more than any in Congress is what you might call a "put-it-all-together" subcommittee, as Senator Proxmire said, looking at the total picture and relating the parts, and to the extent that we do try and think in long-term strategic terms in this Government and this country—which I'm afraid is minimal—the base is built to do it here. So, Mr. Chairman, I think it most appropriate that you have moved aggressively to focus on agriculture and I, for one, am very honored to be here.

Since I left the Government for the last 10 years I have been serving as the president and chief executive officer and now chairman of a company called Business International Corp. Business International operates a worldwide management information system. We have professional people located at 70 places around the world. We seek to monitor, evaluate, analyze, forecast international economic, political, and social developments, particularly as they bear on doing business internationally. We research. We do consulting. We publish broadly and we organize roundtable conferences with chiefs of states and senior ministers of governments around the world and the senior executives of international companies.

Two hundred of the world's major international companies based all over the world are the primary participants in this company.

When I was Secretary of Agriculture, I tried to think in global terms. I testified before committees of Congress many times that the world was becoming increasingly interdependent. That was not new or novel then, and I certainly was no genius in emphasizing what others were saying, but what many recognized then has become almost trite to say today.

We live in an interrelated world. No country can solve any of its major problems alone. The thrust of Secretary Bergland's remarks in terms of agricultural exports makes that clear. The very instability he underlined dramatically makes that point. The fact that agricultural exports are now 700 percent greater than they were when I was Secretary of Agriculture 15 years ago sets this forth rather dramatically.

So what I would like to do in the time you have allotted me here, and on other topics if the subcommittee sees fit I will be happy to respond, is to focus on the very important international factors and how they bear in terms of what we're talking about in connection with agriculture which today in this country and otherwise is a part of this level of interdependence.

For example, my main thrust will revolve around what is sometimes called the food-people balance and its implications to our economy and to our political position around the world as well as its bearing on grain prices, on farm income, on the livestock industry, on the world-wide hunger crisis, on global stagflation, on world economic growth, and the threat of a global economic recession which is real and which increasingly we are all concerned about.

In this connection, I would ask you to think back with me for just a moment to the years 1972 to 1974. During that period, literally overnight, world grain prices tripled. We increased our grain exports with that price pressure overnight some 25 million tons with a devastating effect on the livestock industry in this country. Can you imagine what would happen if we had a repeat of that and another 300-percent increase in grain prices with a world economy very fragile, with stagflation becoming a common word, with depression a danger we increasingly fear? Think for a moment what a 300-percent grain price increase would mean on the world scene.

Yet only 1 year ago we were deeply concerned that that might happen because the global world grain stocks were that thin. One year ago we had a 40-day carryover. That's all. When I became Secretary of Agriculture, we had a 105-day carryover. There are now a billion and a half more people in the world. At the moment, the thrust is the other way because we had some exceptional crops last year. We've had 3 years running with quite good crops. Yet in 2 of the last 3 years, world consumption has exceeded world production and in 1980 by 35 million tons.

If you sit down and merely project, extrapolate, increase in productivity, increase in population, increase in consumption, particularly in the developing world where economic growth in a number of countries has continued at a fairly high level and, with it, increasing demands for protein diet, you can come to only one answer, and that's disaster and major famine.

Now I don't think that's going to happen. I think the world is going to respond in a number of places and certainly the potential to increase production enormously is there. But what I would call to the attention of this committee, looking at the big picture, thinking in terms of strategy, is an absolute necessity that there be some kind of reserve component in place as a matter of consistent policy and that the United States should not do it all alone.

The world didn't have any reserves in 1972 to 1974 and look what happened. We now have, let's say, roughly 35 million tons. You know the numbers. I could give them to you but I won't take the time. That is not a great deal. That is less than we had when I became Secretary of Agriculture in 1960. Such a reserve level is not overwhelming nor do I think that is what's causing the current softness in world market grain prices which have come about basically, in my judgment, because of the international stagflation, because of the turndown in the world economy, because of economic policy in this country which has resulted in tough monetary controls and the kind of interest rates that we have had to live with.

But what I would like to bring to the attention of this committee, and hopefully others, is that as a matter of national policy we ought to go about using our influence and our muscle, so that other countries will join with us in building up the reserves that the world needs to give the kind of stability that Secretary Bergland has talked about.

It's my judgment that in the long run, given the precarious food-people balance, farm prices are going to be strong, that, if anything, demand is going to outrun supply, and that we need therefore to have reasonable reserves to give us balance and assurance and stability across the board. I think the current price turndown is fundamentally temporary and if and when the world responds and returns to a reasonable economic growth rate—two-thirds of our grain exports go to the developing countries who today are the major importers—grain prices will become strong again. Since I became Secretary of Agriculture, grain demand in those countries has become extraordinary.

I argued before the House Appropriations Committee for agricultural technical assistance to developing countries 20 years ago. I was challenged because they said we were creating competitors. I could only argue then that no country in the world other than a few city states ever moved ahead and built a strong economy without an agricultural base, and when countries build a strong economy they become major importers of American food of various kinds.

The most striking example of that today, of course, is Korea, where not so long ago, 20 years ago, they imported about 200 million dollars worth of U.S. agriculture. Today it's almost a billion and a half. And that's repeating itself in many developing countries. So the market is out there and if we can have a confident and stable approach and if the world economy returns to a reasonable growth rate, I think the prospects are not grim, but quite the contrary.

I would not for one moment contradict what the chairman said. Net farm income, based on the figures you projected—again, if you will pardon the reference to when I was Secretary of Agriculture—is one-half of what it was in 1967. Taking the real income figures you used, Mr. Chairman, of $7 billion real income, in 1967, it was $14 billion. So the retrogression in terms of the total figures is very great indeed.

Now how do we go about concentrating on the terribly important reserve question. We must be careful not to throw the baby out with the bathwater because we've got a desperate farm income situation in the short run and we have some reserve carryovers in a system that finally was put in place only recently Today, only two countries in the world have a matter of policy, a strategic grain reserve. We are one, and that came into focus under the leadership of Secretary Bergland.

I was able to direct attention to this problem in my capacity as the Chairman of the Board of Governors of the United Nations Association of the United States of America. I became the Chairman of a Food Reserve Committee of the Economic Policy Council, and we made some recommendations on how we thought this Government ought to go about meeting the reserve problem recognizing that for 20 years we failed abysmally trying to reach multilateral agreements. I was a part of this, again 20 years ago in the Kennedy round. We got nowhere. In the last years of Secretary Bergland, the United States, for a year and a half, negotiated and got nowhere. So there is no international agreement and, in my judgment, it's going to be a long time before you get countries to get together and get down to the nuts and bolts of how do you do this simply because it tends to conflict with the internal agriculture of many countries.

So the agreement that we reached in the UNA committee—and I will now read a release that was issued last October and make just a few quick comments for the record and then thank you for your time.

Recognizing the failure of past approaches to deal with sudden world food shortages in Africa, Bangladesh and other parts of the world, leading U.S. agricultural experts and a distinguished national panel of labor and business leaders convened by the United Nations Association's Economic Policy Council today issued a report calling for the U.S. to initiate discussions which will lead country-by-country to an improved international food security system.

According to Orville Freeman, who chaired the panel, "An all-encompassing, multilateral agreement on a comprehensive international system for coordinating grain reserves is too complex a task at this juncture for world governments. The subject is so pressing, however, that other solutions have to be found. We firmly believe the approach outlined in our report is practical and could be put in place in a few years." Past efforts at international cooperation on grain stocking have foundered because agreement could not be reached among exporters, importers and developing countries on such questions as the levels of reserves, prices at which stocks would be accumulated or released, and what responsibilities developing countries should shoulder themselves. The Economic Policy Council's fresh approach is based primarily on linked national commitments to establish grain reserves under national procedures and programs to achieve national objections.

Projections of global population increases, damage to the 1980 U.S. grain crop, a sharp reduction in the size of the 1980 Soviet harvest, all emphasize the need to act now.

That was last October. The whole picture has turned around since then.

John Schnittker, formerly Under Secretary of Agriculture and the principal researcher for the project argues that, "Delay will only make it more difficult for consuming and producing nations to insure world food security in the kind of situation now developing as a result of reduced harvests. Grain importing countries would be among the major beneficiaries of a series of national grain reserve commitments."

The UNA report, "A U.S. Initiative Toward World Food Security" notes that only India among the major developing countries has a grains reserve policy. In India, substantial grain stocks have been in place at the beginning of recent crop years to be used in case of poor harvests. The India case can be duplicated elsewhere if governments are prepared to make the effort in their own interest.

Under UNA's Economic Policy Council's approach, developing countries would be expected to commit themselves to a grains reserve policy which would consist of establishing reserves, developing storage and management capability, and making financial commitments consistent with their own needs and resources.

Mr. Chairman, I think I've used about as much time as I should. In essence, what I am urging here is that if a dozen countries in the world, four or five exporting countries and four or five major importing countries, would reach a working agreement consistent with their own domestic agricultural policies to put reserves in place and maintain them, it could be done, I submit to you that it would make eminent sense for this Government in its negotiations, in its bilateral relations with the selected countries, to try in every means to accomplish such cooperation.

To take one illustration, the agreements negotiated with China not so long ago should have had within them provision for a grain reserve policy to be followed by that country. What's going on now—and mention was made of Japan by Congressman Richmond—in the very complicated and difficult relationships which we can discuss later, Japan at this point should be urged to accumulate very major reserves of grain and to carry them over as a consistent part of her policy. At one point they were talking about that. Then, when harvests are good for a year, everybody goes to sleep and forgets about it. I suggest to you that we can't afford to forget about it; and one of the most critical and dangerous things today is not a surplus, looking at this in global terms, but it is a precarious food-people balance made up of only about 51 grain carryover days. I say again, when I became Secretary of Agriculture, it was over 100 days and there were 1.5 billion fewer people in the world.

I commend this to your attention and thank you for your courtesy in hearing me.

Senator ABDNOR. Well, thank you, Mr. Freeman, for those very informative comments and I'm sure the panel will be asking questions to elaborate more on that.

Our next witness is the former Secretary of Agriculture Charles Brannan. We welcome you to the panel and look forward to hearing your statement.

STATEMENT OF HON. CHARLES F. BRANNAN, ATTORNEY AT LAW, DENVER, COLO., AND FORMER SECRETARY OF AGRICULTURE

Mr. BRANNAN. Thank you, Mr. Chairman.

My name is Charles F. Brannan. I served as Assistant Secretary of the Department of Agriculture from 1944 to 1949 by appointment of President Franklin D. Roosevelt. In May of 1948, I was appointed by President Harry S. Truman as Secretary of the Department and served in that capacity through 1952.

I am genuinely complimented by the invitation of this subcommittee to express my views concerning the present and future of American agriculture, and I wish to say in beginning that I associate myself with the remarks of both Secretary Freeman and Secretary Bergland with respect to the foreign and international aspects of our agricultural economy and I particularly was pleased to hear the recommendations concerning stockpiling or carryovers, not only in this country, but also in the foreign lands with which we hope to maintain the necessary relationships.

I'd just like to say parenthetically that I think this is the first time I've had an opportunity to appear before a committee of Congress in which I was not apprehensive that what I might say would affect my appropriation. [Laughter.]

I will not burden this subcommittee with a host of agricultural statistics. The subcommittee obviously is very well informed on that and the very fact that the subcommittee decided to hold these hearings indicates that it is aware that American farmers are in almost as tragic circumstances as in the early 1930's. However, a few historical facts focused on the period since 1953 will be helpful and, I hope, interesting.

The number of farms which in 1953 stood at 5,198,000, declined to 3,962,500 in 1960; to 2,949,100 in 1970; and in 1982 is projected at 2,437,000. It is safe to predict that percentagewise, the loss of farms through foreclosure and other distress procedures will be greater in 1982 than in any year since the Great Depression. One auctioneer serving northeastern Colorado, my home State, advised recently that he has a farm auction scheduled for every day from now well into June. Almost daily similar situations are reported for other parts of the country. The most recent one, I guess, was the New York Times in Sunday's paper.

The "collection only" policy of Farmers Home Administration, first inaugurated in the Nixon administration and recently resurrected, will accelerate the displacement of farm families throughout the Nation and increase the unemployment numbers in the cities as it did in the 1930's.

In 1952, the price to farmers for a bushel of wheat was $2.09. This was 86 percent of parity. At that time the price of a 1-pound loaf of bread to the housewife in the city was 16 cents, and I'm sure Secretary Butz is going to tell us what's worth today.

The price of a gallon of milk was 45 cents, or 110 percent of parity. The consumer of that milk paid 86 cents per gallon. At all times during the Truman administration, the average of all prices of agricultural products remained above 100 percent of parity. They have never reached that level since 1952.

Nevertheless, we in the Department of Agriculture, and a few in the Congress, were disturbed by the downward trend in farm prices and concluded that a search for methods to arrest the decline before it reached levels detrimental to our agricultural and national economy should be instituted. A comprehensive study was undertaken and definite proposals were submitted to the Congress in April 1949. Reference will be made to these proposals later in this statement.

During the last year of the Truman administration, farmers earned $14.4 billion in realized net income. Net income is being projected for this year at somewhere between $13.5 and $18 billion, and I think the chairman used the figure of $16 billion. But the Consumer Price Index for all items has increased by 350 percent since 1952; therefore, the net income of U.S. farmers in constant dollars, or in real terms, in 1982, will be about one-third of what it was in 1952.

The total appropriation for the Department of Agriculture for the fiscal year 1952 was approximately $1.045 billion, including Commodity Credit Corporation's net realized losses on all commodities of $300 million.

The personnel of the Department numbered 78,249 compared to this year's total of 84,800. Between 1948 and 1952, the number of personnel and the fiscal year appropriation of the Department of Agriculture for all purposes was reduced almost 20 percent without the discontinuation of any services to farmers.

Commodity Credit Corporation borrowed money in 1952 through the Treasury Department at interest rates ranging from 1 to 1¼ percent. Inflation has changed many of these factors. But inflation provides no excuse for the failure of the administration and Congress to act effectively on this serious problem.

Over the years since 1952, several legislative attempts to stabilize the price of agricultural products to farmers have been made. All fell short of their announced objective. Some, such as the most recent bill, have, in fact, accelerated the decline in farm prices and the liquidation of farming enterprises, large and small.

Any remedy for the troubles of rural Americans must contain three essential ingredients.

First, farmers must be afforded an opportunity to obtain a fair price for their product when, at the end of the growing season, they deliver their product to the market in which they have no bargaining power and are completely at the mercy of factors over which they have no control and is often influenced by factors wholly unrelated to normal or foreseeable supply and demand.

For example, this country's preeminence in the production of food—wheat, feed grains, soybeans, and a few other essential foods—has enabled it to use food as a tool of international diplomacy. Obviously, wheat, grains, and other agricultural commodities should be available for such purposes. But the cost of using grain to implement a diplomatic decision should not be saddled upon the producer of that grain. Mr. Nixon's sale of wheat to China at well below the price of production may have been essential to the renewal of diplomatic relations with that important country. President Carter's embargo on some grain to the U.S.S.R. may or may not have been a sound diplomatic move. Whatever similar plans President Reagan may have for the use of grain in international maneuvers may or may not be warranted. But, the American farmers supplied those grains at less than the cost of production. If those international transactions resulted in a price rise on the Chicago Board of Trade, few, if any, producers benefit. The grain has long since passed into the hands and control of the grain brokers and speculators.

Certainly, when the State Department decided to supply guns, tanks, planes, or other war material to a, hopefully, foreign ally, it does not ask the manufacturer to produce and make the military equipment available to the foreign government at below cost. On the contrary, the government guarantees a profit to the manufacturer of such material.

Second, the American consumer must also be afforded the opportunity to enjoy the benefits of America's ability to produce food in abundance. The Nation is unique in that ability. But those who produce that food have been and are now being penalized for their efficiency and diligence.

The Department of Agriculture recently advised that 70 percent of each dollar consumers spend for food is for packaging, transportation, labor, and advertising. The Department also announced that $31 billion annually is added to the cost of food because of waste in the marketing process. Obviously, the consumer pays for all of this and all of it occurs after the product leaves the farmer's hand and not a dime of that $31 billion benefits the farmer in any way.

A lowering of prices to consumer seldom follows an announcement of a surplus of any major raw agricultural product. But when a shortage of an agricultural product is even forecast, the price to the consumer of that item immediately goes up, including the contents of the cans already on the grocer's shelf.

Third, any program to provide farmers with the opportunity to secure a fair return must not place an undue financial burden on Government. There must be a genuine cost-benefit ratio for taxpayers. Achievement of this goal lies substantially with the producer. He must be willing to accept equitable and just provisions for keeping supplies of agricultural products reasonably in balance with genuine demand.

The failure of the Congress and the administration to insist upon such measures and the apparent unwillingness of producers to accept any form of market quotas or acreage limitations in return for the opportunity to obtain fair price almost wholly accounts for the ineffectiveness of past farm legislation to achieve its announced purpose.

The dairy provisions of the 1977 Farm Act as extended is a striking example in point. Dairy farmers were singled out under the provisions of that bill for special treatment by being provided a fair but not unreasonable support price for milk. The need to correlate their production with genuine demand was totally ignored. Almost immediately dairymen began to increase their production. Low-producing cows, which efficiency dictates should have been culled out of the herd, were retained and continued to produce on cheap grain. Even when such animals were culled out by one farmer, they were often bought by another and continued in production. As a result, milk production soared above market requirements and the Department bought butter and cheese which it is now using to embarrass the dairy farmers of the country and the farm price stabilization concept in general.

Had the Congress and the administration insisted that milk producers accept reasonable provisions to avoid the production of vastly greater quantities of milk than the market could absorb in return for the fair price which the act assured them, this present embarrassing situation could have been avoided.

A fair and just program which would provide reasonable balance between supply and demand is possible. The cost would be vastly less than the present cost of farm programs. Consumers would directly benefit in this country's capacity to produce abundantly almost all the foods its people require. The competitive position of farm exports in world markets would be enhanced. And the Government would be at liberty to withold or ship food for its international and diplomatic purposes without the costs of their decisions being absorbed alone by the producers of that food.

The Department submitted such a proposal to the House in 1949. It was defeated by a legislative maneuver which changed the vote of tobacco Congressmen. However, many believe that a trial run of the proposal would have been authorized by the Congress had not the Korean conflict caused farm prices to strengthen substantially and thus postpone the apparent need for sound, workable farm price stabilization legislation.

In brief, the Department recommended that the prices received by farmers for their various crops in the marketplace be determined by the law of supply and demand no matter how influenced. But, if the average of all prices received by all farmers for a specific crop during a normal marketing season was less than the fair price, the Government would pay directly to each producer of that crop for the number of units of the crop marketed by him a sum equal to the difference between the average unit price received by all producers of that crop during the marketing season and the predetermined fair price of the units. There was a limitation hereafter described. No farmer was forced to participate. He could produce all he wished and take his chance on the market price.

For example, assume that the predetermined fair price for wheat in a particular marketing season was $4.50 per bushel and that the average price received by all wheat producers for the wheat marketed by them during that single marketing season was $4 per bushel. Obviously, some farmers received less than the average $4 per bushel and others received more. Then assume that some less efficient farmers, who produced an inferior grade of wheat or marketed carelessly, received only $3.80 per bushel or 20 cents less than the national average; while, other farmers, who produced a superior product and marketed wisely, received $4.20 per bushel or 20 cents more than the national average. Shortly after the end of the marketing season, all wheat producers who sold wheat during that same marketing season would receive a payment of 50 cents per bushel for each bushel marketed; consisting of the difference between the national average price of $4.00 for that marketing season and the predetermined fair price of $4.50. The less efficient farmer would net $3.80 per bushel for his crop at the elevator plus 50 cents from the Government, or a total of $4.30 per bushel; while the efficient farmer would receive $4.20 per bushel at the elevator plus 50 cents from the Government, or a total of $4.70 per bushel for his crop.

Note that, in addition to providing the farmer with a fair return for his investment in land, equipment, seed, and fertilizer, and payment for his labor and skill, the proposal created a monetary inducement to all producers to farm efficiently and market carefully.

Implicit in the proposed Government's assurance to farmers of a fair return was the reciprocal obligation of farmers to help make the program workable and to keep the Government's costs within reasonable limits. Therefore, the program provided that in the event the previous year's production of any crop substantially exceeded genuine demand for all purposes, each farmer would curtail his production or his marketing, or both, of that crop on an equitable prorate basis with all other producers of that crop in the following growing or marketing season.

The plan also took into account the real probability that direct payments would encourage farmers and others to buy more land. If so, an unsettling inflation in farmland values would result and the trend toward concentration of farmlands into fewer and fewer hands would also be stimulated. Therefore, the plan included a recommendation that total direct payments to any single farm operation for all its production would be limited in amount and that the production of any farm in excess of a predetermined amount would be ineligible for direct payments. The operators of all farms, no matter how large, would participate in the direct payments program but not to exceed a specified dollar amount. This became known as the "family farm cutoff" and was a rather bold recommendation for that time. However, this concept in various modified forms has subsequently been included in a number of bills for extension of the present farm price support program.

The measure or criterion for determining the top limit of a direct payment to any one farm operation was a historic average annual gross return from the sale of all crops from a typical large family farm. Such a farm would be modern, mechanized, efficiently operated and might use some hired labor during peak work periods; but, primarily, a farm on which the farmer accepted full responsibility for management and on which he and his family did the bulk, if not all, of the farm work.

This recommendation rests on the premise that there is a genuine public interest, if not a responsibility of Government, in providing a reasonably diligent farmer with an opportunity to earn a fair return for his contribution to the national economy and welfare. The same principle underlies the minimum wage, the Wagner Act, and many other generally accepted items of national legislation.

On the contrary, there is no public interest in or Government obligation to encourage big producers to get bigger at taxpayers' expense. No one can object to a producer expanding his resources and output by his own efforts. This is the so-called free enterprise system. But contributing tax dollars for that objective is not a public responsibility.

When farmers had reasonable assurances of an opportunity to earn a fair return upon their investment in land, equipment, supplies and for their labor and skills, they should be in a financial position to improve their farms and efficiency by implementing various types of soil and other farm practices without the additional financial assistance now received from the Government.

When the plan was first offered to Congress, little attention was given to its anti-inflationary potentials. Inflation was not a major problem in 1949. However, by 1957, inflationary trends in some areas were beginning to appear. The eminent economist, J. K. Galbraith, recognized an inflationary trend in food prices and suggested direct payments to farmers as an effective tool for curtailing it. In an article in the Atlantic entitled, "Are Living Costs Out of Control?", Mr. Galbraith wrote:

> A change in farm policy from the system of pegging farm prices to one of allowing them to find their own level, with the farmers' income protected by direct payments, would be immediately useful—in attacking inflation.

To summarize, it is in the national public interest that farmers be provided an opportunity to earn a fair return for their crops. The so-called marketplace has never in all the history of the country, or of any other country, provided that opportunity. Such an opportunity can and must be provided by the Federal Government. A program can be enacted by Congress which will provide farmers the opportunity for a fair price, permit American consumers to enjoy the benefits of our ability to produce an abundance of almost all foods, provide the crops for export and accomplish all of this at reasonable expense.

The Department of Agriculture has demonstrated that it can efficiently and economically manage the programs assigned to it.

Many years of valuable time have been lost. Millions of fine, dedicated farm families have been forced to abandon their way of life. Not one more day of this tragic scenario should be tolerated.

This subcommittee is to be commended for addressing this all important question. Thank you, Mr. Chairman.

Senator ABDNOR. Thank you, Mr. Brannan, for that fine presentation and another viewpoint on the farm situation.

Our last witness is the former Secretary of Agriculture, Earl Butz. We welcome you back, Mr. Butz, and we'll be glad to hear from you now.

STATEMENT OF HON. EARL L. BUTZ, FORMER SECRETARY OF AGRICULTURE

Mr. BUTZ. Thank you very much, Mr. Chairman and members of the subcommittee. It's always a thrill to be back here on the Hill, especially when you're on this side of the table because if you're not in office you can testify in an irresponsible manner because you don't have to go back and put it into action tomorrow. I think we have not been irresponsible here as I've listened to this testimony. I think it depends on which part of the elephant the blind man got hold of, and we have had interesting testimony from three Secretaries. I'm the fourth one and I think there's something ulterior and sinister about having a man named Butz as the speaker on the tail end of this program. [Laughter.]

I have no prepared statement. When you get out of office you don't have a staff to prepare your statements. Therefore, I'm going to talk from the cuff here.

Agriculture is depressed. There's no doubt about that. We have had plenty of evidence presented on that this morning. Prices are low and costs are rising.

I want to point out that there are two sides to this net income problem in agriculture and I think too frequently we address ourselves primarily, if not exclusively, to the price received side and so much of our legislation in the Congress in the last four or five decades have been directed to the question of prices received, that too little attention has been directed to the costs side of American agriculture.

There are two blades to this net income scissors. One is prices received. The other is prices paid. The cash flow in agriculture is not so bad these days, the total cash flow.

The other day I asked this good family farmer, "How is your cash flow?" And he says, "Well, my cash flow is pretty good. The trouble is it ain't stopped yet," and I think stopping his cash flow expenses were sucking up everything he could take in. And I want to address myself to that question a bit right now.

I noticed in the February 15 statement put out by the Department of Agriculture on prices received by farmers that prices received last month in the United States were 7.6 percent below a year ago, whereas the cost index was 4.1 percent above a year ago. Let me repeat those figures. Prices received were 7.6 percent below a year ago and prices paid were 4.1 percent above a year ago.

If I go back 3 years, I get a still more striking statement. If I go back to the period when my predecessors were Secretary, I get an even more striking statement of the divergence in those two trends. I think we tend to pay entirely too much attention to prices received and not enough attention to prices paid for cost items used in production. I want primarily to address my remarks to that side of this income equation this morning.

In times like this—and I agree with Secretary Freeman that this is a temporary situation. In the longer run, I remain optimistic, as he does and I think the other people up here do too, that in times like this there's always a temptation to panic. There's a temptation to yield to pressure, to do unsound things, and pressure develops in times like this. There's always a temptation in this Congress and in the administration to throw money at the problem. Historically, we seem to feel we can solve most problems by throwing money at them or easing credit or extending credit at substantially below the competitive interest rates.

The caution I want to throw out right now is if we don't plan carefully at times like this as we attempt to lessen short-time pain, we will create more long-time problems in the very process and we should be careful not to do that.

As we look backward, we've stressed prices received and stressed market expansion. We've stressed production controls. We've stressed storage problems. In subsequent times we tend to repeat those very things and you've heard of that here this morning.

I was a graduate student in the early 1930's and I recall such names as McNair Huggin in the 1920's—primarily supply control programs. I recall the Federal Farm Board of the late 1920's and early 1930's when they had $500 million appropriated—that was a tremendous sum in those days—to stabilize the price of wheat. They couldn't stem the tide in those days. I recall the early days of the AAA administration, the Agricultural Adjustment Act. We plowed under corn and cotton to control supplies, and we killed 6 million baby pigs that made a great scandal in the country. We had birth control programs for cows and sows and it didn't work. We didn't get the message through to them. We had the ACP program. In the name of conservation we were going to cut back on production. We had the set-aside. We had the Brannan Plan and it took our administration to put the Brannan Plan in disguise as somebody once told me, and it didn't solve the problems in those days.

We've now got these tremendous reserves in the country, the farmer owned reserve that Secretary Bergland put into effect. But I want to point out when you have these reserves like this and they reach the magnitude of present stocks in these reserves they constitute a ceiling over prices rather than a support price because those reserves are going to come out sometime. We're not going to burn them. We're not going to dump them in the ocean. We're not going to let them go out of condition. They're going to come back in the market at some point and the larger they are, the greater the threat they constitute over prices. I think we've got to recognize that reserves like that are not the answer.

I thoroughly concur with the recommendation of Secretary Freeman that the problem of world food reserves ought to be shared by other nations. He stressed that very much. Secretary Bergland stressed that. Secretary Brannan stressed it. I stress it. The plain truth is other nations aren't doing it. They look at the United States where we carry the world reserves under our own reserve program at U.S. taxpayer expense and we announce ahead of time what the release price will be for 4 years in most cases where we have a 4-year farm bill, and the rest of the world understands they will be here at a price not to exceed that as we release it from our reserves, and we carry them at our expense and the only thing that might interfere with their moving into other nations is a longshoreman's strike or an embargo imposed by the U.S. Government. But they're willing to let the Government carry those reserves at our expense primarily because our own domestic farm programs have put those quantities of grain and other supplies into reserve in this country and then let the other people be the primary marketers in the world while we become the world residual suppliers. And I think as long as we do that, you're going to find other nations reluctant to commit their resources to carrying their own food reserves.

I quite agree with Secretary Freeman that they should do this, but the plain truth is that they are not doing it.

Let's come back then to what I want to talk about briefly, and that's attacking farm costs. Inflation is your No. 1 problem there. I think inflation has been more unkind to farmers than any other group because inflation has jacked their farm costs up and once those costs go up they stay up; they never come down. Farmers sell on a yo-yo market. You've got good prices this year and next year not-so-good prices. You've got your livestock cycles, production cycles and price cycles, but those prices come up and stay up and never come down.

I commend the Congress and the administration for making a frontal attack on this inflation problem. I think farmers have more to gain from stabilization of prices than any other group in society because such a large share of their gross income is now committed to cash expenditures for production costs. So that's the first thing.

The second thing is interest costs. They have been mentioned here. These constitute a tremendous drain currently on farm cash receipts. Farmers currently have indebtedness of about $200 billion total in this country. In 1981 their interest costs were $19 billion. That was 20 percent above the previous year. That's a very substantial increase in farm costs in 1 year. If we were to reduce interest costs by just 3 percent, if you apply that 3 percent to a $200 billion indebtedness and that constitutes a $6 billion reduction in farm costs, and that's greater than the total cost of farm programs paid directly to farmers last year. This would constitute a tremendous opportunity for farmers to increase their income.

Transportation costs are high. They are high partly because of cost of fuel I know and high cost of other things. They are high partly because of the continued featherbedding which takes place in railroads, in the trucking industry prior to the deregulation of trucking recently, and there's still some of it going on. This cost has to be added to the cost of transporting farm products.

To illustrate, recently I was in Chicago and wanted to come back to my home town of East Lafayette, Ind. I took a train down. It's a delightful ride to northwestern Indiana. It was the first time in 20 years I've ridden the train. It took us 2½ hours to come from Chicago to Lafayette, the train stopped 2 miles short of where the place is where they discharge passengers, out by the old railroad shops that had been closed for many years. Why does the train stop here? Presently I saw why. The crew walked off the train. The entire crew, with bags in hand walked off the train and up the grassy banks where their cars were waiting while another crew came on the train. This had been a day's work, to bring that train from Chicago to Lafayette, 125 miles, 2½ hours was a day's work. Another crew came on carrying their bags and they took the train to Indianapolis. I'm sure another crew took it back the next day.

This all had to be added to the cost of transportation. This is one of the reasons why it costs around $35 to bring a ton of potash from the Canadian mines to the midpart of America, because we have that kind of featherbedding cost in the cost of transportation. That goes into practically everything farmers buy, whether it's machinery, or energy, or whatever it may be.

I cite that simply as an illustration, a personal illustration of featherbedding that adds to our costs and makes it impossible to have a decent net income from a cash flow that remains pretty substantial and remains at a pretty high level.

The next thing I think we ought to attack is this question of regulations. We overregulate our people. I won't go into details here, but the OSHA regulations, the EPA regulations—I think every man at this table has said the law ought to be repealed, for example, which removes any opportunity for the exercise of judgment in this matter of risk-benefits ratios in our foods. It makes the cost of producing higher and adds to the farmers' costs and adds to the cost of food to the consumer for that matter. We need somehow to permit some area of the exercise of judgment to maximize the risk-benefit ratio.

There are risks involved with modern agriculture. There are risks involved in using the chemicals we use, the food additives we use, and the antibiotics we use and the wheat control chemicals, but the benefits that flow from those are tremendous.

When I become ill, I go to my physician. He prescribes poison for me, but he says, "If you follow the rules on this bottle, I think you will get better." So far, he's always been right. I'm willing to take a little risk to enjoy the tremendous advantages that come to me from recovery, and I think we've got to permit an area where judgment can be exercised in this increasing use of chemicals on the part of agriculture which will reduce farm costs and at the same time enhance our food supplies.

Now I come to marketing costs very briefly. This is the place we need to attack costs. You've had testimony here this morning that producers currently get about 36 percent. I think last month's figure was 36 percent of the consumer's food dollar. That comes back to producers.

What is that other 66 percent? It consists of transportation, taxes, interest costs, energy, and labor.

Let me give you a personal illustration again. Recently Mrs. Butz said, "I'm having a dinner party the day after tomorrow. I'm having eight people. Buy me about a 6-pound pork loin roast that I want to serve to the group that night. I don't want one with fat in it, or bone in it, or gristle." She was describing a pig we haven't bred yet, but I knew roughly what she wanted.

I went to the grocery store and I saw these pork loin roasts wrapped up here on the counter that were about 3½ or 4 pounds. They were too big, too fat, too bony, too much gristle. So I saw this chap in an apron behind the counter and told him I'd like to get a 6-pound pork loin roast. He said, "Look out on the counter." I said, "They're not out there. There's nothing I want out there. Have you got a larger one and we'll cut a 6-pound roast out of the middle of it." He said, "No, I can't do it. I'm a meat wrapper." I said, "You're a what?" He said, "I'm a meat wrapper. The meat cutter went home at 4 o'clock." I'm talking about my little town of East Lafayette. I'm not talking about New York or Chicago now. I'm talking about my little town. The meat cutter went home at 4 p.m. I said, "You mean to tell me you can't show me a small loin and cut me a roast out of it?" He said, "No, sir. You'll have to come back tomorrow."

I saw the store manager and said, "Tell me about what goes on behind the counter back there." He said, "That's right. I can't afford to keep the meat cutter here after four p.m. or on the weekend because it costs too much in overtime and double time on Sundays." I said, "What does that meat wrapper get paid?" He said, "Well, he gets $7.20 an hour." I said, "Add your percs. What is it?" He said, "About $10 an hour it costs me to keep him back there." I said, "How about the meat cutter?" He said, "His rate of pay is $10.25 an hour." I said, "Add your percs and what is it?" Well, it's $700 for 40 hours. I can't afford to keep him overtime." I said, "How long does that meat wrapper have to work to become a meat cutter?" He said, "4 years." I said, "Holy smoke, I could teach him to cut meat in 4 hours." He said, "No, you can't. It takes 4 years under the rules here."

Now I paid too much for that pork loin roast. The farmer didn't get enough for his pig because one man couldn't pick up a knife and the other man couldn't pick up a piece of wax paper. These are the things we've got to attack.

They've got sawdust in the back of that department. I said, "You've got a stockboy that doesn't have much to do after 4 p.m. in the afternoon. Can you put that stockboy back there to sweep up that sawdust?" "No, sir. That would stop the whole operation."

Now I'm giving you a personal experience I had here that's pervasive through this whole distribution system, and I think we've got to attack those work rules to reduce this inefficiency, to reduce the low productivity, to reduce that 66-percent spread that comes after this produce leaves the farm gates. If we can do that, consumers will benefit and farmers will benefit and I think we will make a tremendous stride toward improving this farm-income situation on a permanent basis.

Mr. Chairman, one other illustration about this high cost of distribution. You never know when you come to a place like this, but somebody said you're having a lunch after this hearing. Is that right?

Senator ABDNOR. That's right.

Mr. BUTZ. You never know what you're going to have for lunch, so I brought my own loaf of bread. I got a 1-pound loaf of bread on the way over here this morning in Virginia. It's a 1-pound loaf of bread and it cost me 78 cents. Now a bushel of wheat will make approximately 70 1-pound loaves of bread just like this one. Wheat currently is out in my part of the country, $3.50. I'll say $3.50 because I can divide 7 into $3.50. I know how to do that. Wheat is about the same price right now that it was when you were Secretary, Orville, and the price of bread has doubled in the meantime. So I divide 70 loaves of bread into this $3.50 price of a bushel, and I get 5 cents of wheat in this loaf of bread, a nickel's worth. I paid 78 cents for it. If I had taken all of the wheat out of it, I would be paying 73 cents for the wrapper. I know it's not quite that simple. So I'll divide 5 cents—I'll make it 75 cents because I can divide 5 into 75.

That's one-fifteenth of this loaf of bread is what the farmer put in. That's all he put in it. Somebody else put fourteen-fifteenths of it into it before I got it in the store shelf. There are about 20 slices in it. So I'll take out the heel and one slice, that's the farmer's share. The heel and one slice is all he put in and somebody else put the remaining in. I always get a little nervous when I do this—it's kind of like having Parkinson's disease. The doctor says, "Do you drink?" And the man says, "I spill more than I drink." That's what somebody else put in that loaf of bread. I've got it slanted because I want the cameras to get this here. This is what the farmer put in there, the heel and one slice. It cost more in this town this morning to deliver that loaf of bread from the bakery or whatever than the price of wheat in it and it's often the wife of the man who drives the delivery truck who complains about the price. I like to have him well paid, but I wish the work rules under which he operates weren't based on the many "Pa & Ma" stores instead of two stops at supermarkets as he does today. This is what I'm talking about. I think we've got to attack these inefficiencies in the supply side of agriculture and in the distribution side of agriculture and when we get that done we would have made a major stride toward permanently improving farm income in this country. Thank you very much for your time.

Senator ABDNOR. Thank you, Mr. Butz, and thank you all for your views and thoughts. This is what we really wanted to hear. I know the members of the committee are just chomping at the bit to get to ask you some questions.

Mr. FREEMAN. Mr. Chairman, I overlooked to submit for the record a copy of the press release I referred to.

Senator ABDNOR. I wish you would. I was going to ask you for it myself.

Mr. FREEMAN. And a copy of the report with a special reference to the summary which abbreviates what I had to say.

Senator ABDNOR. Without objection, the press release and report will be made part of the record at this point.

[The press release and report referred to follow:]

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HOLD FOR RELEASE

A.M. Papers
November 23, 1980

NEW U.S. INITIATIVE TOWARD WORLD FOOD
SUPPLY URGED BY PANEL OF EXPERTS

Recognizing the failure of past approaches to deal with sudden world food shortages in Africa, Bangladesh and other parts of the world, leading U.S. agricultural experts and a distinguished national panel of labor and business leaders convened by the United Nations Association's Economic Policy Council today issued a report calling for the U.S. to initiate discussions which will lead country-by-country to an improved international food security system.

According to Orville Freeman, who chaired the panel, "An all-encompassing, multilateral agreement on a comprehensive international system for coordinating grain reserves is too complex a task at this juncture for world governments. The subject is so pressing, however, that other solutions have to be found. We firmly believe the approach outlined in our report is practical and could be put in place in a few years." Past efforts at international cooperation on grain stocking have foundered because agreement could not be reached among exporters, importers and developing countries on such questions as the levels of reserves, prices at which stocks would be accumulated or released, and what responsibilities developing countries should shoulder themselves. EPC's fresh approach is based primarily on linked national commitments to establish grain reserves under national procedures and programs to achieve national objectives.

Projections of global population increases, damage to the 1980 U.S. grain crop, a sharp reduction in the size of the 1980 Soviet Union harvest, all emphasize the need to act now. John Schnittker, formerly Under Secretary of Agriculture and the principal researcher for the project argues that, "Delay will only make it more difficult for consuming and producing nations to insure world food security in the kind of situation now developing as a result of reduced harvests. Grain importing countries would be among the major beneficiaries of a series of national grain reserve commitments."

The UNA report "A U.S. Initiative Toward World Food Security" notes that only India among the major developing countries has a grains reserve policy. In India, substantial grain stocks have been in place at the beginning of recent crop years to be used in case of poor harvests. The India case can be duplicated elsewhere if governments are prepared to make the effort in their own interest.

Under UNA's Economic Policy Council's approach, developing countries would be expected to commit themselves to a grains reserve policy which would consist of establishing reserves, developing storage and management capability, and making financial commitments consistent with their own needs and resources. Multilateral and bilateral assistance organizations would be asked to provide both technical and financial assistance. Wealthier importers like Japan would be expected to contribute to an emergency food fund which could be drawn on to meet increased food import expenses. Grain exporting countries like Argentina, Australia, Canada, and the U.S. would establish nationally held reserves and would manage them in ways consistent with their own programs of price stabilization and trade policies.

The recently signed U.S. grain agreement with the People's Republic of China assures availability of 6 to 9 million tons of U.S. wheat and corn each year for four years, unless extremely adverse circumstances arise.

When linked to commitments from other exporters (about 7 million metric tons from Argentina, Australia, Canada, and the European Community) it involves significant quantities of food for the nearly 1 billion people of China. If the approach suggested by the Economic Policy Council had been part of our agricultural negotiating policy, the U.S. would have sought reciprocal commitments from China to undertake some kind of national grain reserves program.

Time to press the Japanese

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The report was prepared by the Economic Policy Council (EPC) of the United Nations Association of the United States of America (UNA-USA). Created in 1976, EPC brings together over 60 influential leaders from the business, labor, agricultural and academic communities as well as the professions to analyze current international economic policy problems from a U.S. perspective. The Council's Chairman is Robert O. Anderson, Chairman of the Board of Atlantic Richfield Company.

Copies of the report, which is entitled "A United States Initiative Toward World Food Security," may be obtained at $3.00 each from the United Nations Association of the United States of America, 300 East 42nd Street, New York, N.Y. 10017.

The United Nations Association of the United States of America is an independent, non-partisan nationwide membership organization. Through its programs of research and education it seeks to increase public knowledge about the United Nations and increase its effectiveness and promote effective U.S. policies on matters of global concern.

A U.S. Initiative Toward World Food Security—A Report of the Grains Policy Panel of the Economic Policy Council of UNA–USA

FOREWORD

ROBERT O. ANDERSON
CHAIRMAN, ECONOMIC POLICY COUNCIL

Over the past 25 years, world food production has doubled. Nevertheless, in many countries, production, distribution, and storage of food have not kept pace with population growth and emerging needs. Further, despite progress in a number of areas (for example, an early-warning system for crop failures, research to develop new crops, and significant increases in agricultural investment), little has been accomplished in establishing a system to secure world food security.

Year-to-year fluctuations in food production, as a result of weather changes and other natural conditions, are unavoidable for the foreseeable future. Countries can, however, agree on a means to ensure the maximum availability of food at all times.

Recognizing the need for practical suggestions to deal with the problem, the Economic Policy Council (EPC) asked Orville L. Freeman, President of Business International Corporation and a former United States Secretary of Agriculture, to chair the Panel which would undertake this priority task. The Panel has done a remarkable job in developing a reasonable, workable approach to a very difficult problem. EPC was most fortunate in having John Schnittker, President of Schnittker Associates, do the research which provided the basis for the Panel's conclusions. The full Council added its insights and opinions to the Report before it was completed. We think it is worthy of careful consideration by domestic and international policymakers concerned with this fundamental issue.

PREFACE

ORVILLE L. FREEMAN
CHAIRMAN, GRAINS POLICY PANEL

The problem of grain reserves and food security was first considered by the United Nations Association's Economic Policy Council (EPC) in 1976. In its first report in 1978, The Global Economic Challenge: Volume I, EPC recommended that the United States Government support a grain reserve program and that any reserve system should be designed to assure a viable agriculture and continuing abundance for consumers, nationally and internationally.

EPC concluded also that the severe disabilities of the developing countries should be attacked through such measures as expanded technical and development assistance, social services for rural people, programs to increase overall employment and production, and maintenance of adequate price incentives for farmers.

Since 1978 there has been much international discussion of food and agricultural issues, but little tangible progress has been made on programs of greater international cooperation. While farmers have had excellent crops and have done, their part in producing food for the world's ever-growing population, consumption has accelerated, governments have been unable to reach agreement on a world food security system, and only two nations -- India and the United States -- have adopted national food reserve policies to meet the inevitable food shortages of future years.

It was with a real sense of urgency that EPC decided to focus on the question of how the policy deadlock on world food security might be broken. An EPC Grains Policy Panel held its first meeting in March 1980 at Airlie House in

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Airlie, Virginia. Participants included representatives of grain growers (Robert Lewis, National Farmers Union, and Jerry Rees, National Association of Wheat Growers); grain exporters (Robbin Johnson, Cargill, Inc.); food processors (Clifford Hardin, Ralston Purina Company); and economists (Frank Fernbach, formerly with the United Steelworkers of America, and John Schnittker, Schnittker Associates). Several meetings were held thereafter. The conclusions of the group were presented to the full membership of the Economic Policy Council, which includes representatives of business, labor, and the academic community, and they have now reviewed and approved the contents of this Report. We believe it to be a new and feasible approach to the establishment of international grain reserves. It offers a realistic solution to one of the most crucial concerns of our time, the avoidance of global food shortages.

SUMMARY

1. Multilateral efforts to agree on an international system for coordinating nationally held grain reserve stocks came to an end in the 1978-79 negotiating round conducted under the auspices of the International Wheat Council and the United Nations Conference on Trade and Development (UNCTAD). Failure to reach agreement was due to an inability by negotiating countries to understand what would happen under the agreement, to concern that the proposed rules would interfere with the operation of domestic farm policies, and to lack of commitment to grain reserves by participating countries.
2. These negotiations did result in modest progress. Governments adopted a Coarse Grains Convention providing for consultations among member countries on coarse grain issues, and the Wheat Trade and Food Aid Conventions of 1971 were extended until mid-1981. The overriding need to establish some form of global reserve or food security system and the present confusing grain supply and trade situation make it imperative that the United States take the initiative in discussions to improve world food security in the framework of domestic policy objectives of many countries.
3. Such future grain discussions would be markedly different from those of the 1970s. The primary emphasis would be on the concept of commitments to establish reserves under national procedures and programs to achieve national objectives. Food security arrangements that establish nationally held grain reserves to meet national objectives can accommodate differences in national agricultural policies among both developed and developing countries. The major focus would be on getting reserves

established by a limited number of countries under reasonably consistent procedures, not on adopting complete rules to cover every possible contingency in managing such reserves. Once reserves exist, they will stabilize prices, help assure food supplies to developing countries, and lead to participation in similar arrangements by other countries. This is a pragmatic approach which permits and encourages countries to establish, carry, and use grain reserves within the framework of their own national food and agricultural policies. It could lead quickly to continuing discussions and agreement among a number of developed countries.

4. Grain-importing countries would be among the principal beneficiaries of buffer stocks managed to stabilize prices and supplies, and they should make significant contributions to the effort. Reserves of exporting countries should not be made freely available to countries that do not contribute to a world food security program according to their capabilities. In lieu of contributions to emergency grain stockpiles, wealthier importers would be able to contribute to an Emergency Food Fund. Developing countries could draw on the Emergency Food Fund to meet increased food-import expenses.

5. The major thrust of negotiations involving developing countries would be directed at the establishment of a national grain or other food reserve. Important <u>preconditions</u> for their participation in the benefits of the international grain reserve agreement would be: commitment to a reserve policy; development and initial steps toward implementation of national food and agricultural policies to support a grain reserve policy; and pledged support from bilateral and multilateral assistance organizations to provide such financial and technical assistance as may be necessary to supplement the national program.

6. India has shown that it is possible for a developing country to establish and to operate a grain reserve program. Consideration should be given to promoting arrangements between grain exporters and developing country importers as one way to assure grain supplies to the latter. These arrangements, operated in cooperation with bilateral and international food aid systems, could offer a way to move quickly in assuring food supplies to developing countries until financing, storage, and increased production permit those nations to play a stronger role in assuring their own food security.

INTRODUCTION

Governments are involved in influencing farmer incomes, prices, and the production of food in every nation. Often these policies, taken together with natural factors such as weather conditions, result in surpluses in some places and in shortages in others, and in year-to-year variations between global surpluses and scarcity. The widespread use of various types of price supports, producer and consumer subsidies, import restrictions, and other instruments of government policy without adequate plans or programs for stabilizing the agricultural sector has led to serious and continuously changing distortions in world agricultural markets.

In the 1970s, swings between world market shortages and surpluses contributed to major inflationary difficulties in many countries, as well as to unanticipated uncertainties for agricultural producers and importers throughout the world. Resort to export controls by the United States during times of commodity shortages led other nations to question the reliability of this country's supplies, and efforts to liberalize access to world markets were blunted. It has become increasingly apparent, partly as a result of experience during the 1970s, that periodic fluctuations in global food supplies require closer cooperation among the major producing and consuming nations if markets are to be kept in reasonable working order, avoiding wild market price swings, sporadic restrictions on food exports, and occasional surplus accumulation.

Further difficulties in meeting projected global food needs are ahead. Future increases in production must rely more heavily on increases in yields and on new sources of production than was the case in the past. As developing countries grow in wealth and population, their demand for food will rise rapidly and, in many cases, faster than their ability to produce on relatively fixed cropland area. Climate and weather variations represent constant threats to the food supply. The changing energy situation and rising global political tensions may exacerbate any physical food shortages or other problems that develop in the 1980s and may strain the financial capacity of many nations to conduct needed trade even without regard to periodic food shortages and rising food prices.

Recognition of some of the potential dangers ahead led to an effort during the Multilateral Trade Negotiations (MTNs) concluded in 1979 to coordinate the stocking of grain through creation of national food reserves with international coordination of policies governing accumulation and release of the reserves. There was also an attempt to draft a new code of conduct for the coordination of trade and domestic farm policies. Despite broad agreement on the need for these measures and some progress in designing procedures to carry them out, these efforts either failed or had only limited success. As a result, the outlook for increased global cooperation in stabilizing food supplies and agricultural markets appears to be rather poor. National agricultural policies are still being treated as politically sacrosanct by most countries, not subject even to serious international discussion, not to mention actual coordination.

Since neither the MTN nor subsequent multilateral discussions provided a new framework for global cooperation among major agricultural nations, important questions remain to be addressed in a new context:

> What should the United States, other major potential participants in grain agreements, and responsible international institutions do now to facilitate establishment of a global food reserve system to reduce the variability in grain supplies and prices from year to year?

>What new approaches could be devised in the early 1980s to improve international coordination of agricultural and trade policies and programs affecting food production, transportation, and marketing?

>What unilateral, bilateral, or multilateral measures could be taken to insure food supplies at reasonably stable prices both for poor nations in the event of local difficulties or disasters and for the entire world in case several large countries or regions experience crop failures in consecutive years during the 1980s?

These questions are addressed in a practical manner in the following Report.

THE UNITED STATES' ROLE IN THE WORLD FOOD ECONOMY

Large and rising exports of agricultural products from the United States to both rich and poor countries enable this country to exercise considerable influence over the world food economy. With 60 percent of the grains and half of the oilseeds shipped in world trade each year originating in the United States, and with more countries each year dependent on grain and protein-meal imports to support their people and their expanding meat-production sectors, the country is in a unique position to take the initiative in world grain discussions designed to improve world food security and to meet its domestic and foreign policy objectives in the early 1980s.

What should United States objectives be in regard to such an initiative? It is tempting, since some progress has been made in drafting documents for adoption by international organizations, to continue on the same road that the United States and other nations and the international food agencies have been on since the mid-1970s. If the United States' objective, however, is to make tangible and visible progress toward development of a greater degree of food security and thus to enhance its leadership role in world affairs, we need to ask whether past approaches to food security and grain reserves offer any serious hope for practical progress in the 1980s. If past approaches offer little hope for progress, the United States should design alternative approaches for consideration at home and abroad.

Past United States Performance in International Food Security Negotiations

The United States has played a confusing role in international grain discussions since 1973. It was a major participant in the World Food Conference of 1974, but practical initiatives designed to achieve the principal objectives or resolutions of that conference, step by step and in cooperation with other countries and international agencies, were not developed. During the so-called world food crisis period of 1972-76, United States officials supported international cooperation to assure adequate food supplies and grain reserves in principle. Secretary of State Henry A. Kissinger announced United States support of international cooperation to enhance world food security in a speech to the United Nations. In the actual negotiations that followed, the United States' posture proved to be unproductive in establishing terms under which a broad international grain reserves agreement could be built. Determination by the United States that the size of world grain stocks and reserves, not any measure of prices, should govern the handling of reserve stocks was a major stumbling block.

Since 1977, United States officials under a new Administration have been taking part in negotiations toward an international system of nationally held wheat reserves as a means of stabilizing wheat supplies and prices and assuring adequate food supplies to developing countries (since wheat is the principal foodgrain in world trade). They followed the same policy line laid down by the preceding Administration, but adopted a somewhat more pragmatic position in regard to the way national reserves would be managed under internationally agreed-upon rules.

The United States proposed that for wheat, government-held reserves of all participating countries should total 25-30 million tons.* A system of rising and falling indicator prices for principal types and origins of wheat was to be

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*Throughout this document, all reference to tonnage is in metric tons.

established to guide national decisions on when reserve stocks should be accumulated and released. Acquisition of reserves by the responsible country at designated prices was to undergird a general range of prices within which the world's wheat trade would be conducted. Release or sale of reserve stocks into the market or into food aid channels was to prevent wheat prices from reaching the high level that would have been reached without the reserve.

Extended negotiations conducted in 1977 and 1978 under the auspices of the International Wheat Council (IWC) in conjunction with the United Nations Conference on Trade and Development (UNCTAD) appeared to yield considerable progress toward an international agreement leading to the establishment of a reserve of foodgrains, principally wheat. (These negotiations will be referred to as the UNCTAD-IWC negotiations.)

Between February 1978 and February 1979, intensive efforts were made to complete the negotiation of an International Grains Agreement to replace the Wheat Trade and Food Aid Conventions of the International Wheat Agreement of 1971,[1] building on recommendations of the World Food Conference of 1974 and on discussions that took place during the early stages of the Tokyo Round of Multilateral Trade Negotiations. The proposals that were discussed and the views of different countries with respect to the proposed International Grains Agreement are summarized below.[2]

The Collapse of the Wheat Negotiations

In the end, agreement could not be reached on new language going beyond previous wheat agreements. As a result, in March 1979, the Wheat Trade and Food Aid Conventions of 1971 were extended until June 30, 1981.

The key element of the proposed Wheat Trade Convention that was ultimately abandoned was an internationally coordinated system of nationally held reserve stocks of wheat and other foodgrains designed to:

> assure adequate supplies of wheat and flour to importing countries, especially developing country importers, and to assure markets for exporting countries;

> stabilize the international wheat market and moderate the extreme price fluctuations that occurred in some past seasons; and

> contribute to world food security, especially in the interests of developing countries.

While there was broad support of this general approach, agreement could not be reached on essential details, such as the level of stocks, the contribution of various countries, and the role of exporters, importers, and developing countries under the agreement. Criteria that were proposed to manage the reserve stock program for wheat in a highly rigid, almost automatic manner could not be agreed upon. Specific areas of disagreement included:

> the global level of wheat reserves -- whether it should be as low as 15 or as high as 30 million tons.

> indicator price levels at which stocks of wheat would be accumulated as reserves and later released to supply markets. Here the range of disagreement was so great as to leave little hope for an eventual settlement.

> special responsibilities for developing countries, including possible acquisition of reserve stocks and construction of storage facilities in those countries.

As the 1978-79 negotiations continued, progress seemed to have been made, but the essential differences cited above as to quantities, country responsibilities, prices, and special developing country responsibilities could not be resolved. Each negotiating session generated new and complex provisions and formulas, until the draft agreement became so complex as to be virtually incomprehensible.

In fact, the effort in the late 1970s to negotiate an international system for coordinating nationally held reserve stocks came to a dead end as the momentum of the World Food Conference and the world food crisis played itself out. As the crisis atmosphere of 1973-75 waned, large world crops in 1976-77, 1978-79, and 1979-80 made importing nations rather comfortable in regard to future food supplies. Abundant supplies of wheat, rice, and coarse grains[3] from record crops provided the opportunity for exporting countries to establish reserves. But these developments nullified any feeling of urgency on the part of importing nations to take part in a coordinated effort toward world food security.

By 1979, only the United States and India among the non-Communist countries had established significant reserve stocks of grain that would become available to the market to stabilize prices and to assure supplies in the event of reduced crops. The question of reasonable prices and reasonable conditions under which to build and to use the reserves had been decided unilaterally by the two countries, in each case without much attention having been paid to whether or not the prices and the conditions for building and using reserves were satisfactory to farmers.

Since a common and automatically operating set of rules for acquiring and managing the reserve stocks of various countries proved to be impossible to negotiate, the possibility of continuing any new negotiations more or less on the same patterns as the 1978-79 discussions must be questioned. Attempting once more to adopt rigid rules of price levels and complex formulas for managing changes in the situation as was done in 1978 and 1979 would be equivalent to deciding in advance that an International Wheat Agreement incorporating commitments to establish grain reserves will not be constituted.

A NEW DIRECTION

The history of recent events shows that reserve stocks, if they are to exist, will be accumulated under decisions taken nationally and unilaterally in times of abundant supplies; and they will be used in times of tight supplies by nations that are committed to carrying reserves. It is not now possible to synchronize accumulation or release of reserve stocks among nations in the way that was being pursued in the UNCTAD-IWC negotiations. Nor is it essential. The time to try a simpler approach with greater prospects for success is long overdue.

On the other hand, growth in world agricultural trade, especially in grains and oilseeds, has been rapid, despite lack of any significant harmonization of national agricultural policies. In this connection, the experience of the Multilateral Trade Negotiations under the General Agreement on Tariffs and Trade (GATT) is instructive. Over the years, progress has been made toward liberalization of agricultural trade for some commodities, especially with respect to nontariff barriers in the Tokyo Round of negotiations. These accomplishments resulted from a pragmatic approach that recognized differences in agricultural policies and price- and income-support systems.

Efforts to achieve a common or universal set of rules in agricultural trade have generally failed. The common world reference price for grains proposed in the Kennedy Round of trade negotiations is an example. Such rules cannot accommodate differences in national policies and hence cannot be adopted.

It follows, therefore, that the primary emphasis in future grain negotiations should be on national commitments to establish reserves under national procedures and programs in order to achieve national objectives. After commitments have been made by several countries, it may be possible to develop a broader agreement and ultimately to move the discussions back into a truly international forum. But that time is not yet here.

Practical Steps to Improve World Food Security

The United States decided in 1977 to establish a system of farmer-held grain reserves (1) to support farm prices in the near term by keeping stocks out of the open market and (2) to be available to prevent dramatic price increases later on. A large wheat crop forced the United States Government to take additional actions, based on its long-standing price support system, to help farmers. For the first time, it became stated public policy to build and to maintain grain reserves,[4] although legislative authority had been available for many years and was used initially to establish the reserves. Reserves are accumulated under contracts between farmers and the Government through which farmers agree to hold grain off the market until prices reach a certain level, and the Government provides various incentives to assist farmers in doing this. Support and release levels for wheat reserves are illustrated in a chart in the Annex to this Report.

India also used a period of good harvests to build reserves in 1978 and 1979. Canada's wheat stocks increased during the same period, but no specific reserve program has been established.

Other countries that were parties to the international grain discussions have taken such a relaxed view of the possibility of further grain shortages that grain reserve discussions have scarcely been possible in international forums during the past few years. Even as the negotiations continued in 1978 and 1979, such countries became less and less enthusiastic about assuming stocking obligations and supporting prices, since grain supplies seemed plentiful.

The United States program described above provides for reserves of both wheat and coarse (feed) grains. The latter reserve developed out of the same political circumstances that led to establishment of the wheat reserve program, because of the importance of feedstuffs in the country's food economy and because of the unique role of the United States as a feedgrain exporter.

It is logical and practical, however, that discussions and negotiations on international grain reserve policies should concentrate on wheat in the 1980s. The International Wheat Agreement (IWA) has been in effect during most years since 1933. Wheat is the world's principal foodgrain in terms of tonnage and world trade and has been the principal reserve needed both by wheat- and rice-consuming nations in years of poor crops. It has never been possible to accumulate sizable reserve stocks of rice, and wheat is more universally acceptable, since rice stored for a time is not as desirable a food as is wheat.

The most important action that the United States could take in 1980 or 1981 would be to seize the opportunity presented by the limited success of the world grain talks described above, the continuing need to establish a grain reserve system, and the rather confusing grain supply and trade situation of 1980 to restart international discussions in a new forum. This could lead to the eventual establishment of a broader range of grain reserves than are in operation as the 1980s begin and potentially toward general world negotiations on that issue after a reasonable time.

The prospective food situation is different in 1980 and may be quite different in 1981 than it appeared in 1978 and early 1979. Record harvests added some 60 million tons to world grain stocks in 1977 and 37 million tons in 1979, even as consumption increased sharply because supplies were large and prices were low. Slightly reduced harvests in a number of countries in 1979-80 and a reduction in the Soviet harvest will reduce world grains stocks substantially by mid-1980.

While the overall level of world grain stocks in mid-1980 was not as low as it was during the mid-1970s, stocks as a percentage of annual consumption, at 14 percent or 51 days' supply, will be lower than they were in 1972 (15 percent or 55 days' supply). That was when the first massive Soviet purchases took place, and the most recent world food shortage began. The Soviet purchases signaled the start of a four-year period when the world was able to retain only very small stocks of grain from season to season and was absolutely dependent on the following year's harvest to prevent widespread shortages, price inflation, and even famine.

When increased world population and growing food demand arising from higher incomes are taken into account, the level of stocks in 1980 does not provide an adequate cushion against the prospect of one or more years of below-trend world grain output.

It is important that governments proceed soon to reopen discussions of world food security arrangements. The circumstances that caused the world to lose any sense of urgency about making progress toward greater food security may change again within a few years. Even with another record grain harvest in 1980 or 1981, stocks could easily decline again the following year as consumption grows, although a worldwide recession in those years might alter that prospect.

National Food and Agricultural Policies as Factors in World Food Security

The willingness and the ability of any country to establish grain reserves is, first of all, a matter of national policy. Most countries participating or interested in the wheat agreement negotiations have not adopted such a national policy. If a nationally held system of grain reserves is to be established, maintained, and eventually used in a manner consistent with international rules of conduct developed through negotiation, many aspects of each nation's food and agricultural policies will need to be modified or subordinated to the agreed international rules.

Market economies and centrally planned economies, whether developed or developing, pursue food and agricultural policies that affect prices and the incomes of farmers, food prices and the rate of inflation, the distribution or sale of food on concessional terms to low-income persons, and agricultural exports and imports, including food aid.

These policies are implemented through a wide variety of domestic programs and trade measures in the various countries. Many agricultural trade policies are an integral part of domestic farm policies, with protection at the border being an indispensable mechanism for achieving domestic agricultural price and income objectives.

While many countries have similar food and agricultural policy objectives, the methods for achieving them and the specific price and income objectives vary significantly among nations. Thus, while it may be possible for countries with different agricultural systems to agree on a common set of policy objectives, it is difficult and may be impossible to reach agreement on a common set of specific operating criteria, guidelines, or commitments (e.g., prices) associated with achieving the common policy objective of food security. Broad principles regarding increasing food production and food aid have often been adopted, but have not been achieved in practice.

The dilemma between objectives and methods was clearly demonstrated in the negotiations on the International Wheat Agreement. There was broad agreement among participants that a grain reserve to stabilize world supplies and the prices of wheat and other foodgrains was an important objective to be pursued by joint action. Yet agreement could not be reached on a uniform set of criteria for the management of such a reserve. In fact, the effort to take account of the many different national approaches to policies regarding grain prices, stocks, and so forth led to an overly complex draft agreement. Failure to reach final agreement was surely due in some measure to an inability to understand what would happen under the agreement and to concern by negotiating countries that the proposed rules would interfere with the operation of domestic farm policies.

The concept of a reserve to be managed by national governments according to internationally agreed-upon criteria poses other problems as well. Few countries now have conscious reserves policies (as opposed to normal working stocks). Among the market economies of the world, the United States and India have the largest and most specific grain reserve programs. Thus, establishing reserves in other countries means that they would have to develop a new policy dimension consistent both with their own food and agricultural policies and with certain rules agreed upon internationally.

While it may be important for many countries to develop and operate a grain reserve for their own reasons, each country's program, if it is to be approved by the government, will be designed first to meet its own objectives and after that to make some contribution to world food security. Financial and economic conditions, social goals, and reserve needs will differ from one country to another. The appropriate grain reserve program to be undertaken by each country will reflect these differences. It is only natural that considerable flexibility, rather than rigidity, must be built into any agreement. The many different approaches to national agricultural policies must be accommodated. Programs consistent with this approach will redound to the benefit of exporting countries, including the United States, by smoothing demand for agricultural products.

Each country is likely to have specific price-level and farm-income goals in mind as it develops and operates a grain reserve program. For example:

> A grain reserve program for the United States or Canada will be concerned primarily with assuring that foreign buyers and potential aid recipients can be provided a continuous supply of grain and with maintaining a degree of domestic price support and stability at home.

> A grain reserve program in India will be primarily concerned with avoiding food shortages, high food prices, and high import bills during bad crop years, although economic, monetary, and political objectives will also be important.

> In the Soviet Union, the primary goal of a grain reserve might be to stabilize and to expand the size and productivity of livestock herds year after year, despite a very unstable grain-producing sector, and thus help maintain domestic social and political stability.

> A grain reserve program in Japan might be designed to ensure stabilization of food prices to its large urban industrial work force in the event importable supplies are limited by poor yearly harvests not offset by reserve stocks in other countries. Japan's demand for wheat is so great that even its large rice reserve has little effect in offsetting the need for imported wheat.

An effective national reserve policy in any country requires explicit policies for accumulation and management of grain reserves to ensure that in times of large crops some grain will be held off the market to be used when crops are reduced. The willingness and the ability of a country to do this on its own initiative, in advance of or at least concurrent with negotiation of an international agreement, is the measure of its capability to operate a national grain reserve policy and to cooperate effectively in an international reserve agreement. As indicated above, few countries have yet taken such an initiative; that helps explain why agreement could not be reached on the Wheat Trade Convention of the IWA in 1979.

A Realistic Approach to World Food Security

It is now clear that differences among national agricultural policies make it difficult and probably impossible to negotiate highly specific rules governing the acquisition and disposition of reserve stocks by many countries with a wide range of national policies and financial capabilities. As a result, the instrument drafted in the 1978-79 UNCTAD-IWA negotiations to govern the accumulation and release of reserves by various countries during rising and falling price periods does not provide a useful starting point for a successful multilateral negotiation toward improved world food security.

The United States' farmer-held wheat reserve and the proposed security reserve of wheat should become the starting point for United States initiatives to encourage other countries to adopt reserve policies in the early 1980s. The farmer-held reserve represents a significant contribution to an international system of buffer stocks to offset inevitable, periodic crop fluctuations. A target for the farmer-held reserve of around 10 million tons of wheat seems an appropriate United States reserve stock contribution.

One of the serious flaws in the United States position and in the overall approach to a reserve agreement in 1978 and 1979 was that no recognition at all was given to this substantial United States grain reserve already in place. Efforts now being pursued in the Department of Agriculture and in Congress to establish an additional security reserve consisting of 4 to 6 million tons of wheat, to be owned by the Government and to be used to alleviate food emergencies in poor countries, would raise the unilateral United States' reserve contribution to 14 to 16 million tons. If 1980 grain harvests are large, the United States' price-support operations may increase both these reserves beyond their target levels.

The next step for this country would be to take the initiative to begin bilateral or plurilateral discussions, either informal or formal, leading to negotiations through which the United States would seek to achieve comparable reserve contributions from other principal exporters (like Canada, Australia, and Argentina), exporters/importers (like the European Community), and major importers (like Japan and, as a special case, the Soviet Union). It is important to include importing interests in this initiative both to avoid the impression that the United States is trying to organize a wheat exporters' cartel and to avoid grain importers/consumers being the principal beneficiaries of buffer stocks managed to stabilize prices and supplies. Such importing countries have an obligation to make significant contributions to the effort and should know that reserves of exporting countries will not be so readily available to them in times of scarcity if they are not contributing to world food security according to their capability.

It is essential to seek comparable undertakings by other major exporters and by wealthy wheat importers. Particularly in the case of the latter, it would be useful to encourage financial contributions to what we might call an

Emergency Food Fund. In other words, importing countries that might find it difficult to contribute to emergency grain stockpiles could be urged to make financial contributions to an emergency food fund. Developing countries could then draw on that food fund in years of expanded food-import expenses. Whether the fund would be centrally administered or decentralized would be determined in the course of negotiations. In either case, it is important that importers as well as exporters contribute goods or resources to a program in order to ensure performance on food aid commitments even in periods of tight supplies.

These efforts should proceed as expeditiously as possible. At the same time, the United States and other nations should be alert to the possibility that favorable conditions may be created in the future for negotiating a broader international system of reserve stocks. Also, the United States could use its intermediate credit authorities to encourage stockbuilding and infrastructure investments abroad that would contribute to world food security.

Sharing the Adjustment Burden

The long-term objective of this approach is to build on early successes and to involve as many more countries as are willing to take on the necessary commitments and responsibilities. In discussions and negotiations during the early 1980s, other countries would be urged to do all they can do in their domestic and international interest, while bringing as much influence as possible to bear on importing countries dependent on them as a source of supply to take positive national actions to contribute to world food security.

In outlining a negotiating strategy for pursuing comparable reserve undertakings from other countries, it is important to emphasize that reserves are only one part of an effort designed to enhance food security. As the world learned from the experience of the mid-1970s, national policies of some countries stabilized internal supplies and prices by destabilizing prices and supplies for the rest of the world. Therefore, United States negotiations ought to pursue getting greater cooperation from other countries in adjusting consumption, production, and trade policies to changing supply and price conditions. This would encompass better and more frequent information exchanges between countries. When prices are very low, countries participating in a reserve agreement should cooperate in expanding wheat consumption and in building reserves, while avoiding export subsidies or encouragement to expand output. Similarly, when supplies are reduced and prices are very high, countries whose marketing arrangements do not automatically provide for higher costs to consumers should take measures to reduce consumption or carry-over levels, to expand output, and to make supplies available to others through trade.

Using this procedure, the following objectives might be achieved within a few years:

> A number of countries, responding to initiatives by the United States and possibly by other countries, would subscribe to the concept of a grain reserve, initiate a program, and carry a share of world reserves.

> While the total level of reserves may not be as large as desired, it could be substantially more than now exists if even three or four major nations in addition to the United States and India undertake reserve policies and carry them out. By 1981, the United States will probably have established a wheat reserve of 14 million tons, a figure as large as some countries proposed for the entire world

in the last international negotiation. In addition, the United States will be holding a coarse grain reserve of some 25 million tons that will also add considerably to world food security.

> Each participating country would build and carry grain reserves in the context of its own particular circumstances and of the world situation. A country would undertake to build reserves as rapidly as its own domestic production permits, but would not be expected to add to reserves in a year when it had a poor harvest.

> Guidelines for establishment and use of the reserves in participating countries could be adopted bilaterally or by a number of nations, but they would be general enough to avoid conflict among countries over specific stocking and release prices for particular wheats, costs of production, and so forth. Guidelines taking account of world grain production, stocks, and prices would characterize the extent to which grain supplies are plentiful enough to support reserve accumulation or are scarce enough to indicate that it is time to use some of the reserve. Decisions on when to build and to use reserves would be made by the participating nations in consultation with each other.

Progress toward a grain reserve system could be made if a significant but still relatively small number of grain-exporting and -importing countries agree on some general procedures of this kind. Unanimous agreement among all participants on minute details of reserve accumulation and use should not be required, especially during any initial reopening of talks on grain reserves.

Negotiations on grain reserves initiated by the United States with the cooperation of a few other countries should focus primarily on developed country grain exporters and importers. Developing countries that already have a grain reserve policy or are ready to consider such a policy might also take part. Obviously, the participants would be those nations that have shown the greatest ability to build reserves and the greatest willingness to subscribe to the reserve concept. If these countries would commit themselves to establishing reserves of wheat and other foodgrains in the 25 to 30 million-ton range, over and above working stock levels, significant progress could be made toward stabilizing world foodgrain supplies and prices against the next poor harvests.

United States Farmers and Grain Reserves

Farmers in a number of countries including the United States have supported the idea of grain reserves only reluctantly, recognizing that the principal objective is to benefit consumers at home and abroad. Even under ideal conditions for isolating the reserve from the marketplace, reserves tend to reduce the profit opportunities available to farmers in short-supply periods.

In the United States, farmers generally support the farmer-held reserve program, recognizing that it helps them in seasons when reserves are being accumulated. The fact that the reserves will not be placed in the market until prices have advanced well above any existing support levels also guarantees farmers an opportunity to benefit from advancing market prices.

The best way to handle this issue is to emphasize two principles in establishing appropriate price levels for acquiring and releasing reserves. On the acquisition side, grain for a reserve stock should be acquired at prices that are acceptable to producers under surplus conditions. A percentage of average cost of production agreed between the Government and representatives of farmers provides the basic criterion for setting United States acquisition price levels, even though it is not an entirely satisfactory procedure.

On the question of releasing reserves, the difference between acquisition and release prices in a market economy should be wide enough to ensure that reserves are not released prematurely (as they were in 1972), but move back into market channels at price levels that enable farmers to realize fair profit opportunities consistent with shortage conditions. Release prices should also provide consumers of grain with some incentive to reduce usage levels, without placing a heavy burden on consumer food expenditures, so that supplies will not be used up too rapidly.

In early 1980 the market support level for wheat in the United States was $2.50 per bushel, well below the average cost of production as estimated by the Department of Agriculture. This low level of support, which led also to relatively low release prices, provided farmers with very limited incentives to place and to keep wheat in the reserve. As a result, only some 250 million bushels of wheat are in the reserve held by farmers, despite sharp price declines in 1980 and excess wheat supplies resulting from reduced shipments to the Soviet Union. Rapid increases in cost of production provide a strong rationale for higher United States support or reserve acquisition and release levels in 1980.

The farmer-held wheat reserve release price (at which the farmer may sell) in 1980 is 150 percent of the loan level ($3.75 per bushel). This level, and an even lower release level for grain placed in reserve in previous years, is so low as to allow grain to be released from the reserve in 1980 even as the Government appeals to farmers to place more grain in the reserve. The current call price (at which no further incentive is provided to hold the reserve grain, i.e., when farmers are required to repay their commodity loans to the Commodity Credit Corporation) is 185 percent of the loan or acquisition level, and should also be increased.

All these mechanisms for acquisition and release of grain and the price levels that have developed during the first years of operation need to be reviewed and adjusted for changes in circumstances affecting United States farmers and world grain markets as the country undertakes bilateral or multilateral discussions designed to get other countries to establish similar programs.

GRAIN RESERVES IN DEVELOPING COUNTRIES

The problems of developing countries in establishing grain reserves are complex, and they are substantially different from those encountered by developed countries. Developing countries face several problems in establishing and maintaining grain reserves.

> Many do not have agricultural and food price policies to support a grain reserve policy nor do they have the ability to implement one.

> Most do not have the storage capacity to carry substantial reserves.

> The cost of grain reserves are beyond the financial capabilities of many developing countries.

Despite these obstacles, there are compelling reasons for developing countries to establish food reserves, even though other countries might be willing to supply food to them in time of need.

> For political reasons, each country decides from time to time the extent to which it wants to depend on external food supplies. Some countries may be willing to let other nations carry their grain stocks, but others may prefer, via their own reserve, to minimize their dependence on grain supplies over which they have no control and on which they have little claim.

> It takes time to move grain from one country to another and to distribute it within a country. Many countries may find it useful to carry some conveniently located grain stocks against sudden natural disasters.

> Grain-consumption patterns vary among countries and even within a country. The composition of a nation's grain requirements may not correspond to the mix of grain available at certain times through international trade and aid programs. Such limitations can be overcome to some extent through national reserve programs to ensure a supply of the most urgently needed or "most difficult to replace" foods.

> Finally, root crops, beans, and similar crops are staple foods in many developing countries. While imported grains may substitute for these foods in times of severe food shortages, the substitution process is often incomplete. Building non-grain food reserves from domestic production could alleviate this problem, especially since such items are often not readily available in large quantities from international markets.

The Example of India

Among the developing countries, India has implemented a grain reserve policy and has established sizable reserves. India's approach could serve as a model for other developing countries, especially since it integrates policies to support producer prices with policies to stabilize prices and supplies to consumers. Both domestic stocks and grain imports have been needed to balance consumption and production and to keep annual variations in domestic consumption of foodgrains smaller than changes in production. Large grain stocks (20 million metric tons) in place at the beginning of the 1979-80 crop year are providing a reserve to compensate for poor 1979 crops; the stocks also provide India with considerable flexibility as to when it buys grains in world markets.

India's experience with grain reserves illustrates several important policy elements that are essential for a properly managed reserve program. Other developing countries that wish to establish grain reserves would have to develop similar policies and capabilities.

> The Government of India has had extensive experience in procuring and distributing food and has a large number of people with experience in managing food supplies.

> India has integrated its food reserve policies with domestic price and production policies by means of a price-support program that permits accumulation of stocks in years of large production and also by means of a method of distributing grain from stocks that does not seriously depress producer prices.

> India has been willing to expend the financial resources necessary to maintain a domestic food reserve. Such expenditures are required to accumulate, store, and distribute grain and to provide subsidies to the poorest people.

Establishing Reserves in Developing Countries

Separate negotiations dealing with grain reserves in developing countries will be required in addition to any negotiations involving developed countries. These negotiations should involve national, regional, and international organizations providing technical and financial assistance to developing countries (such as the Food and Agriculture Organization of the United Nations, the United Nations Development Program, the World Bank, UNCTAD, the International Fund for Agricultural Development, and the International Monetary Fund) as well as the international body responsible for the negotiations of the basic grains agreement, presumably the International Wheat Council.

The negotiations involving developing countries would have to deal with the development of:

> domestic policies consistent with establishing grain reserves;

> storage and management capability;

> financial requirements; and

> the relationship of these factors to ongoing bilateral and multilateral aid efforts.

The approach to developing countries would not need to be purely in terms of physical grain stocks. A combination of grain stocks and a financial reserve with which to purchase food, possibly from the grain reserves of other nations, would be most appropriate for meeting the needs of developing countries. The financial reserve approach has been analyzed by the International Food Policy Research Institute, the World Bank, and others.[5]

There have been several proposals to establish a financial insurance scheme to give developing countries the ability to import food when they need it. It would provide a fund of money which participating developing countries could draw upon to finance grain imports when they need them. Each participating country would pay an annual premium into the fund and would receive in return a stipulated monetary amount of coverage. An individual country could not withdraw more money from the fund than it "bought" with its premiums.

Developed countries could also be urged to contribute to the fund, but they would probably not be eligible to use the funds. To the extent that developed countries contribute to (subsidize) the insurance fund, developing countries could have access to more money to finance imports. This approach may have merit in helping to overcome the purchasing-power problem of developing countries, but several other problems need to be considered.

First, it is an idea that has not yet been subjected to serious international discussion and negotiation. Under the best of circumstances, it may take several years to create an insurance program. In the meantime, developing countries will still be faced with food security problems.

Second, a financial insurance scheme in itself would not stabilize world grain prices. This can be accomplished only if grain reserves exist in sufficient quantity to moderate world market price fluctuations when unusual quantities of grain must be purchased by or provided to certain countries. While developing countries would have more money to import grain under an insurance scheme, in the absence of reserves they will have to pay extremely high prices in times of tight world supplies. As an International Food Policy Research Institute study points out, "A given level of funds provides a higher probability that the scheme will achieve its objectives when the scheme involves grain reserves in addition to compensatory financing." Thus, the effectiveness and efficiency of a financial insurance scheme is greatly enhanced if sizable national grain reserves exist.

Third, to the extent practical, grain reserves should be located in developing countries (as well as in the developed ones) and managed by them. Such reserves would be the self-insurance component of a particular country's food security approach. In addition, a developing country might subscribe to a financial insurance scheme with the amount of financial insurance purchased by a particular country determined by its food-import needs and by its financial capabilities.

We do not agree with the International Food Policy Research Institute's proposal that grain reserves to supplement a financial insurance scheme for developing countries should be owned and managed internationally regardless of where the stocks are located. In our opinion, developed countries would be very reluctant to establish such a reserve. They would view with suspicion a reserve of significant size managed by an international authority that, in their view, could "disrupt" world markets. Also, an international authority to manage a grain reserve would be subject to political pressures that, in the end, would reduce the responsiveness of the authority to changes in individual-country food situations. We feel that an internationally owned and managed grain reserve would not be able to act fast enough and in a sufficiently consistent manner to meet urgent import needs of developing countries and to replenish reserves when that is called for.

It may also be desirable to relate the food reserve or food security issues of developing countries to ongoing bilateral and multilateral food aid programs. These programs, which are currently designed to support regular grain-import needs, emergency requirements, nutrition-intervention programs, and development activities, could be tailored to help establish and maintain food reserves.

In any event, the major thrust of the negotiations involving developing countries should be to create a basis for establishing grain or other food reserves. Important preconditions for progress on a country-by-country basis include:

>a national commitment to a reserve policy, apart from and prior to international negotiations;

>the development of national food and agricultural policies required to support an initial grain reserve policy; and

>the commitment of national aid programs and international development and financial organizations to provide developing countries with the financial and the technical assistance needed to establish and to maintain grain reserves.

Once a developing country establishes a grain reserve, it could become a member of the existing group of countries committed to carrying grain reserves, i.e., the group of developed countries first discussed above. In this way, membership in an International Wheat (Grain) Trade Convention concerned with grain reserves would involve those countries that obligated themselves to carrying reserves at a level consistent with the country's capability; this obligation would form a common bond for cooperation.

CONCLUSIONS

An International Wheat Agreement that establishes nationally held grain reserves has a good chance of being negotiated ultimately if it accommodates differences in national agricultural policies among both developed and developing countries. The major focus, however, should be on getting reserves established by a limited number of countries and on establishing a general basis of cooperation -- not on adopting complete rules to cover every possible contingency. Once reserves exist, they will stabilize prices, help assure food supplies to developing countries, and lead to participation in similar arrangements by other countries.

A pragmatic approach that permits and encourages countries to establish, carry, and use grain reserves within the framework of their own national food and agricultural policies could lead quickly to agreement among a number of developed countries. While rigid and elaborate international rules for managing reserves might be desirable, they are not necessary and they are not achievable. Seeking such rules has been counterproductive because they conflict with national agricultural policies and impede progress toward the very objectives to which they are dedicated.

Special efforts, such as the following, will have to be made in order to establish grain reserves in developing countries:

- domestic food and agricultural policies consistent with establishing grain reserves need to be formulated;
- the management and storage capabilities required by a grain reserve program need to be developed; and
- the financial resources required to maintain reserves need to be obtained.

These efforts will require cooperation and assistance from international and national aid organizations to help developing countries.

ANNEX

World Grain Situation

The 1980-81 season will bring the second largest world grain crop in history. But the momentum of grain demand (consumption) is even greater than the yield momentum of production, and it is not subject to interruption by external forces nearly so readily as is food production. Grain stocks will decline again in 1981, even with a large 1980 crop. Barring an increase in world tensions, grain usage and world grain trade will continue to rise during the 1980s.

Preliminary projections of world grain production and consumption in 1980-81 (July-June year) are presented below. These projections are based on crop conditions as of September 1980. World grain stocks will decline by 9 million tons in 1981. World wheat stocks will increase 7 million tons, while world coarse grain stocks are expected to decrease by 20 million tons, with a 26-million-ton decline in the United States only partly offset by a 6-million-ton increase in the rest of the world. These projected stock changes are small, particularly in relation to possible changes in production. Below-average crops in the Southern Hemisphere to be harvested in the December 1980-March 1981 period could result in a further decline in grain stocks in 1981.

The stock levels indicated in the accompanying table for mid-1980 and mid-1981 (216 and 207 million tons) represent about 14 percent of annual consumption, or 51 days' supply of grains.

World Grain Production, Consumption, and Trade

	July-June Marketing Year		
	1978-79	1979-80	Projected 1980-81
	million metric tons		
All Grain			
Production	1,580	1,522	1,561
Consumption	1,541	1,548	1,570
Reported Stocks	242	216	207
Change in Stocks	+39	-26	- 9
Wheat			
Production	448	419	448
Consumption	424	437	441
Reported Stocks	106	88	95
Change in Stocks	+24	-18	+ 7
Coarse Grains			
Production	748	728	721
Consumption	739	731	741
Reported Stocks	95	92	72
Change in Stocks	+ 9	- 3	-20
Rice (Rough)			
Production	384	375	392
Consumption	378	380	388
Reported Stocks	41	36	40
Change in Stocks	+6	-5	+ 4

*Pluses refer to increases in supplies; minuses refer to decreases.

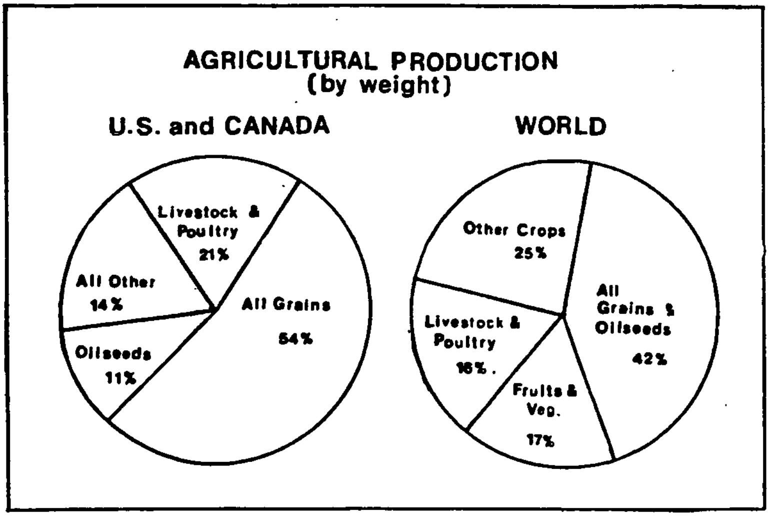
Key Elements of the World Food System

Grains and oilseeds are the foundation of the world's food supply. This is true in nations as diverse as the United States and China, and in Europe, India, Africa, and Latin America as well.

Rice and wheat are the world's principal human foods used for direct, daily consumption. That is why they are so essential to national and international reserve arrangements. Corn is also an important food in some countries, especially in Latin America, and oilseeds, providing cooking oil and protein meal, are important everywhere. Grains and oilseeds represent two-thirds of all human food.

This dominant role of grains will continue as consumption patterns change because grains and high-protein oilseed meals are primary factors in the production of meat, eggs, and milk.

The importance of grains and oilseeds in North America and in the world is illustrated in the chart below.

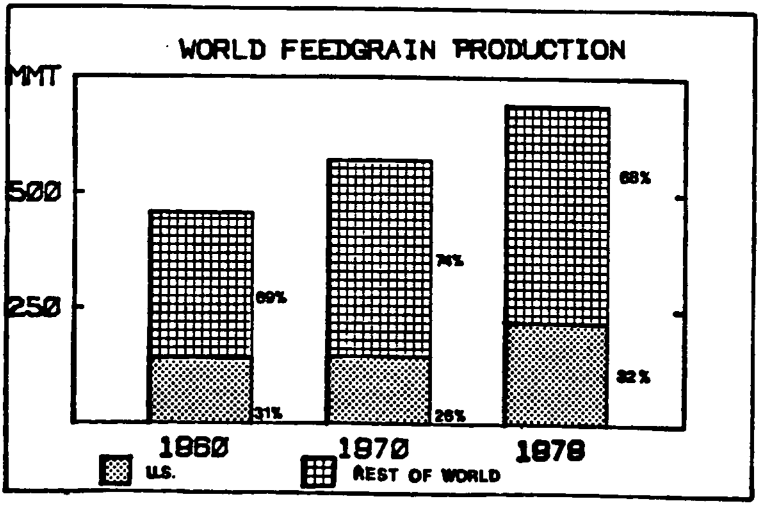


Location of World Grain Production

Five countries or regions with less than half the world's population produce three-fourths of the world's grain each year. Production in other countries is important, but any serious threat to the aggregate world food supply will usually be caused by crop failures in one or two of the major grain-producing countries.

World Grain Production: 1979-80 and 1980-81

	million metric tons (mmt)	share
U.S.	282	18%
China	277	18%
All Europe	246	16%
U.S.S.R.	195	13%
India	133	9%
Five Countries or Regions	1,133	74%
World	1,540	100%



Sources of Grain Exports

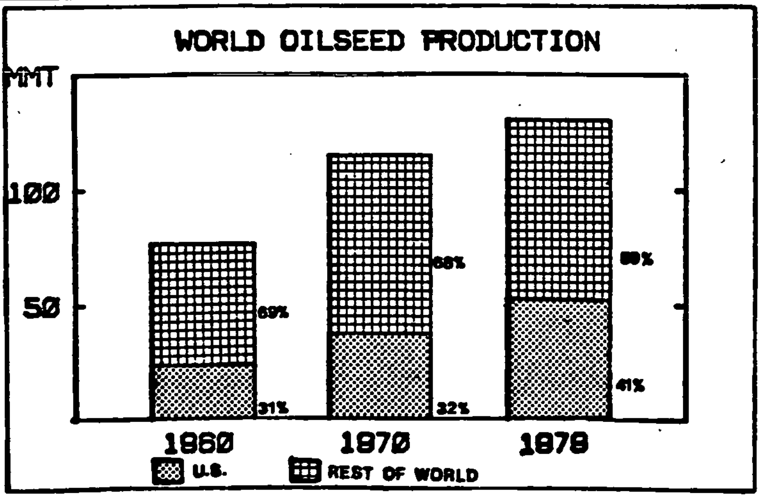
Less than 10 percent of the world's grain enters into international trade each year, but four countries provide nearly 90 percent of that grain.

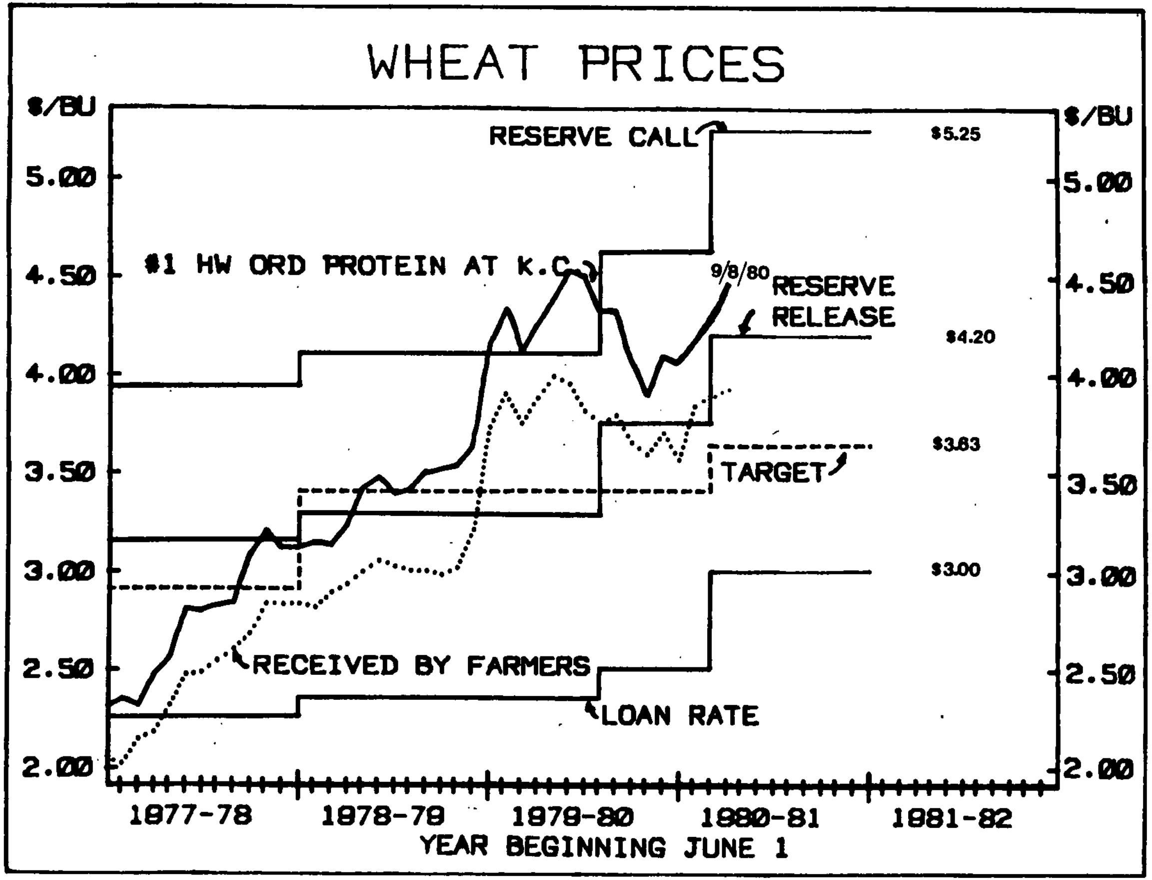
The United States provides about 60 percent of all grain exports and over half of all oilseed exports. This places a heavy responsibility on the United States to carry reserve stocks to meet shortages at home or in other countries.

Coarse grains (mainly corn) now make up 55 percent of the world's grain trade, with the remaining percentage made up mostly of wheat. Rice trade is negligible, and rice shortages are usually followed either by increased trade in wheat or by hunger.

World Grain Exports: 1979-80

	million metric tons (mmt)	share
U.S.	109	59%
Canada	20	11%
Australia	19	10%
Argentina	11	6%
Four Countries	159	86%
World	185	100%




WHEAT PRICES
$/BU
5.00
4.50
4.00
3.50
3.00
2.50
2.00
RESERVE CALL
$5.25
#1 HW ORD PROTEIN AT K.C.
9/8/80
RESERVE RELEASE
$4.20
$3.63
TARGET
$3.00
RECEIVED BY FARMERS
LOAN RATE
1977-78
1978-79
1979-80
1980-81
1981-82
YEAR BEGINNING JUNE 1

NOTES

[1]The 1971 Wheat Trade Convention provided largely for periodic consultations among member countries when problems arose. The 1971 Food Aid Convention involved annual contributions of 4.2 million tons of grain or its financial equivalent from nine donor countries. A target of 10 million tons of wheat and other grains suitable for human consumption was set for the new Food Aid Convention. Increased commitments by existing donors plus two new donors resulted in an annual contribution of 7.6 million tons in the extended Convention.

[2]Detailed discussions of the negotiations can be found in the Committee on World Food Security's Outcome of the Negotiating Conference for a New International Grains Agreement: Implications for World Food Security and Proposals for Implementing the International Undertaking, CFS 79/8. Rome: Food and Agriculture Organization, March 1979; International Wheat Council, The Wheat, Coarse Grains, and Food Aid Conventions, 1978/1979. London: April 4, 1979; and J. H. Parotte, Statement by the Executive Secretary of the International Wheat Council. Manila: May 16, 1979.

[3]The original intention to negotiate a Coarse Grains Convention more or less parallel to the proposed Wheat Trade Convention was abandoned at an early stage because of lack of country interest. Agreement was reached on the desirability of international consultation in times of extreme instability, with a view toward recommending steps to restore stability in coarse grain markets and efforts to promote international trade. The limited progress in developing the Coarse Grains Convention results logically from the fact that coarse grains are not nearly as important as are wheat and rice in insuring world food security. It would not appear to be useful to attempt to broaden the coarse grain arrangement.

[4]Title XI, Food and Agriculture Act of 1977.

[5]Panos Konandreas, Barbara Huddleston, and Virabongsa Ramangkura, Food Security: An Insurance Approach, Research Report No. 4. Washington, D.C.: International Food Policy Research Institute, September 1978; Staff Working Paper No. 267, Food Insecurity: Magnitude and Remedies. Washington, D.C.: The World Bank, 1977; and D. Gale Johnson, World Food Problems and Prospects. Washington, D.C.: American Enterprise Institute, June 1975.

THE ECONOMIC POLICY COUNCIL

E P C

The Economic Policy Council, created in 1976 under the auspices of the United Nations Association of the United States of America (UNA-USA), is a nonprofit, nonpartisan body funded from the voluntary contributions of its members, interested business and labor organizations, foundations, and individuals. It was established to bring together influential leaders from the labor, business, agricultural, and academic communities, as well as from the professions, to analyze current international economic policy problems from a U.S. perspective.

One of the major purposes of the EPC, chaired by Robert O. Anderson, is to provide economic policymakers both here and abroad with the consolidated views of its members in the form of policy recommendations. For this reason, every effort was made to select for membership prominent individuals who, as a group, represent the leadership of a wide spectrum of informed opinion. UNA-USA is well-suited to undertake such an endeavor because it has no economic group affiliation, because it has wide experience in preparing panel studies on international issues ranging from disaster assistance to Soviet-American relations, and because of its close association with the international community.

UNA created the Council as an outgrowth of the turbulent international economic scene during the early 1970s, when it perceived a need for greater private involvement in these problems in a more systematic and coherent fashion. The dollar devaluation, cost increases in raw materials, especially oil, and increasing U.S. balance-of-payments deficits caused growing concern throughout the United States. At the same time, more Americans than ever before found themselves without work. The U.S. Government had no ready solutions to these problems, and its interim response lacked either clear direction or guiding principles. Many of the factors troubling the U.S. economy were also causing major difficulties for other advanced economies and for the economies of developing countries. During this period, debate over the "New International Economic Order" became increasingly confrontational, serving neither the interests of the most active claimants -- the developing countries -- nor the developed countries.

In 1978, the EPC issued its first Report on the subjects of trade, commodities, and capital flows entitled The Global Economic Challenge: Volume I. That Report was considered an important contribution to the understanding and direction of economic policy in those areas. In its second cycle, EPC issued three reports: The Energy and Jobs Panel Report entitled "Energy and Employment: Issues and an Agenda for Research" was released in June 1979; the Trade Policy Panel Report entitled "Trade Policy Issues: Global Structural Changes and the U.S. Economy" was released in March 1980; and the Technology Transfer Panel Report entitled "The Growth of the U.S. and World Economies Through Technological Innovation and Transfer" was released in September 1980.

In the current cycle, in addition to grains policy, the Council is studying industrial policy and relations within the North American economic area.

Senator ABDNOR. Let me take advantage of being chairman by indicating what I wanted to have in the record before we get through with all of you.

What advice would you give to Secretary Block to urge President Reagan to take a closer look at the needs of agriculture? In other words, what can Government do for agriculture right now?

You said a few moments ago that we don't want to panic, but we all admit it is serious at this very moment. We are just searching for thoughts and views and maybe we could start with Mr. Bergland. I guess you all alluded to it in your statements. I'm almost asking you to summarize.

Mr. BERGLAND. Mr. Chairman, there's no quick fix. There's no instant cure that President Reagan or Members of the Congress can put together to substantially change the costs, price and incomes squeeze that we now see and will likely continue to see for at least 3 months.

Now the price-and-income situation may substantially change come fall. It may improve. It could get worse. But in the short run, I don't think there's anything that the Government can do to change matters.

Now I would recommend some changes in the dairy price-support program. I think the cost is becoming excessive and I'm interested in the proposal which has been advanced by the National Milk Producers Federation and others; namely, providing some discipline on the supply side.

As far as the grains program is concerned, I think it's probably about on track and I would have some advice to offer on the export market development side but that's a long-term kind of proposition that will pay handsome dividends but not in the next 3 or 4 months.

Senator ABDNOR. What about credit? Farmers are short of operating capital. Would you do anything in that area or would that worsen the situation?

Mr. BERGLAND. Mr. Chairman, I would like to make one additional point on the matter of current farm income and the price situation. There is a tool available so farmers can help themselves; namely, to sign up and comply with the 1982 set-aside program. I strongly recommend producers take part in that program because this is one means by which this grain supply and reserve matter can be brought under more manageable proportions.

I would strongly urge that there be a complete revision of the Federal credit mission. I think the Farmers Home Administration programs have been carried away into regions that's really not Government business. It has become a kind of entitlement program. Persons are entitled to Government credits without regard to their own management capability and almost without regard to their own past practices, and the Government credit ought to be more like that which was used in the 1930's, namely, carefully targeted to help persons who can't make it without Government assistance, but along with that credit goes guidance and counsel in terms of management training, bookkeeping, and the like.

I would not recommend a moratorium, as has been suggested at least on the House side, postponing the actions otherwise underway by the Farmers Home Administration. I think these decisions have to be made case by case on the scene and, as far as I can tell, the administration is doing that which appears to be prudent in allowing each individual borrower to try to work their way out of their difficulties. It will take some time, Mr. Chairman, I'm sorry to say.

Senator ABDNOR. Thank you.

Mr. FREEMAN. I think in the short run, which I think is the case for the basic reasons I've tried to outline, that credit is one area where the Department could act more strongly and more vigorously. As a matter of fact, Mr. Butz referred, if I heard him correctly, that 3 percent less interest would mean something in the neighborhood of $3 billion more in farm income. I think that is exactly what ought to be done. The interest in this case is the product of a policy—I'm not necessarily criticizing that policy now, the tough money policy to sweat inflation out of the economy—that's another subject—but the product of that policy is what we see in interest rates and it is of a major magnitude. I would suggest that's not a subsidy to agriculture in the sense that it's continuing inefficiency. We have seen a number of industries in this country where productivity has fallen and it has not been competitive and we have moved to bolster and give those industries a chance to turn around. I think we are getting right down to the meat of our efficient, effective farm producer.

I think the Secretary of Agriculture ought to say to FHA, case by case, on the liberal side, not on the collection side, "You're not running a bank, and we've got a rural emergency and if you think that that producer is efficient and effective in doing his business, why, you're going to stretch a long way to give him enough credit. He is in trouble because of circumstances that have been beyond his control." Generally speaking, the Department should give substantial consideration on interest rates, perhaps across the board, for the producer who is effective.

Now the farmer in place who has owned his land, who has his machinery and is efficient, can weather the storm. I think we all know it's the new one, sometimes young, who, perhaps took on a little bit more than he should have at a given time and place, who is hurting. We need him. And in terms of productivity—the productivity of American agricluture has been increasing about 6 percent a year at the same time that the productivity in industry has been decreasing as much as 6 percent a year. Don't hold me to those numbers, It's very difficult to measure, but nonetheless, there's no question, collectively—I'm talking about agriculture being efficient, as we all know.

The danger now is that during what I think is the transition period, we're going to lose some real effective producers. I think that, on an immediate basis, credit easing would be one way to move.

Politically, it's not likely, but the way to strengthen farm income quickly is (*a*) to take a look at the current diversion program and whether the inducements in it are adequate to get farmer participation. I think they are limited. The question is whether enough acreage will come in. If they're not coming in, payments ought to be revised upward to correct this in the short run. And if Congress really wanted to bite the bullet politically—I'm not suggesting that could be done—you could very well go back to what was done during the 1930's; Congress could legislate acreage allotments and by law it would mean that producers in this country would cut back their acreage to a predetermined amount. That's what Congress might do. I think it's rather doubtful they'll do it.

Senator ABDNOR. Thank you.

Mr. Brannan.

Mr. BRANNAN. Mr. Chairman, this question has to be answered from the very short-range and then from the long-range point of view. I agree with Secretary Freeman that credit is essential if we're going to save many, many thousands of very good efficient farmers that are going through forced sales in my part of the country and in every part of this country, this month, next month, and the month after. And let me point out that, in addition to the farmers who lose their farms through forced sales, there are many of them who are just a little bit smarter and see the handwriting on the wall and they voluntarily sell out so that their sale doesn't even get into the statistics, but their farm ends up in the possession, in my part of the country many times, of Canadian investors, Canadian speculators in U.S. farmland.

So I would suggest, first of all, a very, very effective credit program. And I never was charged with being very popular and this isn't going to make me so either, but I believe that we ought to, in many cases, actually make a grant to some of these farmers to cover the difference between the excessive interest rates they have to pay and their present debt situation. These men are not going to be able to bail themselves out just by extending their indebtedness 1 year, or 2, or 3, or 4 because that interest is going to continue to earn interest and they're going to go further and further in debt, particularly if you don't provide them with some kind of opportunity to get a fair price for their product.

My No. 2 point, Mr. Chairman, is that we must start to work to get in place a kind of a program that will give these men the opportunity to earn a fair return. And I go back again, of course, to the summary to my initial remarks.

Senator ABDNOR. Thank you.

Mr. Butz.

Mr. BUTZ. Well, we've heard a lot this morning about the exodus of individual families from farming, about foreclosure sales, which come in many cases because of unwise extension of credit in prior years, and I think that ought to raise the flag on credit. Like somebody said, fire can be a very useful thing, but it can destroy you if it gets out of control.

Mr. Brannan pointed out that the number of farms in the United States in the interim since he was Secretary declined from 4.6 million to 2.8 million or something like that, not quite a 50-percent decline—perhaps a 40-percent decline since he was Secretary. Those declines came in good years and bad years. I think we've got to recognize that a shrinking number of farms in this country has been an economic phenomenon that's been taking place now ever since the end of World War II, in good times and in bad times. In many parts of the country it's more accelerated in good times than bad times because the alternative opportunities are good. Right now alternative opportunities are not great because employment is down and the economy itself is in a depressed condition.

If you go back through the years—and I suggest that your subcommittee staff could produce those figures for you—you will find a decrease in the number of farms in every year, good as well as poor, in this country, and that the decrease taking place now is greater than normal but not as much greater than normal as the press reports would lead you to believe and, therefore, I think you've got to be careful that we don't panic, that we don't make unwise extension of subsidized credit to prolong the agony of some who perhaps ought to make the adjustment, who aren't good efficient farmers, who would have difficulty in normal times making it. There are always some of those in a dynamic society such as agriculture and I think we have to recognize that.

And if you've gotten anything out of this panel, it is don't make short-term adjustments in this situation. That will aggravate long-term problems. It would be very easy to do.

Senator ABDNOR. Well, thank you for those comments. Now the questions have just really started.

Congressman Richmond.

Representative RICHMOND. Thank you, Mr. Chairman.

Mr. Bergland, as you know, that main reason for the huge and dangerous swings in our grain trade has been the very poor and unreliable performance of the Soviet bloc in agriculture. In recent years U.S. policy has attempted to stabilize the situation in Poland at least by fostering the development of modern, private commercial farms which were functioning very, very well. I understand you have studied this situation.

I wonder what you feel about the outlook for Polish agriculture and the outlook for the growth of private commercial farms in the Eastern Bloc, particularly in Poland.

Mr. BERGLAND. Congressman Richmond, at the moment, it's very grim. During my 4 years in the Government I was in Poland on two official trips and I have been there since in a private capacity.

During the trips to Poland as the Cabinet Secretary for Agriculture, we worked with the Polish Government on measures they may take or could have taken to strengthen the productive base of their farming sector. They had about 2 million farms in Poland with an average size, as I recall, of about 4 acres, farmed by horses. They used what we could all primitive technology, largely a subsistence kind of agriculture brought on by, I think, government policy which restricted leasing and sales of property.

Second, in a shortsighted policy on the part of their government in terms of its own economic strategies, they kept farm prices so low that the farm people could not afford fertilizers, and better seeds, or better technology.

During the past 3 or 4 years, several thousands of young Poles out of college decided to take advantage of some recent changes in Polish law which permitted some consolidation, out of which 50,000, or 60,000, or 70,000 well-run private farms emerged. Mostly they were specializing in livestock production, but dairy, pork, and poultry in particular. These enterprises would use modern technology. They have become a very resourceful and highly productive part of Polish agriculture.

The problem is that they have to import all their feed. It nearly all came from the United States. That group of 50,000 or 60,000 impressive young Polish farmers have become the backbone of what we generally describe as the rural solidarity organization. They were pressing the government for change in the pricing structure so these newly created and what we would term efficient enterprises could not only flourish but expand in number and, with time, could displace that rather primitive subsistence farming structure which has characterized Polish agriculture for the better part of the last 100 years. With the martial law and the subsequent cutting-off of credits from the U.S. Government to the Pole who needed to finance the importation of feeds, that group 40,000 or 60,000 productive, reliable and viable resourceful young farmers is in danger of being driven out of business.

My information is that the chicken farmers will run through the end of April but then their feed will be gone. They are now feeding or slaughtering some of the basic breeding flocks in the country. I've talked with a number of Polish farmers and they have all told me that their feeds for their pig business will run through June and then they're out of business.

As matters stand, there doesn't seem to be any hope for them. That economic group will be crushed and what will arise out of those ashes I certainly can't tell, but it is I think an unfortunate turn of events. While they were very much in the Soviet orbit, this is one area of which the Soviet Union can be of no help. They need feed and feed ingredients. We have it in abundance. They have no immediate means of paying for it. So we see a de facto embargo.

Representative RICHMOND. Mr. Butz, I hear you're about the hardest nosed man I know.

Mr. BUTZ. You don't do so badly yourself as I recall.

Representative RICHMOND. My current obsession is with the terrible trade imbalance we have with Japan. As you know, we are being treated like a colony. Last year they shipped us $40 billion worth of heavily manufactured goods and they bought from us $20 billion worth of nonrewable resources and unprocessed agricultural products, mainly food and fiber. They won't let us put a penny's worth of labor into anything they buy.

As a result, we had an $18 billion deficit last year and we'll have a $25 billion deficit this year, and next year the Japanese are going to outproduce us industrially. Here's a country with half the population we have, the size of the State of Montana, which will produce more industrial equipment next year than we will. Yet we can't ship them any substantial amount of processed foods. All they will take is our basic raw materials. They'll take our grain but they won't take our beef, poultry, or hogs. They'll take our corn. They won't take our dairy products even though we sell the dairy products at a third of their costs and our beef at a fifth of their costs, rice at a fifth of their costs.

What are we supposed to do? Do you think Congress ought to legislate this matter?

Mr. BUTZ. Congressman Richmond, I think the current drift in this country back toward nationalism and toward trade restrictions is a very unfortunate thing and that comes because of the very situation you describe, and you and the Congress get a lot of pressure on restricting Japanese shipments to this country and other shipments to this country, and I think if we accede to this drift toward nationalism and restriction of international trade we will all suffer, including agriculture.

Now Japan is our No. 1 market for farm products, but as you say, they take the raw products, not the manufactured products, partly because they don't want to pay for that 66 percent that went into our product after it left the farm.

Representative RICHMOND. No.

Mr. BUTZ. Let me illustrate.

Representative RICHMOND. Their distribution is infinitely more antequated than ours and their whole farming economic is more antequated.

Mr. BUTZ. I agree.

Representative RICHMOND. Beef is now costing a $30 a pound in Japan.

Mr. BUTZ. That's the Coty beef.

Representative RICHMOND. No, that's just regular beef. Rice, with the Government subsidizing the farmers to the tune of $1,400 a ton.

Mr. BUTZ. I agree. As I understood it, the Japanese accedês to the political pressure from their farmers that they want protection, and that's a part of the problem. I agree with you that we can put beef in there much cheaper than they can produce it and the Japanse consume about 8 pounds of beef per year.

Representative RICHMOND. It's a little higher than that.

Mr. BUTZ. Contrasted with our 108 pounds in this country. I've seen Japanese eating in Tokyo and this country and they don't have a dislike for beef. They like it very, very much. I quite agree with you that their consumption could go up. I recognize this imbalance in trade you talk about, them shipping us industrial products, automobiles, et cetera.

Again, to give you a personal illustration, a couple years ago I was giving a talk in Lansing, Mich. They make Oldsmobiles there. We had this press conference and this young reporter said, "Do you support the move in Michigan to limit the importation of Japanese cars into the United States?" I said, "Absolutely not." I haven't been invited back to Lansing since. He said, "Why not? The Japanese are taking our jobs," I said, "Young man, I see you sitting there with a 'Nikon camera and a Sony recorder. Where did you buy that?" He said that he bought it in Japan and got one for less money. I said, "Why don't you apply the same philosophy with automobiles?" He said, "Well, the Japanese are taking our jobs." I said, "Wait a minute. You wrote the prescription for that in this town in Lansing a year ago with the 3-year contract between General Motors and the union that provided for 21 paid personal holidays a year, on top of your legal holidays, on top of your annual leave." I said, "The Japanese are productive. Our productivity is going down because of this very thing."

Now the same union makes tractors in Rock Island, Ill. They make trucks in Indiana. They make these things that farmers purchase. This kind of restrictive practice adds $5,000 or $6,000 to the cost of a combine. It adds $5,000 or $6,000 to the cost of a new tractor. That's the point of my testimony here. We've got to attack those problems that make us inefficient, that make us have high costs that raise farmers' costs. So I'd say the Japanese aren't imposing Japanese-made automobiles or pickup trucks on us. Our consumers have opted that they are going to do that and they demand it.

I don't object to Japanese trucks coming in here because we pay for it with farm products. They are our No. 1 customer for soybeans, for feedgrains, and trade has to be a two-way track. I'm like you. I wish they'd take more processed products, but they won't pay for that 66 percent.

Representative RICHMOND. We've already established the fact that we can provide all of these processed products in Japan for a fraction of their own costs. There's no question of that. Let's not talk about the inability of the American worker to process food for Japan. If the Japanese would just give us equity, we could add 500,000 workers to U.S. payrolls.

Mr. BUTZ. And the U.S. dairymen argue the same about having access to the dairy market. How would you answer that?

Representative RICHMOND. There, of course, you're going to get a program of price controls. Also, we have a problem, as you know better than I——

Mr. BUTZ. They can put cheese in there cheaper.

Representative RICHMOND [continuing]. Of keeping the farmer on the land and not building up a European or OPEC-like cartel of milk—who wants to be a dairy farmer and work 7 days a week?

Mr. BUTZ. We've got a surplus of dairy products.

Representative RICHMOND. We've got a surplus of dairy products, but the Japanese spend three times as much growing their own dairy products because the average Japanese farm only has two cows on a farm of 2.9 acres. Nobody in the world can compete with us in agriculture.

What I want to do is sell the Japanese these processed foods at a fraction of what it costs them. You're skirting the issue. I agree with you that we do have labor problems in the United States.

Mr. Freeman.

Mr. FREEMAN. I'd like to comment a little on the Japanese situation which is a complicated and difficult one. First, I would associate myself with Mr. Butz' remarks. I think it's suicide for this country to move back to protectionism in the world we live in today, and I think we just have got to pull up our britches and compete. We have permitted access to our market. The Japanese in agriculture are deteriorating in their productivity and they have to face up to that fact. So far, by and large, they have not been willing to do so.

It is my privilege to serve on a task force of the U.S./Japan Business Council which has been mandated by the Prime Minister of Japan and the President of the United States to follow up on the so-called wisemen's report in relation to Japan/United States economic relations. As a part of that report unanimously issued by the so-called wisemen's group composed of six American and six Japanese, there were very strong recommendations to nationalize Japanese agriculture, and we are proceeding with that task force. As I say, it's my privilege to serve as chairman. We are about to do this and I think there's growing support and recognition in Japan that in their own interest this needs to be done, not only for political reasons but for domestic economic reasons as well.

Now they don't want to face up to it for the political reason that they feel that politically the countryside has a throttlehold on the Liberal Democratic Party, and they will go out of office if they begin to give on this. Now, that is a game that we are all familiar with and it's not unknown in this country. And so the process is going to have to be one of thoughtfully, tactfully, firmly, methodically moving to bring about the necessary naturalization of Japanese agriculture.

I'm a little weary, frankly, of hearing the Japanese refer to our inefficiencies and inability to compete and then being a bit resentful when we refer to their inability and unwillingness to compete on the agriculture front. But again, I say, to start throwing spitballs across the Pacific in terms of the economic relationships in the world of today I think would be a catastrophe.

Representative RICHMOND. Thank you.

Senator ABDNOR. Senator Proxmire.

Senator PROXMIRE. Thank you, Mr. Chairman.

Mr. Chairman, this has been a very interesting morning for me. I've learned one thing for sure, and that is, to be Secretary of Agriculture your name has to begin with a "B." I don't know how you got in there, Orville, maybe just on sheer ability. You know, we have three out of four here whose name begins with a "B" and then you have Bentson and the present Secretary which is Mr. Block. So maybe Kennedy thought your name was Breeman instead of Freeman.

But, gentlemen, as we meet here this morning, of course, the overwhelming problem for American farmers is that terrible situation of a high cost and inadequate income to meet that cost. Parity is as low as it's ever been, I guess. They dropped it from the economic indicators for some reason, but if it were brought up to date adjusted parity would be 58 percent and raw parity would be 57 percent. I don't think it's been that low for a year, and that's in February of 1980 when it was 65; in February of 1981 it was 65. So parity is down and, of course, that means the farmer is getting squeezed as perhaps never before.

Income per farm—Secretary Bergland referred to that item. He pointed out that many of the small farmers earned income off of the farm. Nevertheless, income per farm is way, way down. It reached a high in 1974 of $8,000 but it was $4,000 or $5,000 during most of the last decade and now it's down to $2,900 per farm. And on some kinds of farms, as you know, Mr. Bergland, you simply don't have the time to take off. On a dairy farm, as you well know, the University of Wisconsin calculated that the typical farm family in 1980—this was in June, which is a busy month but it was busy throughout the year—they had to milk their cows every day twice a day—the typical farmer and his wife worked 135 to 150 hours a week and, of course, when you do that, how can you take time to work off the farm?

So the farmers are in terribly difficult shape right now.

I'd like to ask you gentleman—maybe for the record you could help us a little more. I thought the question by the chairman was a very good one because the situation today is so bad we have to think in the short term. We just have to. We're losing these farmers. We're losing very good farmers, efficient, competent farmers, who ought to be encouraged to stay. You suggested credit. We have the same kind of proposal for housing. Senator Lugar and Senator Jackson just proposed a 4-percent subsidy for mortgages to bring them down from 17 percent to 13 percent.

I take it you propose the same kind of thing for farmers to borrow. It seems to me that's a very dangerous road to go down. I wrote Chairman Volcker of the Federal Reserve Board and said, "What would you do if we passed a Lugar bill or a Jackson bill? Would you accommodate it by increasing the availability of credit by $26 billion, which is what you would need to do to take care of those 400,000 or 500,000 new mortgages?" He said, "No." He said, "What would happen is this new credit would drive interest rates up higher in general and, as a result, you would be robbing Peter to pay Paul. You might get more jobs in housing, but you would lose job elsewhere."

You have to get a greater accommodation of credit to accommodate that. The same thing would happen in agriculture, it seems to me.

So I just wonder if credit is the answer. It would seem to me that the proposals that were made by you, Secretary Freeman, I think, of acreage allotments, are something we can do right now which would make sense. None of us would like to see limitation on farming. Farmers hate that. In our State they have always voted against any kind of production controls on milk, but I don't see any alternative. I really don't. I think they are beginning to approach the situation where they recognize they have to do it. It's a grim kind of change, but I think it's something they're going to have to accept. And I'd like each of you to respond to whether or not you think it would be wise or unwise, at least in some areas like feed grain and like in milk, that we have a system of production controls.

Mr. BERGLAND. Senator Proxmire, the current law gives grain growers an option, namely, they can sign up and divert from 10 to 15 percent of their grain base to a conserving use. If there could be 80 percent compliance with that program this year, there would be almost an immediate upward response in the value of grains.

The fact is that the signup is not very heavy. The general expectation is that there will not be very good compliance with this program for all kinds of reasons, but the fact remains that there does not need to be a change in the law unless the current program were amended to make it a bit more attractive, and I would strongly urge grain growers to take part in this program that's now underway.

Signup is continuing until the 15th of April and this is really a self-help measure. The more people that go into that program, the better the circumstances will be almost immediately because futures prices will respond upward and the cash spot markets will rise to it.

Senator PROXMIRE. Can we somehow strengthen it so it will have a more positive effect for the farmers? Because I think you and I share, and all of us share, this concern for what's happening to our farmers.

Mr. BERGLAND. Well, the program is the best that can be provided under the current budget situation. I don't see any means or way by which Congress could strengthen that program, given the current budget climate.

Senator PROXMIRE. What about production limitations to dairy farmers?

Mr. BERGLAND. Yes, sir. I think something has to happen in the dairy field along those lines. The National Milk Producers Federation and several of the leading dairy cooperatives in Wisconsin have worked on a new self-help program to put the control over the dairy supplies in the hands of the producers themselves.

Senator PROXMIRE. What do you think of that?

Mr. BERGLAND. I think it's a sound idea and it ought to be explored.

Mr. FREEMAN. Senator Proxmire, I would have no difficulty with your recommendation if it was that or at least the possibility of legislating acreage allotments for a definite period, say a year, and perhaps optionally in another year. That wouldn't cost anything. The machinery is out there to do it. It could be accomplished. You would short the market. The price would go up immediately and have no budget impact. I would see no reason not to proceed except, as you have said, farmers do not like any kind of control or limit and, as Secretary Brannan said, this is exactly why we got into such bad trouble in the 1950's, because we had fairly high price supports. As a matter of fact, we made world prices, and we did nothing about supply management, and we got into a first-class mess where we were facing 600,000 bushels of grain and no place to put it in 1961.

So if Congress was prepared to bite this bullet, I think for a limited period under emergency conditions, that the country would support it and I think the majority of farmers would probably go along.

My other comment, with reservations and recognition of your long experience, having led the Banking Committee for so long, I would still say that a hard look at something by way of credit relief to farmers—not a wide, across-the-board kind of program, but a targeted one—would not necessarily have the effect that a national program in connection with housing would have.

I wonder if it wouldn't be possible to target a credit program in such a fashion that it could reach that farmer who is a good operator and who may very well be forced out. I don't have that formula, but I think that might command some thoughtful attention.

Senator PROXMIRE. Well, I hope we can look at that, but it really concerns me when you recognize what has happened, of course, is that the Federal Government is hogging the credit markets. In 1971, they borrowed $1 out of $6; last year they borrowed $1 out of $3; next year, it will be $1 out of $2 on the basis of all our projections; and if we get into it in agriculture and housing and other areas it's more and more Government crowding out the private sector, meaning people who aren't subsidized having almost an impossible situation.

Senator ABDNOR. Could I just ask you to yield a second?

Senator PROXMIRE. Yes.

Senator ABDNOR. I would like to discuss set-asides. Earlier, Secretary Freeman, you were talking about possible food shortages. Our surpluses are really quite small in relation to what we will need in the months and years ahead. Do you see any problem there? Would this set-aside be a very temporary measure?

Mr. FREEMAN. Well, the set-asides or legislative acreage allotments, indeed, is a temporary thing. There was nothing whatsoever by way of set-asides in the mid-1970's. Then the market made the price because it was a booming national economy until the world dipped into the stagflation of the mid-1970's where we have been hung with ever since. But in the interim period between 1968 and 1972, the market cleared and prices were moving steadily up and, as I say, they bounced in 1972 and 1973 by a couple hundred percent. That can happen again.

For the moment, I think what we have on hand in the farmers reserve is about as much as we really can afford to carry, but we ought to consider it a blessing and an asset and not a liability.

Perhaps, this being a business administration, they ought to manage this Government by the balance sheet instead of by the profit and loss statement, and this is a big asset that the Government will get its money back on and so will the economy.

In the meantime, if we cannot afford and should not carry more than 35 million tons, which I think is about as much as we should be expected to carry, although that would only carry 1 really bad year in the world without having a major price response in the marketplace, we really are looking at a very temporary, short-range problem where we don't want to see good farmers driven out of business. And, in that case, if we legislated in terms of acreage allotments on these grains, which Congress could do without any drag on the budget, the market would be shorted and the price situation would be rectified about as soon as Congress passed such an act.

Mr. BRANNAN. First of all, let me say that if I said anything during my initial remarks, it was a very direct recommendation of acreage allotments and marketing quotas. I would call your attention to the fact that acreage allotments are not the answer for the perishable type of product—dairy, for example, beef, pork, and all the rest of the things that must move into the market and be disposed of promptly in some fashion or other.

Now acreage allotments will work, of course, with wheat and the grains and all the rest of the storables, but farmers must have an opportunity through marketing quotas as well.

If we're going to do anything substantial about the total farm income, because after all it is dairy products and beef that contribute—Secretary Butz, you correct me if my 1952 memories are bad—they are the items that contribute most to farm income now, much more than wheat and cotton and some of the other products to which you can apply acreage allotments.

Therefore, acreage allotments alone, while essential, are not the total answer to the problem and acreage allotments without marketing quotas are, in my opinion, not going to get the job done.

Senator PROXMIRE. Mr. Secretary, you know better than I do that the acreage allotments limiting the feedgrain and so forth will have a direct effect on milk and beef. If you cut down the production of feed, you cut down the production of meat and you cut down the production of dairy products don't you?

Mr. BRANNAN. But not the production of the initial animal. Certainly in beef, he comes, to begin with, from the range long before he ever sees a pound of grain. He is then fed about 7 pounds of grain and 1 pound of supplement in order to produce 1 pound of beef.

I'd just like also to point out that acreage allotments, together with marketing quotas, are a far more fair and efficient way to let the farmer operate. For example, if farmer "A" wants to produce extensively wheat but produces more than his marketing allotment, he can carry the excess over until the next year and reduce his production, reduce the burden on his land, save his fertilizer, save his soil fertility, and save our national basic soil resources.

There's got to be more than just allotments. There's got to be wide flexibility.

And I'd just like to say one other thing apropos an earlier remark of yours, and you can be assured of my high respect for your ability in the whole financial field, but what is happening right now and has happened—and I must say, happened not only in this administration but some in the preceding administration—by the loss of good farmers and farm families, we are really changing the social structure of this country and that, in my judgment, is a very dangerous thing.

To draw an example, Mr. "A" works at the Chrysler plant or any other plant and he loses his job. Now 9 chances out of 10, when the plant starts up again, Mr. "A" is available to go back to work. However, when Mr. "B" on the farm goes out of farming, he isn't standing around waiting to get back into farming because there's no way in the world he's going to get back into farming. And, therefore, we are making a complete, final change in the social structure of that community when we let that fellow get away from that farm. And what does he do? He goes into town and he competes with Mr. "A" for a job in the Chrysler plant.

Therefore, I do say to you again that, in my judgment, this is a critical situation to which measures must be found for immediate rectification of the current situation and also measures which will eliminate the possibility that this kind of thing can happen as it did in late 1920's and early 1930's. It's really happening again and it cannot and should not happen, and there ought to be some kind of program that would eliminate those kinds of cyclical occurrences in our national economy not just simply because of sympathy for farmers, but because of the drastic impact upon our total social structure.

Just one more comment. I'm sure you all read about this, and this is apropos the point that I'm not just talking about family farmers. One of the big farmers in Texas with I don't know how many thousands of acres went broke the other day. He took himself out of agriculture. He took two machinery dealers out of business and he doggoned near broke the bank in his little community.

So even the impact of what's happening in rural America isn't only on the farmers. It's on the whole wide breadth of the total economic rural America.

Senator Proxmire. My time is up, but I'd like Secretary Butz to respond.

Mr. Butz. Well, I'll just make one quick comment to your comment about the dairy industry, about assigning quotas and controlling our supply. This has not been a new proposal. Years ago in the Chicago milk shed we had a base. It's current in California right now where they've got State milk control laws, and you assign a base for an individual producer. The base immediately takes on a value. You capitalize that base and whatever values are attached to it. And if farmer "A" wants to buy the base from farmer "B", he's buying the base either attached to the land or unattached to the land as the case may be.

I simply want to point out that if you decide to take that route it is not without very severe problems.

Senator PROXMIRE. Thank you.
Senator ABDNOR. Senator Symms.
Senator SYMMS. Thank you very much, Mr. Chairman.
I'd like to thank you for having this hearing and I would like to thank the four former Secretaries for being here. I think it is a compliment to you that they are here, and I have enjoyed being here too.
Bob, it's good to see you. We date back to the old House Agriculture Committee when Secretary Butz was Secretary of Agriculture, and I'm happy to see both of you here this morning.
I guess my question comes back, after sitting here listening to all this morning, it appears to me that the No. 1 enemy of not only farmers but of timber producers and mineral producers in this country is high interest rates. In coming to that conclusion, I think that high interest rates, in the traditional sense of the word, come about as a result of the fact that the Government spends more money than it has so they are crowding people out and there's a lot of competition for money.
Other than reducing the entitlement section of the Federal budget to get the growth of the Federal Government under control, do any of you have any recommendations of what we could do to bring interest rates down?
And I'll couch that by saying that there are a lot of people suggesting that the Open Market Committee at the Federal Reserve Board are using abnormal calculating figures to compute the monetary aggregates, that they really only control about 10 percent of the money supply and about 90 percent of it is running free.
Do you think there's anything that could be done in terms of linking the dollar with gold to expand people's economic horizons so we can bring about long-term interest rate reduction? Because it isn't just the farmers that are hurting. As I say, the forest products industry is flat on its back. The minerals industry is flat on its back. The only people that are doing well are those who are fortunate to have, through their past, I guess you could say, proper planning—and I don't begrudge them that from their good judgment they have cash now—but it's interest rates in general that are devastating to the agricultural community.
I think, Secretary Butz, you said if we lowered interest rates by 3 percent, it would make $6 billion more farm income. I think that was the figure you used.
Mr. BUTZ. That's correct, on the total debt of about $200 billion.
Senator SYMMS. Do you have any recommendations to me, as not only a member of this committee but a member of the Finance Committee and the Budget Committee, other than addressing the problem of the entitlements spending programs, of bringing the Federal budget in balance by reducing expenditures, not raising taxes, that would bring about lower interest rates?
Mr. BUTZ. I think you're on the right track and it's a tough track. We've got a sick economy. We didn't get there overnight. It took us some time to get into this thing. It's going to take drastic medicine to get us out.
The best way to control interest rates is to control inflation, and I think you've got to do that by addressing yourselves to what Senator Proxmire was talking about, that $1 out of $3 in borrowing last

year was public borrowing and this year it's going to $1 out of $2 for Federal borrowing. That means that demand for money is so intense that the interest rate goes up because there's got to be some private and corporate borrowing in this society.

I think you're on the right track for entitlement programs and operating programs and other programs. Secretary Block said in announcing the set aside program, and the reason he's getting little attraction for it, he's being bitten by OMB to keep the cost under control. This is part of what you're talking about. It's pervasive in the whole society.

I met a coed at Purdue University, a senior, a delightful girl, and I said, "What do you want to do when you graduate?" She said, "I'd like to manage a horse farm." I said, "Do you have horses at home?" She said, "Yes, I have two here." I asked, "Where do you keep them?" She said, "On a farm at the edge of town." She said, "I've been borrowing from this Federal loan with no interest until 6 months after I graduate." She had borrowed $10,000.

Well, I won't feel very badly if she gets cut back to one horse. That won't bother me a great deal. This is indicative of every one of these entitlement programs.

I think you're doing precisely the right thing in holding the line and being tough on these things.

Senator SYMMS. Secretary Freeman.

Mr. FREEMAN. This is an extraordinarily difficult problem, as you're well aware, Senator, and I don't think there's any single way or any single solution. There's been a word that's come into increasing prominence called "accord," and that is whether it would not be timely to bring together a number of factors that influence primarily confidence—confidence of the consumer, confidence of the saver, confidence of the street, etc.—that we're pulling together and that we're going to get on top of this inflation thing that has changed, and almost immorally, our habits from those of increasing productivity and making solid investments to those of playing games with money.

Now that's psychological really; that isn't economic. But it would be my judgment, on the fiscal side cutting back spending alone, is not enough and perhaps is not politically possible. I think on the monetary side, to move precipitously or to move alone would be disastrous in terms of what it would do to public confidence that inflation is coming down.

I think Congress can work out the kind of accord that would continue to press on the budget side, that would recognize that part of the fiscal side is tax and, more important perhaps then even the tax availability for investments—and you can't be sure that that additional saving is going to be invested—that on that side is the confidence of doing something immediately which would interact on the major problem of that big, big budget deficit.

Then on the incomes side, I think it's timely and perhaps—just as at Ford and General Motors where labor and management is really sitting down together—that maybe Government is going to have to get in this act and there ought to be some kind of working dimension of a national incomes policy.

Most economists in this country think we're not going to get on top of inflation and win this battle unless we have some kind of an incomes policy. Now I question whether that can be done in the marketplace. It may be that it's happening now with General Motors and Ford and maybe it will spread, but most of the articles I read don't think it will spread or spread fast enough.

If we get all of all of these factors and put them together, together with a relaxation on the money supply, then we could get accord, and I think that kind of control would generate the kind of confidence in terms of inflation that would have a magic impact here and around the world.

The alternative that it appears that the administration is following now I think is hazardous and that is to just follow a real tough blood and guts policy of going ahead and taking recession and unemployment and economic turndown and sweating inflation out of our soul and our body and our meat, and I'm not sure that that is doable politically and I'm not sure that it's necessary.

The question, like everything in politics, is timing and whether now is the time when the Congress—you'll pardon my saying, Congress seems to be pretty well hung up on the budget on both sides of the aisle—whether now is the time when the leadership here and wisdom here and in the White House and country and industry and the rest to come together with an accord that brings these different things together. And that, it seems to me, is the only way to do it, outside of blood and guts, and that's going to take a while—just to sweat that inflation out—and Margaret Thatcher isn't doing very well in the United Kingdom and I doubt we will either.

Senator SYMMS. Mr. Butz, you didn't touch a part of my question. I read an article one of my constituents sent to me from a newsletter called "The Reaper." The guy's name who writes it is McCallister or something like that, and the article is on farm commodities and prices and how they are all out of kilter and it makes the point that if the dollar were linked with gold so people's horizons could look further than just a very short term and have confidence in the future of money, that wheat, corn and soybeans in relationship would all be at much higher levels because interest rates would be much lower.

Do you give any validity to that?

Mr. BUTZ. Not a great deal, Senator Symms. I know there is a body of thought in this country that we ought to return to the gold standard. I think it's impractical. The supply of gold isn't that great. The price of gold has fluctuated all over the board in the last 2 years. The distribution of gold around the world is not that great. The primary producing areas of gold are quite concentrated in South Africa and Russia especially.

I think to go back to the gold standard is economically and politically unfeasible.

Senator SYMMS. Then you would recommend as a first fix to use the current system at the Federal Reserve but remove the Government borrowing aspect. But the question I'm getting at is, as I think Secretary Freeman talked about, this blood and guts question. I'd hate to kill the patient at the hospital with the treatment. When we get through this cure, I hope the patient can still walk.

Mr. BUTZ. I think Secretary Freeman talks about blood and guts, it means enough blood and guts right here to eliminate the budget deficit. You might kill the Congress in the process. This wouldn't necessarily be a bad thing.

Senator SYMMS. You and I agree on that.

Mr. BUTZ. But in my book, one of the basic things you've got to correct is to face reality in this body right here and reduce this horrendous deficit by cutting back on expenditures.

Senator SYMMS. Let me make this point. The savings pool this year is supposed to be $101 billion and the interest projections on the national debt alone are $125 billion. So we're still not saving enough. We talk about the Japanese where they save 18 percent of their earnings. We save less than 5 percent. We're still not saving enough to finance the Federal debt as a nation, and it looks to me like when people talk about freezing entitlements they are really being way too modest; that we should be talking about reducing them. Nobody is talking about reducing them. They are just talking about future benefits. I'm not so certain that the drastic move is going to be made. If it's not made and interest rates stay up, then I would have to say that I don't see any quick fix for farmers or housing because if you start allocating credit, automobile dealers get in line and the farmers get in line and the homebuilders get in line and whoever else is lucky enough to be able to mount some kind of offensive to show their production is good for society.

Mr. BUTZ. I agree with you that we need more savings. Due to the recent high rate of inflation, needless to say, we put a premium on spending and a disincentive on saving. If you could reduce the inflation rate I think the savings rate will automatically increase.

Senator SYMMS. I guess the high interest rates with the low inflation rates should be an incentive for somebody to save money right now and maybe that will bring it about, but it seems to me the spread between real inflation and the interest rates is just absolutely astronomical.

Mr. Bergland.

Mr. BERGLAND. Only to introduce another idea, Senator Symms, to this hearing, I have just read the resolution introduced by Senator Jackson and Senator Warner which would establish a process by which the United States and the Soviet Union could start working together to reduce the otherwise bankrupting arms race. I think before we can do anything really meaningful in curbing Federal spending, there's got to be some accommodation reached with the Russians on this whole business of spending for military purposes or we'll all go broke. And once that's agreed to, then I believe we can effectively deal with some of the spending components that otherwise would be out of control.

Senator SYMMS. I appreciate that and I think politically there's some appearances of—we have to at least cut the fat out of the military budget. But I think if you look back to the days when Secretary Brannan and Secretary Freeman were in office, we were spending some 9 of 10 percent of our GNP on defense in this country and we are spending 5.5 percent now. And as far as the percentage of the Federal budget, when you were Secretary, Mr. Freeman, I think we were spending nearly 50 percent of the budget on defense and now it's 25 percent.

So it's hard for me to believe that it's the military budget that's caused us to get into the difficulty, even though it's a lot of money.

But I will just say also that the thing that bothers me is that when we talk about entitlement programs, we're spending $700 billion of the Federal budget. It appears to me the one thing every American ought to be entitled to is a good defense. And because we have spent so much on every welfare program that came down the road, we're not sure that we even have a defense that can stand off the Soviets, and that causes long-term problems in the financial markets too.

If we can assure the Western World of stability and a peaceful world in which to do business, interest rates might come down 3 or 4 percent based on that. If they think they have to do business with the Soviets they are less inclined to loan long-term loans of money.

Mr. FREEMAN. As you're well aware, Senator, in terms of the percentages of the debt as compared to the national income, we are running substantially less than is Germany or Japan. So there are very important differences. And, as the administration argues, if you don't monetize that debt it need not have that adverse effect, And there's currently a little bit of a shift in position but that happens to many of us when we get into office.

But it's why I think you really have to look at all four corners of this and put together that balance, and whether the time is right yet.

Senator SYMMS. Thank you very much. Thank you, Mr. Chairman.

Senator ABDNOR. Well, thank you. This has been an excellent hearing. I want to know that we deeply appreciate the effort all of you gentlemen made to come here. I think this is getting us off to a great start in the first of our series of five meetings where we hope to glean some kind of direction of maybe where agriculture should go, and if there's going to be a restructuring what it's going to look like or what should it look like. I couldn't think of a better place to start out than with people who hold the expertise that you do, and we are grateful to you.

I just want to announce that we do have a luncheon. I guess we make you work for your lunch. That's going to be in this building and Secretary Block and some of the White House officials will be there. So we certainly hope you gentlemen can stop by. I hope I have not scared them all off by being 30 minutes late.

Mr. BUTZ. Should I bring the bread to lunch? [Laughter.]

Senator ABDNOR. Yes. It might help. Thank you all.

The subcommittee is recessed.

[Whereupon, at 12:30 p.m., the subcommittee recessed, to reconvent at 10 a.m., on Thursday, April 15, 1982.]

[The following information was subsequently supplied for the record:]

RESPONSE OF HON. CHARLES F. BRANNAN TO A WRITTEN QUESTION POSED BY REPRESENTATIVE REUSS

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C., March 22, 1982.

Mr. CHARLES F. BRANNAN,
Attorney at Law,
Denver, Colo.

DEAR MR. BRANNAN: I want to tell you how sorry I am that I will not be able to hear you testify before the Joint Economic Committee on the 29th. owing to previous commitments to be out of the country.

Might I pose one question to you for the Record?

Question for Mr. Brannan:

The present milk program consists of a system of price supports which is costly to both the U.S. Treasury and to the consumer. During World War II, however, we had a dairy plan which worked. Under the plan, the government supported the income of the family dairy farmer, not the price of his products. The farmers had an incentive to produce as much as they could and to sell their milk and dairy products on the open market for the market price. The government then undertook to maintain the income of the family dairy farmer at a modest but adequate level. The result was abundant supplies of milk and dairy products for the wartime civilian and military populations at low prices. In fact, the volume of dairy products was so good the government never had to spend appreciable sums on income subsidies.

This success story was the basis of the Brannan Plan for reform of the agriculture price support system after the war. As you may know, I have been a tireless exponent of the Brannan Plan for the past 35 years and more. Would you explain for the Committee how such a plan would work today? Wouldn't it still be a good idea?

I know you will make a great contribution to the Committee's review of agricultural problems. I look forward to reading your testimony and the transcript of the hearing.

With all good wishes.

Sincerely,

HENRY S. REUSS, *Chairman.*

ANSWER OF HON. CHARLES F. BRANNAN

I believe the wartime program to which you referred which had many characteristics in common with the proposals submitted by me to the Congress in 1949 and as briefly outlined in my statement to this Committee today, efficiently and economically assured dairy farmers of a fair return for the high production which was demanded of them during the war. As you point out, the American dairy farmer not only maintained an ample supply of milk and dairy products for our consumers here at home but they also supplied substantial quantities of cheese and dried non-fat milk solids to our fighting forces and allies overseas. And all this was achieved despite increased feed and labor costs. The program was definitely anti-inflationary because it avoided burdensome increases in the prices of milk, butter and cheese for our people at home. Dairymen were assured 90 percent of parity for two years after the end of hostilities, thus protecting them against a drastic decline in the price of milk when hostilities ceased. Herds and facilities were expanded without fear of the impact surpluses. And of equal importance, the program involved the expenditure of a very minimal amount of tax dollars during the war period. We all learned a great deal from that experience.

THE CHANGING ECONOMICS OF AGRICULTURE: REVIEW, EVALUATION, AND FUTURE DIRECTIONS

THURSDAY, APRIL 15, 1982

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON AGRICULTURE AND TRANSPORTATION
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 5110, Dirksen Senate Office Building, Hon. James Abdnor (chairman of the subcommittee) presiding.

Present: Senators Jepsen, Abdnor, Symms, and Bentsen.

Also present: George R. Tyler, Douglas M. Ross, and Mark R. Policinski, professional staff members; and Robert Tosterud, legislative fellow.

OPENING STATEMENT OF SENATOR ABDNOR, CHAIRMAN

Senator ABDNOR. The Subcommittee on Agriculture and Transportation of the Joint Economic Committee will come to order.

Mr. Secretary, we certainly welcome you back to our committee and it's a pleasure to have you here and we appreciate you taking the time to come.

As you're aware, 2 weeks ago former Secretaries of Agriculture Bergland, Brannan, Freeman, and Butz appeared before this subcommittee. Many have referred to that hearing as an historic occasion. Now there is no question that those gentlemen were instrumental in shaping today's modern, highly productive agriculture. With regard to the current financial problems facing agriculture, their advice to this committee, with the exception of Secretary Brannan, was not to panic and overreact. The majority opinion was that better times are just around the corner, and we certainly hope that's true.

I agree with them to the extent that things really cannot get much worse. I know you do not need to be reminded, Mr. Secretary, that there is much concern within Congress regarding the delicate economic condition of agriculture. And this concern should extend well beyond that being expressed in behalf of 2.3 million farmers. The other 98 percent of the population of this country has a much larger stake in the future supply and price of food than farmers have.

Much discussion has been given to subjecting agriculture to the mainstream of the free market. To go that way I think we had better pay attention to the forces prevailing in that market if we intend to allow it to alter the structure in which agriculture exists.

Envision, if you will, a situation where food surpluses were eliminated and prices increased to a level that yielded an adequate rate of return on farmers equity and effort, and there are many of us who feel that's exactly what it's supposed to do. These are two crucial elements which make the market thrive. Many would view the economic, political and social consequences of this event as devastating. But this is precisely the result we are seeking by advocating a market solution, rather than governmental policy, to resolve agriculture's problems.

Mr. Secretary, I strongly concur that the Federal Government cannot buy prosperity for American farmers; that prosperity can come from the marketplace if society is willing to accept the consequences. Such a shift would require a great deal of commitment and courage because a policy calling for a market-oriented agriculture has some implications which may not be fully appreciated by farmers and consumers alike.

In the market, for example, price-depressing excess supplies would end, for it would clearly not be in the economic interest of any firm operating in a free and open market to either oversupply that market or to sell at below cost. Wheat in mid-February was selling for $3.67 per bushel. USDA estimated the cost of production of a bushel of wheat in 1981 at $5.21 per bushel. In the market, farming would become a profit-maximizing business enterprise, like any firm in any industry. Resources—land, labor, and capital—would enter or exit agriculture depending solely on what their next best alternative use may be. This administration appears to favor farm policies which reflect true market forces rather than artificially imposed objectives determined by bureaucrats in Washington.

That's good up to a point, but I guess we all agree there have to be some safeguards. My biggest concern in agriculture is the tendency to increase production and efficiency when farm prices generate a reasonable return for the work effort. Productivity is a plus for them, but it's also been a problem.

There are many problems that we have to deal with and sometimes I think I wouldn't want to be in your shoes in trying to reach the policies to bring some kind of order to this and yet give farmers the kind of free market they should have to operate in.

I've been very, very disturbed at times because every time that I read of something that's good for agriculture, that just might remotely cause the prices of their products to go up some, I also read where this will cause concern for the Consumer Price Index and the consumer prices in general for the people.

And I think we're all going to admit now—and I think what we're trying to do at these meetings is to bring some attention to the deplorable state of affairs in agriculture is in today and somehow there's been a general feeling throughout the United States—and not just in the big cities—I find it even in some areas of South Dakota, where they just don't realize the seriousness of the economic plight of farmers.

And I think we are getting some attention on this now and I think when the people are willing to recognize the fact that farmers are in a desperate situation, I think maybe we then can work toward some good, sound programs and policies.

Mr. Secretary, with that, I just want to say welcome to the subcommittee and we are looking forward to hearing your comments, but at this time I'd like to call on the gentleman who is vice chairman of the Joint Economic Committee, Senator Jepsen, from Iowa.

OPENING STATEMENT OF SENATOR JEPSEN, VICE CHAIRMAN

Senator JEPSEN. Thank you, Mr. Chairman. You are certainly to be commended for holding these very timely hearings. I welcome you, Mr. Secretary.

Three consecutive years of depressed prices and income, persistent high interest levels and nagging cash flow problems are combining to force our farmers to revise their visions of the future.

Our farmers are turning into pessismists when, by nature, as you well know, they should be and have been optimists.

Our farmers do not want handouts but they do expect a government which helped create their problems—and I cite the 1980 grain embargo as an example—to show more understanding of their plight.

This administration—regardless of what its critics say—and your Department, Mr. Secretary, is a compassionate one. But its main problem—its major failing—has been an inability to communicate this compassion.

It is time for this administration to listen to what is happening out beyond the boundaries of Washington. If it doesn't, then it cannot be surprised if the Congress acts.

Listen to what Lynn Schulte, president of the Linn County, Iowa, Farm Bureau recently told a New York Times reporter: "Businesses have their ups and downs, and we're willing to take our lumps. But you get to where things are getting a little better and the rug gets pulled out from under you again."

Mr. Chairman, farmers cannot afford to have the rug pulled out from under them again, not if we expect them to survive.

The administration should be on notice: If things do not improve soon, Congress will be forced to look at legislative options. It would be far better if the administration acts on its own and uses the authority it has to implement some of the helpful programs already on the books.

It would be in the farmers' interests—as well as the interests of the administration—to respond to the needs with reasonable, sensible and effective Farmers Home Administration credit programs.

The administration should implement—with appropriate restrictions to assure that farmers guilty of gross mismanagement are not eligible—the $600 million economic emergency loan program as called for in the 1981 Farm Act.

I would like to remind you of a comment contained in the U.S. Department of Agriculture's handbooks, "A Brief History of FmHA." "Economic emergency loans are designed to help farmers overcome economic hardships caused by credit scarcity or cost/price squeeze beyond their control." That's very key language and this existing program makes unnecessary any legislative action.

I would also suggest that this current cost/price squeeze has been caused by events beyond the control of farmers.

I do not feel it would be out of order—for these are not ordinary times—for the administration to revise its regulations so that farm loans can be rescheduled or "rolled over" at the original rate of interest agreed to at the time the loan was obligated.

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As I and other members of the Senate Agriculture Committee stressed in a letter to you, Mr. Secretary, on February 11:

> This change in the regulations will be consistent with the Government's original commitment to the borrower * * * protect the Government's investment * * * and prevent unnecessary foreclosures and liquidations of assets.

I would suggest that appropriate restrictions can be put in place to prevent abuses.

If nothing else, these measures would have a psychological impact on rural America—on farmers who are this Nation's economic heartbeat.

It also would demonstrate understanding and compassion on the part of Washington, which is important. And, as I say, it would make unnecessary any legislative action.

It is not too early in the game to take action. Failure to do so is a very sore point with the farmers in my State and with me personally.

I feel the administration would be performing a service to our farmers if it provided assurances that an early announcement will be made on the 1983 wheat and feed grains programs—that it will not wait until the last minute as it has in the past.

I feel the Secretary should signal farmers that he will make the announcement by a certain date so they will be able to make an informed decision on issues affecting their pocketbooks, always crucial, but critical in these economic times.

I feel the administration should rethink its position on implementing legislation to establish a revolving fund to finance short-term export credit sales of farm commodities produced in the United States.

I would point out to the Secretary that a study prepared by the Michigan State University and the U.S. Department of Agriculture in cooperation with various commodity export expansion groups indicates that additional outlays for export expansion and credit programs could result in as much as a net $7.4 billion increase in farm export earnings over the next 3 years.

I would point out that the argument that such a revolving fund would conflict directly with the administration's budgetary objectives fails to stand up based on the study's findings. They very briefly are:

> This Nation's national and farm economies would be given a $4.9 billion shot in the arm through projected boosts in export earnings.
>
> Employment would increase as much as 70,000—42,000 nonfarm jobs and 28,000 onfarm jobs.
>
> Deficiency payments borne by the taxpayers through farm programs would drop by as much as $2.8 billion.
>
> Federal tax reveneus could increase as much as $440 million annually.
>
> There would be as much as a 20-percent increase in net farm income by 1985. This would come about with an average increase in annual real farm prices of 22 cents a bushel for corn, 47 cents per bushel for wheat, and 62 cents per bushel for soybeans.

Mr. Chairman, the unspoken question in Iowa as well as elsewhere in America's heartland is that: "Which one of us will be the one to go under?"

I do not want to be responsible for that. I do know the administration does not, either.

I am looking forward to hearing the comments of Secretary Block, and his thinking on what initiatives can be taken to turn around the farm economy.

Senator ABDNOR. Thank you, Senator.

At this time I'm going to call on Senator Bentsen. Senator Bentsen was a prior chairman of the Joint Economic Committee and he's a great addition to any panel.

Senator Bentsen, please proceed.

OPENING STATEMENT OF SENATOR BENTSEN

Senator BENTSEN. Thank you very much, Mr. Chairman.

Mr. Secretary, I heard the comment made this morning that good times are just around the corner. That sounded vaguely familiar to me, but I haven't seen the good times yet, and I surely haven't seen them out on the farm. I just spent the Easter recess traveling through the Texas Panhandle and I have never seen such a depressed State on the farm in my lifetime.

I look at the numbers and I see us with net farm income back to where it was in 1932.

Talk about compassion in your Department—I don't see that either, and I sure don't see you moving on regulations. I look at interest rates—in relation to the inflation rate and the interest rate—that are the highest I've ever seen in the history of this country, and I sure don't see any farming ventures that will pay 20-percent return and certainly not with any safety.

And yet I asked you, and 23 Senators asked you, by resolution to release $600 million in Farmers Home Administration Economic Emergency loan aid. You haven't done that.

Down where I farm we've already got our milo up, those of us who could afford to plant it. In the Texas Panhandle they're planting this week and next week, and planting time doesn't wait on anyone, even the Secretary of Agriculture.

They're in a real credit crunch. The auction houses are booked for the next 6 months to sell bankrupt farms. Farm equipment is being sold at prices that in no way is commensurate with its true value now because they don't have the buyers. Things are so bad that at some of the farm auction sales, no buyers show up.

Now, I'm not talking about windshield farmers. I'm not talking about fellows who have it done by piecework and have tenants doing it for them, but I'm talking about second- and third-generation farm families losing their farms. That's what we're facing.

In the April 12 issue of Time magazine I read a story about the liquidation situation of one of my constituents up at Tulia, Tex., Dan Altman, and I've heard his story repeated over and over again.

I saw the delinquency rate of Farmers Home Administration loans in Texas of 35 percent last fall, 69 percent now, 90 percent up in the Texas Panhandle.

And I talked to your Department about the problem of farmers falling through the crack who had bankable loans last year and didn't have them this year. The Farmers Home Administration was telling me they had plenty of money, but in Texas they were telling me they didn't have enough. Finally, we got some more money shifted to Texas, and that will help some.

I don't like to see the politicization of your Department taking place, as I see it, where you fire the chief of the Soil Conservation Service to put in a friend, knocking a professional out of that job. I don't like it when I see you quit publishing monthly net farm income figures. It doesn't do any good, you know, to just hide your head in the sand and ignore the facts. Those statistics deserve to be publicized and available to the public as they have been in the past.

And when it comes to embargoes—whether under Carter or Nixon—or it's President Reagon calling off renegotiation of contracts, I think time after time we've seen the American farmer pay the price for an administration's foreign policy. If you're going to put an embargo on another nation, let's be sure it hurts them more than it hurts us. And that just has not been the case.

Sure, I'm concerned about the situation in Poland, but when you say that you're not going to continue negotiations for contract renewal with the Russians on grain, when that's called off, that further depresses the market. The Russians are not going to wait until September to decide where they're going to buy their grain. They'll go right back to Argentina where they have put the plow to the grassland and gave us a major grain competitor, just like the Japanese spent their billion down in Brazil to give us a major competitor in soybeans after President Nixon embargoed them in 1973.

In each instance, the American farmer has paid the price for American foreign policy, and it has not been a good deal for either the American farmer or the taxpayers of this country because policy has not accomplished intended objectives.

If the President will announce negotiations with Russia for an extension of a contract or a renewal of contract on grain purchases, you will see a reaction in the commodity markets. The American farmer cannot borrow his way out of his current plight. He has to have higher prices and consistent markets that increase net income.

Last year your Department tried to severely cut the export market development programs. Senator Baucus and I and some others went to the floor to reverse that. I'm pleased to see that you did not repeat that attempt this year. It's absolutely critical to the farmers of this country that we do everything we can to increase those exports. It's critical that we get the STR to file a section 301 case against the European Common Market for the manner in which they have taken over the Middle East market where we once dominated. The American farmer is not competing against the farmers of Europe. They are competing against the governments of Europe, and our Government has to respond and has to help.

I hope that you will do something about your Department's regulations that are keeping farmers from participating in the farm program. It's a situation where a farmer is renting farms where he may be planting milo on one and cotton on another and his acreage base is such that he doesn't have the necessary flexibility he needs to comply with the set-aside. I hope that you'll give him that kind of flexibility in your regulations so he can have full utilization of farmlands. You have that authority and you can do that. I know that you'll save some money for the Department of Agriculture if you don't give the farmer that flexibility because he then can't comply with allotment regulations. You have within your authority discretion to take some action now, and that's what I'm asking of you, Mr. Secretary.

Thank you, Mr. Chairman.

[The written opening statement of Senator Bentsen follows:]

Written Opening Statement of Senator Bentsen

Mr. Secretary, the farm economy is in the worst shape since the Great Depression. We are facing a crisis in agriculture. The facts are irrefutable. The evidence is clear.

I was in the Texas panhandle last week. You have been there also. I hope the you developed the same appreciation that I did for the plight of the American family farmer. I hope you realize what is going on out in our rural areas, what the conversation around the local coffee shop is about. It's about problems in agriculture that are the worst since the depression.

Estimates of real net farm income for 1982 indicate that real, after inflation, net farm income will be even lower than during the depths of the Great Depression. This comes on the heels of two consecutive disastrous years of drought and low prices, with very low income both years.

Your own Department's "Agricultural Prices" report shows that the index of farm prices fell another 0.8% in March, while prices paid by farmers rose another 0.6%. This puts prices received 7.7% lower than last year and prices paid 4% above last year. The parity ratio for farm products was only 57%, the seventh straight month it has been below 60%.

Delinquency rates on FmHA loans in Texas have skyrocketed from 35% last fall to 69% in January. In areas of West Texas the rate is up to 90%.

That's the big picture, the macroeconomic view. The individual view is even worse.

I picked up the April 12 issue of TIME magazine and suffered through a feature article on the liquidation of one of my constituents, Dan Altman, who used to farm in Tulia, Texas. His is not an isolated case -- I am told that farm auctioneers in the Texas Panhandle are booked for months in advance.

I get calls almost daily from farmers all over the state who are going broke or are on the verge of going broke. What can I tell them? What do you say to a farmer who has already planted, as much of Texas already has, and is waiting on a Farmers Home Administration loan that will be necessary for him to survive until harvest, who cannot pay for that harvest without it?

I have been severely disappointed with the response of your Department to the problems of Texas farmers. Twenty-three Senators are co-sponsors of a resolution I have introduced calling for immediate implementation of the FmHA Economic Emergency loan program. I have written to you asking for this, as have others.

We are still waiting for an answer. When will these regulations be issued? Will they be just in time for farmers who need to plant in the Corn Belt? They are already too late for most of Texas. As a farmer you should know that planting time waits for no one, not even the Secretary of Agriculture.

I am very disappointed in the politicization of the Department of Agriculture. I am disappointed in the attempt to hide embarrassing information by stopping the monthly estimation of farm income. I am disappointed in the firing of a career professional as Soil Conservation Chief and his replacement with a political friend.

Shooting the messenger will not help solve the farmer's problem. You have stopped issuing the traditional monthly estimates of farm income, but burying your head in the sand is not going to bring back the Altmans' farm. It will not increase farm prices, it will not reverse this disastrous slide in farm income.

The answer to our farm problems is higher prices, not more loans. I grew up on a farm myself, and I know that farmers cannot borrow their way to prosperity any more than the Federal government can.

However, for many farmers there is no tomorrow. They must have cash to plant now or higher prices later on will do them no good. They will be bankrupt by then. You have immense discretionary authority under the 1981 farm bill to meet the pressing needs of farmers through such actions as implementing the Economic Emergency loan program.

Any true economic recovery for farmers will require lower interest rates and reasonable market prices for their products. You can help do that and also save the Treasury a lot of money in deficiency payments by taking effective steps, such as a paid diversion, to reduce production in response to this market glut.

You can help do that by starting negotiations with the Russians on future grain sales.

You can help do that by effectively suporting our agricultural export efforts. Last year your Department proposed a severe cut in the export market development programs. Senator Baucus and I had to go to the Senate floor to reverse that cut. I am pleased that you have not repeated that cut again this year, since this is one of our most effective export programs.

It is time that this government started working for the American farmer in international trade. For too long the American farmer has been paying the bills for our nation's foreign policy through misguided embargoes, and those bills are still coming due in the depressed agricultural prices we see today.

You can help by introducing some needed flexibility into your regulations implementing the 1981 farm bill, by recognizing the severe problems faced by Texas and other Southern states who plant very early in the year and grow a wide variety of crops.

Many Texas farmers had already put down herbicide before they found out what the program would be for 1982. They are stuck with decisions to plant cotton on farms with milo base acreages and milo on farms with cotton base acreages. They cannot comply with the set-aside. The regulations work fine for northern farmers, but many Texas farmers may be denied a fair opportunity to participate in the program.

This policy is a way to reduce government costs by denying farmers the opportunity to participate in the program. I realize that you got your farm bill very late last year, but that fact should be a challenge to overcome in helping American farmers, not a shield to hide behind. It is poor justification for keeping farmers out of the farm program.

You have the administrative authority to help in many, many ways. I hope that you understand the stark reality of these problems, and I hope you will use your authority to address our farm problems in an effective manner.

Senator ABDNOR. Thank you, Senator Bentsen.

Another valuable member of the full committee is here, Senator Symms from Idaho.

OPENING STATEMENT OF SENATOR SYMMS

Senator SYMMS. Thank you, Mr. Chairman, and I appreciate your interest in holding these hearings and the witnesses we've had. I think that I can say many of the same things that my colleagues have said here, Mr. Secretary.

As you know, it's tough out on the farm right now. I just returned from my State in the Easter recess and I can report similar situations to what we've heard here—farmers that are hanging and barely hanging on. There's a tremendous credit crunch. I think the high interest rates are probably the most devastating thing to the farmers in this country and I think if we could do something to bring down the interest rates it would go a long ways toward increasing net farm income.

I look forward to hearing your testimony and I will have a few questions to ask you about the sugar program and the dairy program. And I want to thank you, Mr. Chairman, and I'm anxious to hear from the Secretary and I'm glad to have him here this morning.

Senator ABDNOR. Thank you, Senator Symms.

Before proceeding, and without objection, I will place Senator Hawkins' written opening statement, at her request, in the hearing record at this point.

[The statement follows:]

WRITTEN OPENING STATEMENT OF SENATOR HAWKINS

Mr. Secretary, it is a pleasure to welcome you once again to the Joint Economic Committee.

The American agricultural system is the most productive of any on this Earth and over the past decades has provided a steady stream of nutritious products to U.S. and world consumers.

Yet today this great productive system is in financial difficulty. Farmers face tremendous cash flow problems. As our chairman pointed out recently, in 1973 $1 of net income supported $2 of debt; today $1 of net income must support over $12 of debt.

More startling, however, is that on an agricultural asset base of $1 trillion, the $16 billion net income projected for 1982 results in a rate of return to agriculture of only 1.6 percent.

American agriculture, and much of our economy, is in a period of tremendous change. I look forward to your comments on the appropriate role of Government during a time of economic upheaval.

Senator ABDNOR. Mr. Secretary, you may proceed, but maybe you want to introduce the gentleman with you.

STATEMENT OF HON. JOHN R. BLOCK, SECRETARY OF AGRICULTURE, ACCOMPANIED BY J. DAWSON AHALT, DEPUTY ASSISTANT SECRETARY FOR ECONOMICS

Secretary BLOCK. Thank you very much, Mr. Chairman. And I have at my side Dawson Ahalt. Dawson is the Deputy Assistant Secretary for Economics and I may ask that he assist me on some questions.

I want to compliment you and the committee for holding these hearings and compliment you for having the foresight and taking the initiative to invite in past Secretaries of Agriculture so that we can all take advantage of their experience and wisdom and it's valuable for us to get their position and their response.

I want also to compliment you—I understand you will be cosponsoring a resolution in the Senate with Senator Percy regarding the ECC's possible efforts corn group feeds. We in the Department are very seriously concerned about what may happen there, and we want to compliment all of Congress for the strong position Congress has taken in support of agriculture's concerns about the zero binding that we earned and paid for in our Tokyo round of negotiations.

With your permission, I would submit for the record the full testimony, but review with you a shorter version of that. Would that be satisfactory, Mr. Chairman?

Senator ABDNOR. Certainly. Without objection, your prepared statement will be placed in the hearing record.

Secretary BLOCK. Our Nation's economic growth has been achieved in large part of phenomenal productivity gains in agriculture. Efficiencies achieved in agriculture have permitted the portion of consumer income spent for food in the United States to be among the lowest of all countries in the world.

U.S. farmers not only provide basic food and fiber products to our domestic consumers, but they also supply these products to a large portion of the world. In fact, among the most significant developments in agricultural markets in recent years has been a rapid increase in the level of international trade. U.S. agricultural exports rose from 12 percent of U.S. production in 1970 to 28 percent in 1981, and generated almost $100 billion of economic activity in our economy. Nearly two-thirds of U.S. wheat and more than half of the soybean crop will be exported this year, along with about one-fifth of feed grain production and 45 percent of cotton output.

As agriculture has become more integrated into our overall domestic economy and dependent upon world markets, it has become more vulnerable to fluctuations in the marketplace. This year global demand for food and fiber has been dampened by high interest rates, a strong dollar, and lagging world economic growth. With lagging demand and rapidly rising input prices, some of this Nation's farmers are now facing severe economic conditions.

We've had a record crop and livestock production. The excellent crops harvested in the United States and abroad in 1981 set new supply records for virtually all the major agricultural products. A record planted acreage, combined with excellent yields, pushed crop production up 15 percent above drought-damaged 1980 levels and 5 percent above the previous record. Two billion bushels more wheat, feed grains, and soybeans were produced this year than last. This increase in U.S. crop production is greater than the total output in any other country of the world except the U.S.S.R., China and India, which is very significant. Livestock supplies are also at record high levels, although growth has been appreciably smaller than in the crop sector.

So far this year domestic demand has fallen short of even the modestly stronger levels forecast last year. The state of the general economy underlies this basically weak demand for farm products here in the United States.

High interest rates have weakened commodity demand by increasing the cost of inventory holding. The cost of holding stocks is half again as high as a year ago while the incentive to hold stocks is weaker than a year ago. As a result, processors are minimizing their inventory holding and passing the expense of stock holding back to farmers who also face cash flow problems generated by high interest charges on borrowed capital.

Foreign demand for our products, while a record, was smaller than the farm sector has grown to expect. This disappointing demand for our exports is due in large part to generally large harvests around the world outside of the Soviet Union. It is also due, however, to lagging economic growth, high interest rates, and high unemployment virtually worldwide. The cost in local currencies of our farm products has actually risen 20 percent in a year when foreign supplies are generally large and depressed economic conditions are keeping demand weak. The impact of the appreciation of the dollar on selected markets has been even more pronounced. Many of the largest importers of wheat, for example, face import prices 50 to 100 percent above a year ago.

The net result of these foreign and domestic developments has been a 10-percent increase in the supplies of farm products, a 2-percent increase in usage, and a 5- to 10-percent decrease in real farm prices. Carryover stocks at the end of the 1981–82 marketing year will be at a 15-year high for feed grains, and an alltime high for soybeans.

The tightening squeeze between receipts and expenses has weakened many farmers' income prospects. Traditionally, farmers have been able to withstand short-term income fluctuations by borrowing against farm equity to cover production expenses. However, record-high interest rates, slower rates of increase or, in some areas, softening of land values, and low commodity prices have reduced the equity available to many operators.

The farmers most threatened by adverse financial conditions are those that are highly leveraged financially and with low equity. Even with depressed-income prospects, farmers with adequate equity are able to obtain financing.

Credit is available to help qualified farmers meet short-term needs. Agricultural banks have substantial loanable funds with an average loan-to-deposit ratio comparable to the level of year ago, but significantly lower than that of the late seventies. The Farm Credit System and the Farmers Home Administration also report ample supplies of loanable funds. However, lenders are raising collateral requirements, and with high-interest rates, at least some farmers will have difficulty qualifying for credit.

The Commodity Credit Corporation has also increased lending substantially in fiscal year 1982 to meet short-term needs. Nearly $10.8 billion in new commodity loans are expected to be made this fiscal year, more than twice the 1981 amount.

Past investment decisions made by many farmers who are now under financial stress were considered prudent in the inflationary environment of the seventies. Unfortunately, unusually good weather, coupled with lagging export markets, have resulted in a lowered level of commodity prices. In the past, large crops and strong export markets tended to generally offset one another. Rarely have successive years of good crops and declining export markets occurred. This, in addition to the strong international position of the dollar, has created temporarily severe financial conditions for some farmers, conditions that should be overcome as interest rates decline, and the United States and world economies experience a healthy recovery.

But farm income instability has increased greatly since the early seventies. This increased instability of farm income from changes in the domestic or world economies makes it especially important that we have a consistent and reliable set of programs to help farmers during financial difficulties.

The current situation will improve with a strong and sustained recovery throughout the economy perhaps beginning this summer, with the expected lower interest rates as the recession ends, with a strong recovery in agricultural export demand, and with reduced farm production this year. This disposable personal income per capita in the final months of 1982 could run as much as 2.5 percent stronger than year earlier levels.

The livestock sector has already undergone much of the adjustment needed to bring supply into line with demand. Hog producers, in particular, have cut back on their production plans so as to minimize the rising input prices and weak demand.

Developments over the last 6 months have tended to emphasize the underlying strength of foreign demand for our products. Even with the unusual combination of slow economic growth rates around the world, an appreciating U.S. dollar, large foreign crops, and global use of farm products in 1981–82 have increased more than 1 percent and U.S. exports, measured in volume terms, increased 4 percent. As the prospects for trade in general improve beyond 1982, the U.S. competitive position in the world market should also strengthen.

These foreign and domestic demand factors should expand total demand for U.S. farm products in 1983 through 1985 at least as fast as growth in supply and raise commodity prices and incomes. Moreover, over the longer term of 3 to 5 years, economic recovery here should help slow increases in production expenses. The resultant combination of stronger commodity prices and lower expenses will improve farm income over present levels.

The U.S. share of world trade in agricultural exports is immense, but international markets are typically volatile and they have introduced a new degree of price instability into U.S. farm product markets. One result is that net farm income varies more widely from year to year. The substantial rise in the value of the U.S. dollar has been a critical factor this year. Although the prices received by our producers are currently depressed, the cost to the importer has substantially increased. It's hard to imagine, but that's the case.

The farm sector stands to greatly benefit from the President's overall policies which are geared to reducing inflation and interest rates and revitalizing our domestic economy. Lower interest rates benefit the farmer by lowering his cash outflow. This, in turn, will lead to an improved net farm income, induce more investment, provide productivity growth within the sector, and stimulate national economic growth.

The acreage reduction programs recently implemented by the administration will help to alleviate the current supply problem. Programs have been announced for the 1982 crops of wheat, feed grains, cotton and rice, with a signup period through tomorrow, April 16; and I might say there will be no extension. Tomorrow is the last day and I would urge farmers to sign up before the deadline. This is a self-help measure farmers can take to strengthen prices by reducing the 1982–83 marketing year supplies.

It will take time to work out the current situation. Market factors here and abroad, which are currently depressing consumption, should become a source of strength later this year, reflecting economic recovery in the United States and the major importing countries. On the supply side, we have designed a 1982 crop program that will lead to higher prices and incomes for farmers. The acreage reduction programs, together with the higher reserve loans offered under the farmer-owned reserve program, will help improve the situation. We do have a very good signup for the acreage reduction program. As of the day before yesterday, we had a reported 57-percent signup and some 130 million acres.

The announcement of the 1982 farm programs was delayed somewhat since we did not have new farm legislation until mid-December. As a result, many planting decisions were made in an atmosphere of doubt and apprehension. Since we now have legislation in place, we will be able to announce the 1983 farm programs in a more timely manner. I assure you of that. This will give producers ample time to incorporate the provisions of the programs into their planting and managerial decisions.

We cannot overlook the fact that many farmers are experiencing financial problems. Yet there are credit sources available to farmers as they enter the planting season. Private lenders are finding ways to keep their existing borrowers in business.

In addition, we have increased loan funds and reduced the annual interest rate on Farmers Home Administration farm-operating loans. Interest rates on operating and ownership loans for limited resource farmers have also been reduced. FmHA is cooperating closely with the lending community to provide additional assistance for farmers in difficulty this year. Our underlying policy is that FmHA will do everything it can, within sound lending practices, to assist present borrowers experiencing difficulty in repaying their loans on schedule. We are reviewing each of the cases on a case-by-case basis, making every effort to keep the farmers in business.

This administration has voiced opposition to an agriculture specific embargo. Such embargoes tend to harm only the producer while they serve to drive our foreign customers to alternative markets. I've said this many times and fought hard against embargoes. Nothing is more important to U.S. agriculture than expanded markets. The United States is working hard to rebuild its reputation abroad as a reliable supplier of agricultural products. I've said this to countries around the world.

In an effort to better serve our foreign customers, joint industry/government teams are visiting many countries and, Mr. Chairman, I personally have led four teams to three continents. Credit and a range of market development and planning needs are being met through these activities. Host countries have been pleased, and in many cases surprised, that private industry and the U.S. Government are teaming up to better meet their needs.

Export subsidies and trade barriers by the European Economic Community and protectionist policies in Japan have taken ever larger tolls on U.S. farm exports. We are, therefore, aggressively working to reduce these immensely unfair programs. EEC subsidies on wheat exports alone cost our producers more than 60 cents a bushel last year, a loss in net income of about $1.6 billion. Under USDA leadership we have developed a unified Government approach to dealing with the trade problems with the EEC and, as I said before, I compliment the Congress for your help and assistance here. One result has been a recognition in a recent meeting between high-level EEC officials and Deputy Secretary Lyng and Assistant Secretary Lesher that agricultural issues should receive priority attention to address the trade problems.

As agriculture has become increasingly integrated into the United States and world economies, policies affecting the general economy have become profoundly important to farmers. In fact, in the past few years, we have reached the point where monetary and fiscal policy decisions have had at least as much impact on farmers as farm price-support programs. While farm program provisions seem to dominate our attention, farmers are becoming increasingly concerned with interest rates, growth in demand, inflation, and exchange rates. We must give more attention to the underlying economic problems that affect agricultural markets and what is being done about them.

Some less subtle consequences of inflation and high interest rates have been noted above. The 1970's was a period of growth for U.S. agriculture. But as inflation has accelerated and interest rates have risen, many farmers have been faced with the prospect of large fixed expenses despite low crop and livestock prices. In some cases, the traditional price support and credit remedies now offer limited relief. Fortunately, there are recent indications that inflation is finally coming under control. By continuing to maintain sound and consistent monetary and fiscal policy, the problems of financial and commodity market instability will be helped.

It is important that we avoid actions that will stifle agriculture and the rest of the economy's ability to respond favorably to improved market prospects. As my esteemed colleagues—the four former Secretaries of Agriculture—pointed out to you in their testimony before this committee on March 29, there is no quick solution to the problems farmers are facing today. We must be careful to take only those measures that will not endanger economic recovery or the long-term viability of our agricultural sector. In the longer term, the ability to emerge from difficult years in a strong, competitive position holds the key to lasting prosperity for farmers.

That concludes our oral remarks, Mr. Chairman.

Senator ABDNOR. Thank you, Mr. Secretary.

[The prepared statement of Secretary Block follows:]

PREPARED STATEMENT OF HON. JOHN R. BLOCK

Our Nation's economic growth has been achieved in large part by phenomenal productivity gains in agriculture. Efficiencies achieved in agriculture have permitted the portion of consumer income spent for food in the U.S. to be among the lowest of all countries in the world. This, in turn, has released income to buy other goods and services. Agricultural productivity has facilitated the transfer of farm workers into industrial and service activities demanded by consumers as their nonfood budgets have grown. We owe our present high standard of living to an efficient, productive agricultural sector.

Farmers were once nearly self sufficient, but today the process of meeting food and fiber needs involves much more than farming. The farm input industry, as well as food marketing and processing industries, have become important sectors of the economy in terms of income and employment. Consequently, our food and fiber system today is strongly affected by and contributes significantly to the Nation's overall economy.

U.S. farmers not only provide basic food and fiber products to our domestic consumers, but they also supply these products to a large portion of the world. In fact, among the most significant developments in agricultural markets in recent years has been a rapid increase in the level of international trade. U.S. agricultural exports rose from 12 percent of U.S. production in 1970 to 28 percent in 1981, and generated almost $100 billion of economic activity in our economy. This year, nearly two-thirds of U.S. wheat and more than half of the soybean crop will be exported, along with about one-fifth of feed grain production and 45 percent of cotton output.

As agriculture has become more integrated into our overall domestic economy and dependent upon world markets, it has become more vulnerable to fluctuations in the marketplace. This year global demand for food and fiber has been dampened by high interest rates, a strong dollar, and lagging world economic growth. With lagging demand and tapidly rising input prices, some of this Nation's farmers are now facing severe economic conditions.

Current Supply and Demand Situation

A combination of record crop and livestock production in the United States, generally good crops worldwide, and weak demand for our farm products here and abroad has depressed commodity prices. Farm-level soybean, corn, and cotton prices are now 15 to 30 percent below a year ago. Prospects are that prices will not strengthen significantly until the large supplies of most farm products currently available on the market are consumed.

Record Crop and Livestock Production: The excellent crops harvested in the United States and abroad in 1981 set new supply records for virtually all the major agricultural products. By doublecropping and converting land from other uses, farmers in the United States planted 9 million more acres in 1981 than the record 356 million acres planted in 1980. This record acreage, combined with excellent yields, pushed crop production up 15 percent above drought damaged 1980 levels and 5 percent above the previous 1979 record. Two billion bushels more wheat, feed grains, and soybeans were produced in the United States this marketing year than last. This increase in U.S. crop production is greater than the total output in any other country of the world except the USSR, China, and India. Livestock supplies--red meat and poultry as well as dairy products--in 1982 are also at record levels, although growth has been appreciably smaller than in the crop sector.

Dampened Growth in Domestic Demand: So far this year domestic demand for these record supplies of crops and livestock products has fallen short of even the modestly stronger levels forecast last fall. The state of the general economy underlies this basically weak demand for farm products here in the United States. In simple terms, stagnating per capita incomes, high unemployment, and high interest rates are limiting growth in domestic use of agricultural products to 1 to 2 percent--a partial recovery at best from the 6 percent drop in use reported a year ago when drought cut supplies sharply. Real disposable income per capita at the end of 1981 was only slightly above 1979 levels and unemployment has been in excess of 10 million. The most direct impact of this difficult economic situation on the demand for farm products has been concentrated in the livestock sector and, in turn, in the demand for feed--both grains and oilseeds. Demand for uses other than feed has also proven weaker than expected earlier in the year.

High interest rates have also weakened commodity demand by increasing the cost of inventory holding. The cost of holding stocks is half again as high as a year ago while the incentive to hold stocks is weaker than a year ago. As a result, processors are minimizing their inventory holding and passing the expense of stock holding back to farmers who also face cash flow problems generated by high interest charges on borrowed capital.

Growth in Foreign Demand Disappointing: Foreign demand for our products, while a record in 1981, was smaller than the farm sector expected. While the volume of products exported this year is likely to be up 3-4 percent from last year, lower prices will keep the value of our exports below the 1981 level. The decline in export value forecast for 1981/82 represents the first year-to-year decline in the value of our exports in 13 years.

This disappointing demand for our exports is due in large part to generally large harvests around the world outside the Soviet Union. It is also due, however, to lagging economic growth, high interest rates, and high unemployment virtually worldwide. U.S. farm products are also currently in a particularly weak competitive position. The appreciation of the dollar has undermined the competitive appeal of U.S. farm products. While our export prices have fallen 10-15 percent in the last 12 months, the cost of U.S. dollars to foreign buyers has risen 30-35 percent. Thus, the cost in local currencies of our farm products has actually risen 20 percent in a year when foreign supplies are generally large and depressed economic conditions are keeping demand weak. The impact of the appreciation of the dollar on selected markets has been even more pronounced. Many of the largest importers of U.S. wheat, for example, face import prices 50-100 percent above a year ago.

Carry-Over Stocks Up: The net result of these foreign and domestic developments has been a 10 percent increase in the supplies of farm products, a 2 percent increase in usage, and a 5-10 percent decrease in real farm prices. Carry-over stocks at the end of the 1981/82 marketing year will be at a 15-year high for feed grains, and an all-time high for soybeans.

While this build-up is not excessive if measured in terms of stock/consumption ratios, it is high enough relative to anticipated short term use to dampen prices. The largest price reaction to date has been in the feed grains where corn and soybean prices have fallen off 25 percent since last summer. Wheat prices, reflecting the smaller increase in stocks, are off 10 percent from a year ago.

Farm Income and Financial Situation

The tightening squeeze between receipts and expenses has weakened many farmers' income prospects. Traditionally, farmers have been able to withstand short-term income fluctuations by borrowing against farm equity to cover production expenses. However, record-high interest rates, slower rates of increase or, in some areas, softening of land values, and low commodity prices have reduced the equity available to many operators.

The farm sector debt-to-asset ratio increased from 16 to 16.5 during 1981. It is likely to increase further during 1982. Total farm debt has nearly doubled in the last five years, with the carrying of that debt having become a major source of current cash flow problems. The farm sector's debt servicing burden has increased sharply due not only to higher debt volume but also because of higher open market interest rates as old debt is rolled over at higher current rates. A result of this trend is that the farm income left after payment of interest and taxes has become much more uncertain. Farmers have coped with cash-flow problems by rescheduling payments, taking on more debt, and postponing large capital expenditures.

The farmers most threatened by adverse financial conditions are those that are highly leveraged financially and with low equity. Even with depressed income prospects, farmers with adequate equity are able to obtain financing. However, farmers who have recently financed a substantial expansion and beginning farmers could face obstacles in obtaining needed debt financing. Some of these farmers with a high debt-to-cash flow situation are in an especially poor position this year.

Credit is available to help qualified farmers meet short term needs. Agricultural banks have substantial loanable funds with an average loan-to-deposit ratio comparable to the level of a year ago, but significantly lower than that of the late 1970's. The Farm Credit System and the Farmers Home Administration also report ample supplies of loanable funds. However, lenders are raising collateral requirements, and with high interest rates, at least some farmers will have difficulty qualifying for credit.

The Commodity Credit Corporation has also increased lending substantially in FY '82 to meet short term needs. Nearly $10.8 billion in new commodity loans are expected to be made this fiscal year--more than twice the FY 81 amount.

Most lenders are reluctant to foreclose. Renewals and extensions are higher than usual and in some cases bankers are suggesting that farmers sell some land in order to continue operating. Lenders are providing servicing assistance to farmers by aiding them in cash flow projections and improved debt management. The number of farmers requiring such assistance is higher than under normal conditions and lenders are paying closer attention to the quality of their loan portfolios.

Past investment decisions made by many farmers who are now under financial stress were considered prudent in the inflationary environment of the 1970's. Unfortunately, unusually good weather, coupled with lagging export markets, have resulted in a lowered level of commodity prices. In the past, large crops and strong export markets tended to generally offset each other. Rarely have successive years of good crops and declining export markets occurred. This, in addition to the strong international position of the dollar, has created temporarily severe financial conditions for some farmers--conditions that should be overcome as interest rates decline and the U.S. and world economies experience a healthy recovery.

The current downswing in farm income is a repeat of past events. Farmers had a good year in 1979, followed by two poor years in 1980 and 1981. Patterns of good years followed by bad ones are not new. This has long been a basic farm problem. But, farm income instability has increased greatly since the early 1970's. From 1943 to 1971, net farm income fluctuated between $10.5 billion and $17.7 billion, with most years concentrated around $12-14 billion. Since 1971, net farm income has varied from $18.4 billion to $33.3 billion, with many of the year-to-year changes ranging from $8 to 12 billion. This increased instability of farm income from changes in the domestic or world economies makes it especially important that we have a consistent and reliable set of programs to help farmers during financial difficulties.

Short and Medium Term Outlook

Besides weather, uncertainties about the U.S. and world economies--particularly economic growth and interest rates and farmer participation in commodity programs--make it difficult to pinpoint the timing or pace of recovery in the farm sector. The livestock sector has already undergone much of the adjustment needed to bring supply into line with demand. Hog producers in particular have cut back on their production plans in order to bring supply into balance with demand at profitable prices. The current situation in the crop sector could continue, however, if economic recovery slows and improvements in real disposable income are delayed; if continued high interest rates limit agricultural investment and keep farm production costs high; and if worldwide recession and an appreciating U.S. dollar continue to dampen world demand for our products.

In contrast, the current situation will improve with a strong and sustained recovery throughout the economy perhaps beginning this summer; with the expected lower interest rates as the recession ends; with a strong recovery in agricultural export demand; and with reduced farm production this year. Real disposable personal income per capita in the final months of 1982 could run as much as 2.5 percent stronger than year-earlier levels.

Still, barring unusually poor weather here and abroad, foreign and domestic demand for farm products is not likely to be strong enough to reverse the current situation completely in 1982/83. Over the next several years, however, commodity markets and the farm income situation should strengthen considerably due both to basic supply and demand developments here and abroad and the package of programs and policies put into place by the Administration.

Developments over the last 6 months have tended to emphasize the underlying strength of foreign demand for our products. Even with the unusual combination of slow economic growth rates around the world, an appreciating U.S. dollar, and large foreign crops, global use of farm products in 1981/82 have increased more than 1 percent and U.S. exports, measured in volume terms, increased 4 percent. As the prospects for trade in general improve beyond 1982, the U.S. competitive position in the world market should also strengthen.

Economic recovery in Western Europe, a narrowing of international interest rate differentials, and the easing of the Polish situation should buoy the major European currencies relative to the U.S. dollar. Moreover, the United States' deteriorating balance of payments--itself largely a result of the dollar's rise in 1981--will act to dampen foreign demand for dollars.

These foreign and domestic demand factors should expand total demand for U.S. farm products in 1983-1985 at least as fast as growth in supply and raise commodity prices and incomes. Moreover, over the longer term of 3 to 5 years, economic recovery here should help slow increases in production expenses. The resultant combination of stronger commodity prices and lower expenses will improve farm income over present levels.

Policy Environment

The U.S. share of world trade in agricultural exports is immense. You can be sure we are going to work hard to increase our share of world trade. Our share of total world grain trade is expected to hold somewhere around the 1981/82 level of 54 percent while our share of world trade in soybeans say increase slightly from a 78 percent share in 1980/81. Cotton trade by the U.S., as a share of the world total, is also expected to increase from 30 to 34 percent in 1981/82. International markets are typically volatile and they have introduced a new degree of price instability into U.S. farm product markets. One result is that net farm income varies more widely from year to year. The substantial rise in the value of the U.S. dollar has been a critical factor this year. Although the prices received by our producers are currently depressed, the cost to the importer has substantially increased.

The farm sector stands to greatly benefit from the President's overall policies which are geared to reducing inflation and interest rates and revitalizing our domestic economy. Lower interest rates benefit the farmer by lowering his cash outflow. This, in turn, will lead to an improved net farm income, induce more investment, provide productivity growth within the sector, and stimulate national economic growth.

The acreage reduction programs recently implemented by the Administration will help to alleviate the current supply problem. Programs have been announced for the 1982 crops of wheat, feed grains, cotton and rice, with a sign up period through tomorrow, April 16. This is a self help measure farmers can take to strengthen prices by reducing the 1982-83 marketing year supplies.

It will take a period of time to work out of the current situation. On the demand side, market factors here and abroad, which are currently depressing consumption, should become a source of strength later this year, reflecting economic recovery in the United States and the major importing countries. On the supply side, we have designed a 1982 crop program that will lead to higher prices and incomes for farmers. The acreage reduction programs, together with the higher reserve loans offered under the farmer-owned reserve program, will help improve the situation.

In addition, in order to help alleviate current downturns in commodity prices, we have taken a number of actions which should help keep excess supplies off the market, thereby strengthening prices in the short-run. Producers have been given the opportunity to delay their decision to repay their regular price support loans. Rice producers can extend their 1980-crop loans until June 30 of this year; cotton and grain sorghum producers with 1980-crop loans and wheat producers with 1980 and 1981-crop loans can extend their loans for a full year.

The announcement of the 1982 farm programs was delayed somewhat since we did not have new farm legislation until mid-December. As a result, many planting decisions were made in an atmosphere of doubt and apprehension. Since we now have legislation in place, we will be able to announce the 1983 farm programs in a more timely manner. As we look ahead, this will give producers ample time to incorporate the provisions of the programs into their planting and managerial decisions.

Clearly, the commodity programs of the Department of Agriculture are tools available to farmers that permit them to help themselves. It is not possible for the Federal Government to step in and artificially support prices that guarantee profits for everyone. Even if there was enough Federal money to do so, such actions would lead to serious market distortions and could have future unforeseen repercussions.

We cannot overlook the fact that many farmers are experiencing financial problems. Yet, there are credit sources available to farmers as they enter the planting season. Private lenders are finding ways to keep their existing borrowers in business. Some of the financing techniques that are being used include the rescheduling of debt payments, borrowing additional amounts on existing assets, and postponing large capital expenditures.

In addition, we have increased loan funds and reduced the annual interest rate on Farmers Home Administration (FmHA) farm operating loans. Interest rates on operating and ownership loans for limited resource farmers have also been reduced. These actions have been taken to assist those farmers who are unable to extend borrowing from commercial sources. FmHA is cooperating closely with the lending community to provide additional assistance for farmers in difficulty this year. Our underlying policy is that FmHA will do everything it can, within sound lending practices, to assist present borrowers experiencing difficulty in repaying their loans on schedule.

This Administration has taken a strong stand against an agriculture specific embargo. Such embargoes tend to harm only the producer while they serve to drive our foreign constomers to alternative markets. Nothing is more important to U.S. agriculture than expanded markets. The United States is working hard to rebuild its reputation abroad as a reliable supplier of agricultural products.

Needs vary widely among countries importing U.S. commodities. In an effort to better serve our foreign customers, joint industry/government teams are visiting many countries. I personally have led 4 teams to 3 continents. Credit and a range of market development and planning needs are being met through these activities. Host countries have been pleased--and in many cases surprised--that private industry and the U.S. government are teaming up to better meet their needs.

Export subsidies and trade barriers by the European Economic Community (EEC) and protectionist policies in Japan have taken ever larger tolls on U.S. farm exports. We are, therefore, aggressively working to reduce these immensely unfair programs. EEC subsidies on wheat exports alone cost our producers more than 60 cents a bushel last year, a loss in net income of about $1.6 billion. Under USDA leadership we have developed a unified Government approach to dealing with trade problems with the EEC. One result has been a recognition in a recent meeting between high-level EEC officials and Deputy Secretary Lyng and Assistant Secretary Lesher that agricultural issues should receive priority attention. Several complaints have been filed in the General Agreement on Tarriffs and Trade (GATT) process. In other countries we are trying to reduce restrictions on market access.

As agriculture has become increasingly integrated into the U.S. and world economies, policies affecting the general economy have become profoundly important to farmers. In fact, in the past few years, we have reached the point where monetary and fiscal policy decisions have had at least as much impact on farmers as farm price support programs. While farm program provisions seem to dominate our attention, farmers are becoming increasingly concerned with interest rates, growth in demand, inflation, and exchange rates. We must give more attention to the underlying economic problems that affect agricultural markets and what is being done about them.

Some less subtle consequences of inflation and high interest rates have been noted above. The seventies was a period of growth for U.S. agriculture. But as inflation has accelerated and interest rates have risen, many farmers have been faced with the prospect of large fixed expenses despite low crop and livestock prices. In some cases, the traditional price support and credit remedies now offer limited relief. Fortunately, there are recent indications that inflation is finally coming under control. By continuing to maintain sound and consistent monetary and fiscal policy, the problems of financial and commodity market instability will be helped.

It is important that we avoid actions that will stifle agriculture and the rest of the economy's ability to respond favorably to improved market prospects. As my esteemed colleagues—the four former secretaries of agriculture—pointed out to you in their testimony before this Committee on March 29, there is no quick solution to the problems farmers are facing today. We must be careful to take only those measures that will not endanger economic recovery or the long-term viability of our agricultural sector. In the longer-term, the ability to emerge from difficult years in a strong, competitive position holds the key to lasting prosperity for farmers. Likewise, efforts to promote fair trade practices are immensely important to the future of farmers and to the economy as a whole.

There is no question that farmers are going through a severe financial situation. But as supply and demand come into closer alignment and as economic recovery becomes a reality, we believe that a dramatic improvement will be realized in the agricultural economy.

Secretary BLOCK. May I say just a few words on a few issues that are of great concern to me. Certainly, we know the situation in agriculture is severe and we have our problems, as my testimony would indicate. I do feel that we see some favorable signs. The livestock sectors looks like it may be turning around a little bit. The hog business looks good right now. The cattle business is certainly much improved from what it was, and I'm even of the opinion that the grains have bottomed out and there's some hope and prospects there.

You see, as we went through the fall season and the prices fell as they did, all the attention at that time was focused on the big crop and it was a discouraging dairy situation. Then around the New Year, the attention was focused on the problems in Poland and a great amount of apprehension that there could be a grain embargo or something like that. That's behind us. So we have both of those elements more or less behind us.

Now the market is going to be focusing more on the new crop and what's going to happen with it. They're going to be focusing on the participation in the farm program and the potential for new markets around the world. These are all brighter signs than the drearier ones that the markets have focused on before. So I hold some optimism in that regard.

I can just assure you that the administration is dead set on reestablishing the United States as a reliable supplier to countries around the world. We have no intention of perpetuating any grain embargoes or de facto embargoes. We've seen the Soviet Union in the market in a very heavy way in the last couple of months where they've bought 13.5 million metric tons. There's a good chance that this is going to be a record year of sale to that country in spite of the fact we were just coming off the grain embargo when this administration took office. I think we've made enormous progress in that regard.

Certainly, I look forward to the time when we'll have complete normalization of agricultural trade relations and, to satisfy Senator Bentsen's concerns, I certainly don't rule out the possibility of writing a long-term agreement before this year is out because there's a goodly amount of time between now and October 1, and given the improved international tensions and situations, I hold a fair amount of optimism this can be done.

I would point out that everybody doesn't want to write one, even in the farming sector, but I personally feel that a long-term agreement would be advantageous to us. But I know the American Farmers Federation is not very excited about it, but I do personally share your interest in writing one.

The export revolving fund was brought up by more than one of the committee up here and it holds some very positive prospects for us. Once again, appreciating the cost of the difficult budgetary situation we're in, that's probably the only real limitation on getting it off the ground, but I wouldn't predict that we couldn't see something happen there eventually.

The $600 million economic emergency loan fund, we do have the guidelines drawn for it. We have not released the money there and we haven't really because we do have ample funds. We have plenty of funds in Farmers Home Administration for the qualified borrowers

The doors are open there and we've had a big run on the window and we've been very busy but we've tried to accommodate and tried to move people around to satisfy the demand and satisfy the needs the best that we can, and I know that the American farmer has paid a severe price over the last 10 years for some Government decisions, some for economic reasons, some for foreign policy reasons where we've seen embargoes, and I felt that the President's message that he provided in his recent speech on the Reagan doctrine of a long-term agricultural trade policy should dispel a lot of the anxiety and concern on the part of our trading partners around the world, on the part of the grain industry, and on the part of farmers.

He pointed out I think very clearly that we would not impose embargoes for economic and price reasons and we're going to let the market system function. We're not going to use agricultural trade as a foreign policy weapon except in most extreme circumstances, and we're going to protect our markets against unfair trade practices, as pointed out here, the problems that we're having with the European Community and our efforts there.

So, appreciating the situation is not good, yet I hold some hope and I think the chances of things turning around are good. It's a pleasure to be with you and have a chance to answer any questions you may have.

Senator ABDNOR. Thank you, Mr. Secretary. We appreciate your statement. You certainly set out well the problems confronting agriculture today and I think we can come up with some real solid answers to the problems.

I'm going to invoke the 5-minute rule, like so many other subcommittees do, and we'll just keep going around because I'm sure we'll all have many questions. In fairness to everyone, we will go 5 minutes at a time.

Mr. Secretary, how do you view this situation in Argentina now that there is a global feature to it. We've gone over it with specialists and analysts and I would consider your thoughts very valuable on this.

Would you share your perception on how you see agriculture will be affected by this latest confrontation?

Secretary BLOCK. I'm convinced that we really can't have a full reading on it because we don't know what the ultimate results or ultimate actions will be.

Certainly, the markets have responded with some strength because of the thought that the Soviet Union may not be able to secure the full amount of grain from Argentina for a couple of reasons.

Reason No. 1 may be that there could be an embargo or some kind of a blockage of ports because of the international situation. The second reason is it may be more difficult for the Soviet Union to get credit from some of the European banks to finance grain from Argentina because of the situation, whereas they might be able to get that kind of credit for grain from the United States.

There's really no way to know for sure what will happen. It could have a reasonably large effect if it would go on for 60 days, for instance, because it's going to open up a blank space in the shipment of grain to the Soviet Union and they're going to have to fill it with grain from someplace. Of course, we're a likely candidate, so it could mean something positive to us in that regard if they have a period of time when they cannot ship.

But I would also caution everyone watching the situation that this bullishness in the markets because of the tense situation could vanish overnight with a settlement, and it could happen anytime. So I wouldn't bet a lot on it, you know. It's just one of those things.

But I guess what it proves, though, to me, and really brings to my attention—people always ask me and they probably ask you, when are things going to get better and what is going to cause them to get better? Well, I don't know if this is the thing that's going to make things get better, but a month or two ago, no one would have ever predicted—this is the most bizarre thing. Most of us really never thought about it and the impact it could have on agricultural markets.

I guess my point is that you never know what will happen. We can have a drought. We can have some other international problem. There's just any number of things that can happen.

Senator ABDNOR. It certainly shows the sensitivity of the market. I've been watching it go up and down as the news releases come out on the Argentina situation. It also points out the fact that our helping so many countries in the world get into agriculture shows we've been our worst enemies—we had to do that I suppose. But the point it does show is that grain prices are affected by events involving Argentina, since it is a world trader. Japan, for example, is dependent on outside food sources.

I have time for one more question here. Secretary Block, you talked a lot about supporting agricultural exports and I think that's one of the solutions to our problems. We've got to get back the markets we lost because of recent embargoes and other trade restricting policies and regain our competitive edge with the other countries.

What bothers me is that, recently in the news, our Trade Representative Brock has responded on the trade agreement with Japan's offer to provide low-interest loans to American industry.

Now, in your opinion, is Japan's offer to provide low-interest loans a ploy to diminish America's pressure on Japan to reduce its trade barriers? Restrictions are a real problem and I thought we finally made headway in this area. We have witnessed the automobile industry get in trouble and Federal assistance was deemed appropriate; the steel industry was in deep trouble before we could get Congress to start paying some attention and the country as a whole paying attention to trade barriers. You, yourself, said that without the European Common Market's subsidies, we might be getting 60 cents a bushel more for grain. Sixty cents to my farmers today might make the difference whether they stick around awhile, as small as that might be. What are your thoughts on recent Japanese actions?

I was very concerned about Trade Representative Brock being willing to accept that. Without making it clear that we want agriculture restrictions lowered.

Secretary BLOCK. Well, certainly it's my judgment that the Japanese are looking to do any number of different kinds of things that might reduce some of the pressure on them, but I would assure you that we do not intend to relieve the pressure or take pressure off on our insistence that concessions be made on opening that market for agricultural products.

We do have an understanding that we will start official talks on citrus and beef 6 months earlier than had been normally scheduled. They will be starting this fall. And we're going to keep the pressure on.

I have had Japanese officials of government and some of their co-operatives in my office lmost every week and we have been in constant contact and we are working hand-in-glove with the U.S. Trade Office, Bill Brock, and with the State Department on all of these issues and we do not have any differences of opinion. We are going to stay solid and I am absolutely convinced that's the key, that this administration stays together and stays hitched and fights the battle right to the end, because we cannot allow ourselves to be fragmented. We need to have the administration in total, the Congress, and the farmers themselves.

Senator ABDNOR. You settled my concern. I'm happy to hear you say that. My time has expired.

Senator Jepsen.

Senator JEPSEN. Mr. Secretary, the statement was made that there's no compassion in your Department. I know that there is although I think your public relations and the communications of your compassion could be better. I want to ask a couple of questions.

Is it true that there is an additional $500 million this year provided for operational loans in the Farmers Home Administration? Is it true that you, in addition to that, have asked for $135 million in additional funds for next year's 1983 budget for the same area?

Secretary BLOCK. Yes, sir. Those are both correct.

Senator JEPSEN. Well, I would suggest to you that you really need to communicate that because that message hasn't gotten out and it's very key and very important that it does, and it certainly does show to me not only an awareness of the times and needs, but compassion-plus.

I wish other areas had some similar increases, but that certainly is a key one. Operational loans are available. I have personally made an investigation of this and find that money is available for anyone, at a 14.5-percent interest rate, who wants and needs an operational loan. So it's just not true when people say that money is not available.

Second, I would just suggest to you something that you probably already realize, that the annual revenues on dues and fees that we have on sugar imports in the new 1981 bill would more than fund the suggested amount for the revolving fund and it would certainly be a good deal for everybody if we could get that job done.

Mr. Secretary, what are your plans on early announcement of the 1983 wheat and feed grains programs?

Secretary BLOCK. They will be announced early and I don't have the dates right now, but certainly they will be timely so that the farmers can plan ahead. I know from personal experience that a farmer likes to know because I've gone through it in years past myself.

Senator JEPSEN. Before fall plowing?

Secretary BLOCK. Yes, sir.

Senator JEPSEN. After the harvest? Before the harvest?

Secretary BLOCK. Well, I think it will probably be before the harvest is completed, sir.

Senator JEPSEN. Before the harvest is completed, OK.
That gives us a rough idea.

One final question, Mr. Secretary. Do you have any contingency plans to help farmers if things do not improve as you are forecasting, for whatever reasons they may not improve?

Secretary BLOCK. Well, certainly we're always looking at new efforts that can be made. I don't have any plans to disclose at this point in time, but we have talked about some, but I just—I'm kind of banking on things getting better right now, Senator.

Senator JEPSEN. But you are working on some contingency plans in case they don't?

Secretary BLOCK. Yes.

Senator JEPSEN. Thank you, Mr. Chairman.

Senator ABDNOR. Thank you, Senator Jepsen.

Senator Bentsen.

Senator BENTSEN. Mr. Secretary, farmers in Texas have had to make irrevocable planting decisions before knowing what the regulations were on specific crops. They have to plant prior to much of the rest of the Nation, so many of their crops are already in. And you're seeing farmers putting down treflan to take care of cotton weeds and then all of a sudden they find they have a milo base, or you can have the reverse situation.

Now if you have inflexibility in those regulations, they're not going to be able to take advantage of the deficiency payments or target price protection.

What can be done in the way of giving flexibility or transfer? Suppose you have a farmer who is running four or five small farms and he runs into that kind of an inflexibility and, therefore, cannot comply with requirements, to take advantage of the program. Can you give him some transfer for a year of those bases within those farms that he's operating? What can you do so he can comply when he's been caught by regulations that were not announced until after he's had to make his planting decisions?

Secretary BLOCK. I'm trying to understand what you're suggesting that he has, that he has a base for one crop, cotton, for instance?

Senator BENTSEN. That's right.

Secretary BLOCK. Or maybe he didn't have the history of the plant but he wants to change crops?

Senator BENTSEN. Yes, that is a problem also.

Secretary BLOCK. It's not very easy, Senator, to make some of those changes. I don't know the specific case. There may be something we can do.

Senator BENTSEN. The problem is, you've got a farmer that doesn't have a history for some crop that he decides he wants to plant, but he hasn't seen the regulations until after he has planted.

Secretary BLOCK. You mean his preparation for the year's crops?

Senator BENTSEN. We must prepare early down in my country.

Secretary BLOCK. No, he's got to fertilize, I understand.

Senator BENTSEN. Not just preparatory fertilizing, but crops planted. In fact, I've got my milo up that high [indicating] right now.

Secretary BLOCK. I don't know. I'll take a look at it. We could get into some problems here.

Senator BENTSEN. You know, Texas is part of this Union. I know a lot of people think we just separated this State from Mexico, but we're

American farmers and we're part of the deal. I run into this bias time after time. It's not just your administration. I've run into this with previous administrations.

Secretary BLOCK. But if this farmer doesn't have a history for this crop——

Senator BENTSEN. On that particular farm.

Secretary BLOCK. If we give him some kind of a special consideration, how many other farmers are going to want some special consideration?

Senator BENTSEN. Suppose you give him the flexibility within the farms he's farming so he doesn't increase his total base, but he has transferability to take care of the problem if he's planted already?

Secretary BLOCK. OK. Let me take a look at that. That has a reasonable ring to it.

Senator BENTSEN. I'm not asking for any increase for him.

Secretary BLOCK. Right.

Senator BENTSEN. I'm talking about collectively in those farms he's farming. The farmer has the history, but it's on the wrong farm. Say he is farming four different farms and he has history on one for cotton and he has history on another one for milo and yet because the regulations were not out—he made his commitments and he's put his treflan on and he's planted his crop. This is the case I'm talking about. All right, if you'll look into that.

Now the other one. You were talking about making us a reliable supplier. I looked at Senator Lugar's bill. It calls for a 6-month cutoff date insofar as commodity embargoes. It would not affect commodities contracted for delivery within 6 months.

I know a lot of grain contracts consider longer delivery periods of time than that. Where did that 6-month figure come from? Did it come out of the Department of Agriculture? Did it come out of the State Department? Does the administration support Senator Lugar's bill?

Secretary BLOCK. Well, the figure didn't come out of our department because I haven't looked at the bill to review it and I don't know the details of it and we haven't even talked about it. I'm aware that there may be more than one bill. I don't think that's the only bill. I think there may be some other bills that have a different duration maybe in the House.

Senator BENTSEN. Well, it's being proposed by a distinguished Senator of your party, a Senator of influence here who is concerned about the same things you're talking about and I'm concerned about it. I would suggest you take a look at it as far as becoming a more stable supplier.

Secretary BLOCK. We will take a look at it.

Senator BENTSEN. Then I would like to have your response as to what you think about the 6-month cutoff and whether you support that.

Secretary BLOCK. We'll take a look at it.

[The following information was subsequently supplied for the record:]

While we have not had a chance to study the actual bill in detail, this Administration is strongly committed to being a reliable supplier of agricultural commodities to U.S. and foreign customers. President Reagan on March 22 stated forcefully that we would avoid agricultural embargoes in the future. In fact, he indicated that only when our national security was being threatened would we consider imposing an across-the-board trade restriction.

Senator Lugar's bill would help reduce the risks associated with the uncertainties in international trade. Therefore, we believe it would have a positive effect on U.S. agricultural exports. On the other hand, the bill does not provide the Administration with a needed escape clause in the event that our national security is threatened. This is a problem that will require attention. At this time, it is also not clear if 180 days is a reasonable period of time to allow for commodities that have already been contracted for shipment. In this regard, we are analyzing normal trade practices to determine if this is a feasible provision.

Senator BENTSEN. Now, you were talking about citrus and beef a moment ago. We've had that citrus case for 7 years now with the European Common Market, 7 years we've been fighting that thing, and I can recall the last time in negotiations they came to me and said, "Oh, we've taken care of you, Senator. We've taken care of citrus because we lowered that tariff for months of May, June, July, August, September." I said, "That's just great. That's when we don't have any citrus to harvest." That didn't do anything for us. We were out-traded.

We got into the same situation on beef. I don't remember the exact figures, but they were taking about 16,000 metric tons of beef and the Japanese thought that was a big deal, but it averaged out to a Big Mac per Japanese per year, and when we got another 10,000 metric tons we just gained another Quarter Pounder. That's all that amounted to. We've got an enormous market there, but bad things have been happening—you can take the price of our beef in Hong Kong and the price of our beef in Japan and there's an incredible difference.

Then the Japanese start telling us that our beef isn't designed for Japanese markets. I don't care whether the cattle walk on the left side of the street or the right side of the street. It's a commodity that, if it had entry into the market, we would have an enormous increase there. I do hope that you put every kind of pressure you can on them, and any way I can help I'll sure do that, Mr. Secretary.

Secretary BLOCK. We'll be moving aggressively on all those fronts.

I would like to point out that we have taken a very strong stand, and I concur, we've been outmaneuvered in past negotiations. In the Tokyo round, agriculture was shunted off to the side and they just talked and didn't get anything done.

This time it's our intention that agriculture be kept very closely in lines to the rest of industry so that agriculture is treated on more of an equal basis and that we really come out of our discussions with some talks.

We're pointed toward some ministerial talks that are going to take place in November. We're going to start laying out the plans the guidelines of how we're going to work on these issues. I have called in the ambassadors from a number of the other trading countries that have concerns about fair trade in the world and met with them here in Washington, had lunch with them. We've talked about how we're going to start approaching this because we have a common interest in putting all the cards on the table and moving towards a trade that is fair and equitable and giving agriculture a fair shake in this trading situation around the world, and I can assure you that we're going to be taking a very tough, strong stand.

Senator ABDNOR. Would the Senator yield a second?

Senator BENTSEN. My time has expired.

Secretary BLOCK. I used up your time. I apologize.

Senator BENTSEN. The Secretary's time hasn't expired, but mine has.

Senator ABDNOR. I just wondered, is it true that the Prime Minister of Japan, that his strength and his support comes from the Japanese farmers?

Senator SYMMS. Yes, that is true.

Senator ABDNOR. I've heard that and I just wondered if it was true. Senator Symms.

Senator SYMMS. I'd like to pursue a question Senator Bentsen asked. On this question where you mentioned the 301(c) cases, and I think at the Finance Committee today the USTR was there, both suggesting that they start filing these cases on behalf of the farmer.

Is there any reason why USDA can't file some cases on behalf of the American farmer? You take a small meatpacker in Idaho, for example. If they dare go over to Japan and file a 301 case they'll never sell another pound of beef in Japan. They'd cut them off. They'd never get another load over there that would pass inspection. You know, there would be a nontariff barrier—there would be the meat inspector out there that said it wouldn't meet their standards or something. Is there any way that USDA could become more aggressive on behalf of the farmers and start filing class action suits?

Secretary BLOCK. I don't know that legal question, if we have that authority or not, but we will take a look at that.

[The following information was subsequently supplied for the record:]

A section 301 action does not involve litigation in a court of law. Rather, it is a process by which the President decides whether to take trade action against a foreign country.

Section 301 of the Trade Act of 1974, as amended (19 U.S.C. 2411), provides that if the President determines that action by the United States is appropriate to enforce the rights of the United States under any trade agreement or to respond to certain foreign trade practices, then the President shall take such action within his power as is appropriate. Such action may include suspending or withdrawing trade concessions or imposing duties or other import restrictions.

The President may make such a determination on his own motion, or in response to a petition submitted to the United States Trade Representative (USTR) by "any interested person" and after investigation by USTR.

Neither the 1974 Act nor the legislative history of such Act specifically defines the term "interested person" for purposes of determining whether the Secretary of Agriculture may file a petition in such capacity with USTR. Accordingly, it could be argued that the Secretary could be an "interested person" within the meaning of that term as used in Section 301. However, based upon a reading of the legislative history and the scheme of the Act, we believe that Congress contemplated the term "interested person" to mean a private party. By permitting the President to act on his own initiative, it would appear that under Section 301 the Secretary would confer directly with the President rather than filing a petition with USTR.

Senator SYMMS. I wish you would look into that. What I'm getting at, you take a small beef producer somewhere, they can't afford to file these cases where the Japanese play their trading game because if they ever have their name show up that they're filing a case, then they just won't be able to trade any more and I think if the U.S. Government's policy is to help the farmers export, which I know it is and I know you share that view, this might be an area where you could at least have very close cooperation with the Special Trade Representatives in the Trade Ambassador's branch and force that issue and play hardball. I don't care if we have to file a suit a day. They made that comment, that they would be filing lawsuits every day. We should file some because I think there's a clear case of prohibition of American protectionism on non-tariff-trade barriers and it comes from Senator Abdnor's point. I had the opportunity to visit with the Japanese Agriculture Minister in January and he flatly told us that his political base comes from agriculture. They don't have reapportionment. Some Diet members in Japan have a few hundred people but they have the same vote in the Diet that a representative from Tokyo that have several hundred thousand or even several million people to represent. So they need reapportionment, but that's their problem.

And if we're going to have an open market for them, they have to be more cooperative with us, as far as I'm concerned, or we're going to have to reappraise our whole policy on importing Japanese goods. And I think we all know that a trade war would be bad. So I would encourage you to do that.

I did have a couple questions I wanted to ask you, Mr. Secretary, with respect to sugar and what your thoughts may be on dairy, but I was told that the Department is considering excluding the CCC loans on sugar if the farmer forfeits the loan and lets the Government take the sugar that then the farmer would have to pay the interest. That's not the case in the other commodity crops, is it, and why would there be a difference with respect to sugar loans? I thought the intent of the Congress was that it would be all treated the same.

Secretary BLOCK. What you're suggesting is possible, but we're really not looking at that right now, Senator. We're looking at a way to avoid taking over that sugar. We're not going to get that sugar. We do the first things first, and that's the first one. We don't want to end up with it.

Senator SYMMS. Do you have any problems with any of the things that the President has talked about in the Caribbean Basin. Is that going to impact our sugar program in any way?

Secretary BLOCK. It's something that we must take into consideration as we work with the sugar program, but, if properly managed, we should not have any problem with accommodating the Caribbean Basin initiative and, furthermore, it should not have any adverse effect on the support program for sugar and for our producers here in this country.

Senator SYMMS. With respect to the dairy, Mr. Secretary, there's several programs that are floating around. As you know, the dairy program was buying way, way too much of the dairy products produced in the country. We've got a big surplus, and with some efforts to try to get it back in line now there's a squeeze out there on the farm.

There are two or three programs floating around and the American Farm Bureau has one that they call the set—the support level at 75 percent of parity and then the Secretary would set the support level annually based on the CCC net purchases during the prior year and it would be a scale of support level adjusted. As they buy more, the parity would be lowered.

How does the Department view that one or do you have a preference?

There's another plan put out by the National Milk Producers and there's one by dairy stabilization program. Which one do you think you favor or do you care to comment on that at this point?

Secretary BLOCK. Well, as you're aware, we conducted a symposium in Kansas City and invited in all of the agricultural groups, commodity groups, interested parties, to provide recommendations to us on the solution to the dairy problem, and that was just a couple weeks ago or so. And I will be coming forward with a recommended plan to address the problem that we have in the dairy industry within 10 days and that plan will address, No. 1, continued accumulation of stock which is of grave concern to me and this country and the Congress; No. 2, it will address the disposition of the current stockpile of dairy products that we have on hand. I feel that both must be addressed simultaneously and we will be addressing both of these, and until I have the details of the recommendations that I'm putting together, I choose not to divulge what our plans are right now.

Senator SYMMS. OK. Well, we're very interested in that, of course, and I guess that all the States that have large dairy production are, and I know our farmers are, as I mentioned earlier—Mr. Chairman, if I could have just another minute——

Senator ABDNOR. Go ahead.

Senator SYMMS. I don't know what your opportunity is as Secretary of Agriculture. I do know you get out on the stump and you get invited out to speak around the country a lot. And I would, only as one Senator from a farm State, encourage you that everywhere you go be sure that you explain to the public what's happening to the Federal budget and why interest rates are so high and with this expansive Federal spending where it's coming from, through the entitlement programs, because when we have a social security program that's spending $15,000 a minute more than it takes in in revenues, just to mention one factor, I don't know how we're ever going to have our farmers—there's no farm program that you could come up with that would help the farmers in my State more than lowering the prime interest rate by about 5 percentage points, and I know that you can't do that, other than on the part of the overall economic program.

You spoke to that in your testimony and I want to compliment you for that and just encourage you to be sure that the farmers out there are aware of the fact that if their Congressmen and Senators aren't going to vote in the next 6 weeks to level off this entitlement spending program, that there are not only going to be farmers broke but there's going to be a lot of other people in this country broke because we can't afford these high interest rates.

My understanding is that for every 1 percent the prime rate goes down net farm income goes up $2 billion. If we could lower the prime interest—is that correct?

Secretary BLOCK. Here's what happens. If you could reduce the interest paid by farmers on all of their outstanding debt by 1 percent across the board, then you could increase the income by about $2 billion.

Senator SYMMS. Well, I've got a bunch of farmers in Idaho that are good farmers, that are third and fourth generation farm families that have borrowed money from the FmHA—probably they made some judgments of mistake by doing it—on floating prime rate where they had an interest bill at the farm that would be, say, $50,000 for a new irrigation system that they put in, as in one particular case that's about what it was—now it's about $180,000 because the prime has gone up so much from when the farmer made the loan. It sounded like a good deal to him when he made the loan and now he can't afford to even start a tractor because the whole operation is geared around this irrigation system and he can't sell and he can't farm and there are a lot of them in that situation out there who would realize a reduction in their cost of operation that would have a direct impact on how well they could operate if we could lower interest rates. And I think today it is a big part of the picture. I'm one that doesn't believe that there's any magic thing that you can do at USDA.

As you know, I come from an apple growing background and we've got the best Government program in the apple business there is. There isn't one. And I've always said that these Government programs, as much as we can try to make them work, it's very difficult to fine tune it but we do need to do things that will, one, help the farmer export his product overseas; and two, have an economic climate with less regulations and lower interest rates so his unit cost of production can be lowered because the cost of production is just out of line on the farm now for what the farmer is getting for his crop. Like Senator Abdnor said, $3 or $4 for a bushel of wheat is not equitable with what it costs to produce it now.

And I think that anything you can do to enhance a political atmosphere in the country that will demand from Congressmen and Senators that they vote to do what they have to do—and that's cut this 60 percent of the budget—at least level it off so it doesn't keep growing—I don't see any other way of lowering interest rates at this point in time personally and I wish you good luck because I know it's very difficult and I think the farmers are—they're some of the new producers of new wealth in this country that we can't afford to have not in a strong viable economic condition and they're really hurting at this point and I'm sure you're aware of it.

Thank you, Mr. Chairman. I appreciate you having these hearings, Mr. Chairman, I'll say that again, because I think the farm income and the farm economy is probably one of the key factors of whether or not this country will survive and maintain a strong free capability to be able to defend ourselves in the future is the viability of the American farmer.

Senator Abdnor. Thank you, Senator. I just want to say the end results of this have been in the making for a long time. It was really dumped into your lap. There's been a combination of factors that made all these things occur—high interest rates, greater difficulty in marketing farm products overseas with the embargoes, and other action that we've agreed and have done in Congress and by present and past administrations. Critical times face the farmer and many of them, I'm sure, are going to find it impossible to survive this year if present conditions prevail. I'm a little disturbed that the administration hopes to recover some of the costs of some of the services provided to farmers and other groups of this country. A major effort is underway to impose a wide variety of user charges and they certainly hit the farmers. Waterways are a big concern and the user fee for waterways is a big concern to me.

According to a recent newspaper article, you were personally successful in persuading the President to modify the administration's position on inland water users' fees. I happen to be Chairman of the Subcommittee on Water Resources of the Committee on Environment and Public Works, and so I'm interested in knowing how you accomplished this. Can we expect a revised administration legislative proposal on this controversial issue? I know that for most products moved on the water can have the fee added to the cost of the commodity being marketed, but you and I know there's no way of that happening for agricultural products.

I was very disturbed that Mrs. Rivlin said in her testimony that it would be only 70 cents a bushel on wheat—only, she said. Well, I happen to think that fee will be more like three times that cost from what I've seen, and I asked her if she knew what 70 cents on the net return really amounts to and not just on the gross price.

What has been your success in your negotiations with the administration? I know you had to do battle with them. I read an article about it in this morning's paper.

Secretary BLOCK. Mr. Chairman, certainly this is an issue of great importance to agriculture as well as the rest of the country and we know we need to some way finance improvements in our waterways and our other systems and some reasonable user charges are appropriate and I firmly support this. We don't always all of us agree on everything on how to get the job done and I can't predict what changes in direction we'll see here. I know that Secretary Lewis and I have talked about the situation on many occasions and it may well be that a little different approach may be coming forward than the one we were originally looking at.

Senator ABDNOR. Well, I can assure you as long as my subcommittee has jurisdiction over the legislation that's going to bring about these waterway user fees I'm certainly going to be very observant of what takes place, and maybe a bit hostile because I just don't think you can keep adding on fees. We're talking about user fees on grain inspections and other services we have. Maybe it's necessary. I don't know. But I know this is not the time to put added cost on agriculture without finding some way to reimburse them because they're down and out now and any added cost to them they just can't survive.

You know, right along—and I think you would agree with that assessment even though I know you're under the administration, but we can't talk about a $100 to $167 billion deficit and ignore it but at the same time, it's a very delicate situation, and I just think that some exceptions have got to be made in the area of agriculture instead of making farmers a scapegoat all the time.

Along with this, I was very disturbed, Mr. Secretary, that there's talk going around these days—maybe it's mostly in Congress—about a $5 import fee on oil coming into this country. I'm sure you read about it. I don't know if the administration is proposing that or if it comes strictly from a group who wants to raise revenue. But what are your feelings on that?

Secretary BLOCK. I have not been involved in the discussions on that. Certainly I know that it could add to the cost of anyone in the country, agriculture included, because we are a user of energy; but there, again, there are tradeoffs. We're looking to find ways to reduce the deficit. I wouldn't say that that's the way. Maybe that's one of the ways. And whether we're willing to pay that price or not, I don't know. I haven't been involved in the issue to date.

Senator ABDNOR. I'm on the Appropriations Subcommittee for Energy and Water and Secretary Edwards was before us. I think we all agree we're going to see domestic oil go up by $5 and of course that brings in revenues from windfall profits tax—but I asked him, what would this mean in added cost to a gallon of gasoline. It could be as much as 12 cents. And that's all we need right now. And he pointed out something that I thought was really a key point—it was true—he said that for every dollar reduction in the spot price of oil amounts to $5.5 billion purchasing power. With about an $8 reduction in the spot price in the last 3 months, that's over $40 billion. And you talk about the tax cuts. That's greater than the tax cuts. I mean, that goes right in line with what a 1 percentage point reduction in interest would do for a farmer's income, too.

So it's such an important thing, I'm becoming more convinced that that isn't going to go anywhere. I've talked to a number of people and groups and I just think there's going to be too much opposition to that $5 fee that we're not going to do it. I wonder if you have any thoughts about it.

Secretary BLOCK. Mr. Ahalt passes me a note here. An import fee of $5 a barrel likely would raise farm fuel costs by $1 billion or a bit more than one-half of 1 percent.

Senator ABDNOR. Well, I appreciate that.

Secretary BLOCK. Actually, the fuel costs is one of the bright lights this spring. We look at the fuel costs for agriculture of maybe 20 cents a gallon less in a lot of parts of the United States and that's one of the encouraging signs. It would be disappointing to see that reversed.

Senator ABDNOR. Well, I couldn't agree more because maybe that was the one break that kept us going a little longer the way it is because fuel is such a major part. It goes back to the inland water fees. One of the proposals is an added tax on the fuel, and it just hits home with the farmer every time. Nobody uses as much fuel as agriculture.

Senator Jepsen did ask you if you are reviewing the possibilities that if our most optimistic hopes fall, we may go into another depressed year. You are going to have to have a part in that and in the Department of Agriculture something is going to have to be done if things continue to worsen.

I'm like you, I hope we've turned the corner and I think the former Secretaries who appeared before us last month seemed to think it has, that things would get better. Mr. Freeman suggested something. I think he said that total surplus of grain commodities in this country was greater when he came into office than it is today. Is that true?

Secretary BLOCK. Probably not in total volume. It would be in days' supply.

Mr. AHALT. They had large quantities of other feed grains in stockpile when Secretary Freeman was Secretary of Agriculture. But, as you say, relative to requirements, it is much lower now because the usage has gone up.

Senator ABDNOR. I see. Well, is there any hope? There have been numerous congressional committees going up to Canada to meet about joining together on exports of farm products. Yet we never seem to ever make any headway on that. I can think of three or four times that Members of Congress have journeyed to Canada with that purpose in mind.

Do you see any hope in the future where maybe we could get together and strive for higher prices?

Secretary BLOCK. Something like a grain cartel?

Sentor ABDNOR. Yes, I guess that's a good word.

Secretary BLOCK. I really don't see a lot of prospect of that, frankly. Philosophically, I have a lot of trouble with it anyway personally. It's my opinion that there's a great amount of unused production capacity in the world right now to produce crops and some people say we're going to run out of food by the year 2000, but I think we could bury all of these continents right into the sea, given appropriate incentives, and I would be afraid to tamper very much with the market system. That's all. I believe in the market system in this administration and I don't want to get in a position of any undue tampering with that that can mess up our whole future.

Senator ABDNOR. Of course, I hear from a lot of farmers. They, too, ask why are we selling our grain to other countries for below the cost of production. I guess the answer to that is strictly the market, is it not, in competition with the EEC and other groups? Is that pretty much the answer or is there any other reason why we're selling the grain for less than it cost to produce it?

Secretary BLOCK. Of course, we'd like to sell all of our grain for a higher price, but sometimes when there's too much of something—supply and demand really sets the price. There's no question about that in my mind. When you have too much supply and a soft demand, we sometimes sell something for less than it costs us to produce it, and I think we might be seeing some automobile companies doing that right now to get rid of stock and others that do the same thing.

Another year from now maybe it will be the other way. The demand will pick up and supply will be reduced.

One of the considerations that does bother me in the United States we're looking toward reduction plans this year for our crops, but I look at Australia and I look at Canada and they are both increasing production and the EEC is increasing production while we're cutting back.

Now we can do this for 1 year. We cannot keep this up with the United States cutting back and other countries increasing in the face of low prices because we'll find somebody else having the world market if we keep moving down this road. This is something that really concerns me.

We'll be talking to some of these other countries about it, but I don't know what their answers are going to be and how receptive they would be to reducing production a little bit also, especially if we're going to be doing this.

Senator ABDNOR. Well, I was going to quote Senator Dole because I just glanced at an account of a talk that he made to some farmers, and

I think he said that in this country alone in Texas they had 5 million more acres of wheat planted and Canada is still wanting more acres. Is that right?

Secretary BLOCK. Who said that?

Senator ABDNOR. I think Senator Dole said it.

Secretary BLOCK. What State?

Senator ABDNOR. Texas had, I think 5 million acres planted and——

Secretary BLOCK. I don't have that figure. We'll check on that. We have more wheat planned, but yet we have a very high sign-up for the acreage reduction program which is going to mean that the original planting intentions that came out in February are going to be amended once we have the compliance.

[The following information was subsequently supplied for the record:]

Our latest reports show that farmers in Texas plan to harvest 6.3 million acres of winter wheat in 1982, compared with 6.55 million last year.

Senator ABDNOR. But the winter wheat people can very easily get out of that, can't they? They have up to the end of June.

Secretary BLOCK. Yes. They don't have to stay with the program and, of course, the proof of the pudding is going to be in ultimate compliance. The sign-up is only the first step.

Senator ABDNOR. That's right, and the farmers' decisions will be made when he sees how many acres really come out.

Well, I certainly appreciate the time you've given us. I do want to announce today before we close—and maybe you will be interested in knowing this, Mr. Secretary—as I said at the outset, our purpose is to bring some attention to the problem and hope we'll find some solutions too, and we do have future hearings coming up focusing on the restructuring of the agricultural economy. Some will begin on April 28. We have an outstanding panel we put together with respect to agricultural economists and I've been on this Joint Economic Committee for over a year now and we bring in economists, but the ones I've seen don't even know what agriculture is about and they don't pay any attention to agriculture, and I'm sick and tired of that. So we're going to bring in some outstanding agricultural economists and hope we will get somebody to listen to what they've got to say and we can bring that to the attention of this country, and then we're also going to bring in a panel of farm writers, editors and broadcasters. They're close to farmers and they know the problems and I think it will be well to get people like this. And before we get through we're going to bring in some farm commodity groups and hopefully we're going to bring some attention to the plight of agriculture and hopefully might lead to some helpful thoughts and ideas on programs for the future.

We certainly appreciate your attendance today. Thank you very much and the subcommittee will stand in recess.

[Whereupon, at 11:40 a.m., the subcommittee recessed, to reconvene at 10 a.m., on Wednesday, April 28, 1982.]

THE CHANGING ECONOMICS OF AGRICULTURE: REVIEW, EVALUATION, AND FUTURE DIRECTIONS

WEDNESDAY, APRIL 28, 1982

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON AGRICULTURE AND TRANSPORTATION
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:05 a.m., in room 5115, Dirksen Senate Office Building, Hon. James Abdnor (chairman of the subcommittee) presiding.

Present: Senator Abdnor.

Also present: Robert Tosterud, legislative fellow.

OPENING STATEMENT OF SENATOR ABDNOR, CHAIRMAN

Senator ABDNOR. The Subcommittee on Agriculture and Transportation will come to order.

Gentlemen, we certainly want to thank you for making the effort to be here today and to appear in front of our subcommittee. I personally have been looking forward to your appearance for a long time because, somehow, agriculture has become a forgotten term with some economists in this country and we certainly welcome distinguished agricultural economists of your statute here and are flattered by your attendance.

This is the third in a series of this subcommittee's hearings on the changing economics of agriculture. Each of you has been asked to address the subject of methods and prospects for agricultural economic recovery. The Joint Economic Committee has a tradition of providing a forum for the best minds in the country to express their views on economic conditions, thereby influencing the direction and formulation of national policy.

I actively sought my position on the Joint Economic Committee for the purpose of offering this forum to the agricultural community. I strongly believe that few other issues demand more national attention than the future production of food in this country.

I'm almost embarrassed to tell you how many economists I've listened to since I joined the Joint Economic Committee. You would think I would have learned after the first half dozen or so, but I had to persist in my search for an economist who appreciated the relationship between macroeconomics and farm economics. I've asked dozens of questions and received a few placating answers. One would think that an industry which directly and indirectly generates 20 percent of this country's gross national product, provides employment for over 20 million people, has over $1 trillion of assets, yields a positive balance of trade account of $29 billion, whose growth in productivity is triple that of the average U.S. industry, and whose prices have actually declined the last couple of years, while general price levels have been going up, just may be worthy of some attention.

U.S. families spend only 16.5 percent of their incomes for food, by far the lowest percentage of any country in the world. As a result, billions of dollars of disposable income are freed from the purchase of other goods, savings, and investment. Even marginal changes in this percentage can have dramatic economic-wide impacts.

The Department of Agriculture's 1982 farm income projection is not encouraging. If it proves to be accurate, farmers will experience a third consecutive year of recordbreaking low net income. In 1981, the rate of return on farm equity was 2.5 percent. Estimates of a 28-percent decrease in income coupled with an expected 7-percent increase in equity will cause that return on equity figure to plunge to 1.6 percent this year. It is unrealistic to think that farming can continue to attract investment resources with a dismal return like that.

Actually, farm wealth in real terms has declined during the past 2 years, which is what economists would predict as resource value and prices are adjusted to reflect a "normal" rate of return. If agriculture's $982 billion worth of equity were to generate a so-called "normal" rate of return, net income would have to quadruple.

We have to ask the question whether the market can possibly yield such returns on a consistent basis. On the other hand, if the projected net income of $16 billion for 1982 in fact accurately reflects how much the market values U.S. food production, farmer equity is tremendously overvalued.

In addition to this income/investment imbalance, there is evidence that farm productivity may be leveling off.

The growth in exports during the 1980's may be considerably less than that experienced during the 1970's. Many factors are influencing the export scene, including poor economic conditions in many importing countries, stronger international competition, protectionist trade barriers, growing international tensions, and an appreciating U.S. dollar.

Other economic elements indicate to me that the farm environment is changing. Agricultural financing is being mainlined into national credit markets. Years ago, farm operations were favored by local bankers with less-than-prime rates. However, the neighborhood bank now faces much higher loanable funds costs, which in turn have raised the cost of credit. Federal farm loan assistance has undergone policy change. It must be noted that liberal or easy credit policies had their influence on the farmland price increases of the 1970's. Cash flow problems continue to adversely impair farm management.

As a result, the family farmer has become increasingly dependent on off-farm sources of income.

All these factors combined with, and heightened by, the current U.S. economic recession, may be pointing to a major structural change in U.S. agriculture.

In my opinion, the Reagan administration's free market philosophy and policy may foster this structural change. A market solution, rather than a governmental policy solution, is being advocated and pursued to resolve agriculture's economic problems.

I would caution that a truly market-oriented agriculture has some implications which may not be fully appreciated by farmers, consumers, or their congressional representatives. The free market does not have a social conscience. In a truly free market economy, price-depressing surpluses would vanish and prices would more accurately reflect the actual costs of production.

Not so incidentally, the current wheat surplus situation has resulted in a selling price about $1.50 per bushel less than the estimated 1981 cost of production. Resources in the free market—land, labor, and capital—would enter or exit agriculture depending solely on what their next best alternative use may be.

Advocating a market solution to agriculture's economic problems comes easily and is self-evident to many; however, others, including myself, recognize that the free market may usher in undesirable economic, political, and social ramifications.

Well, gentlemen, I have been rambling on enough. I guess you're the ones that we really are here to hear from. I do welcome you and I anxiously await your views on the methods and the prospects for agricultural and economic recovery. We greet you all and I guess we can start in any order.

If we may start with you, Mr. Schuh; please proceed in any fashion that you may desire.

STATEMENT OF G. EDWARD SCHUH, PROFESSOR AND HEAD, DEPARTMENT OF AGRICULTURAL AND APPLIED ECONOMICS, UNIVERSITY OF MINNESOTA, ST. PAUL, MINN.

Mr. Schuh. It would be my pleasure. I appreciate the opportunity to be here this morning.

I'd like to make four main points in my remarks today. First, dramatic changes in the structure of the world's economy and in the institutional arrangements which guide that economy have significantly changed the context of agricultural policy in this country. In the past, we would think of agriculture as a separate sector of the economy. We can no longer do that. As an isolated sector, we can no longer do that.

The second point, the present problems of agriculture are in large part a consequence of those changes in structure and institutional arrangements.

Third, that conventional commodity programs are an inadequate means of dealing with the problems of agriculture now faces.

And fourth, that solutions to the problem must be faced in more stable monetary policy here at home and in new institutional arrangements on the international scene.

Now the remarks that I have in my prepared statement, which I assume will become part of the record, I'm not going to read all of it.

Senator Abdnor. Your prepared statement will be made a part of the hearing record. You can proceed as you wish.

Mr. Schuh. I want to divide my comments into five parts. One, a little bit of background on our current situation. The second, some remarks on the changes in the international economy. Third, a discussion of the implications of those changes for agriculture. Fourth, a brief discussion of the inadequacy of the conventional commodity program to deal with the kind of problems that we now have. And fifth, some suggestions for a new policy perspective.

Now I'm going to abstract from that from my prepared statement. From the first part on background, the part that I would like to emphasize is that to contrast the behavior of agricultural prices in the decade of the fifties and sixties with their behavior in the seventies.

In the period of the fifties to the sixties, agricultural prices, the major commodities that we are concerned about, were fairly stable. With an elimination of inflation, corrected for inflation, there was sort of a downtrend in those prices throughout that period. But year-to-year fluctuations were fairly small.

The decade of the seventies was really quite another matter. Prices of those very same commodities fluctuated quite widely. And if one puts these prices on a chart so that one can compare the two periods, it appears that there is a very significant change in structure between the fifties and the sixties, on the one hand, and what prevailed in the seventies.

Now there have been a lot of explanations offered for that change in performance in the two periods. Some people argue that it's primarily due to the emergency of the Soviet Union as a major factor in international commodities markets. They have a very unstable agriculture and that was being transmitted to international commodity markets. Some people put a lot of emphasis on changes in the weather—so-called changes in the weather. A lot of people have said our problem is nothing more than the emergence of a Malthusian crisis on the world scene. And still other people have emphasized trade restrictions as basically the source of the instability.

Now it may be that all of these factors have contributed to the change in performance. However, what I want to focus attention on is an important aspect of our international economy that usually does not receive the attention that it deserves; that is the change in structure of the international economy and in the institutions which influence it.

These developments, both of which are external to agriculture, have, in my view, contributed importantly to the increases instability of agriculture.

That takes me to the second part of my paper where I talk about these changes in the international economy. There are two developments that really had a significant impact on our commodity market. The first of those was the emergency of a well-integrated international capital market, and this is what I refer to as the change in the structure of the international economy. If one goes back to the early fifties, the period right after World War II, there was virtually nothing that one could call an international capital market. There were transfers of capital from one country to another. Most of those were on a government-to-government basis and most of them were on concessional terms.

By the time we got to the end of the sixties, there had emerged a very well-integrated and reasonably efficient international market for capital. The history of that is a rather interesting one: the emergence of the Eurodollar market, which later became the Eurocurrency market. Now we have Asia currency market, and one can go on.

Consortia of banks put together big loans so that countries can finance their development programs with it. The point is that whereas in the earlier period we really did not have that kind of a link among countries, in the latter period, the international capital market has become a very important link among our countries and, as I will indicate later, put some rather interesting constraints on our policies in what we can do.

Now the second major development—and this is what I refer to as the change in institutional arrangements—was the shift from the system of fixed exchange rates to a system of flexible exchange rates. We came out of World War II really with a very important set of institutional developments, out of the Bretton-Woods Convention, the GATT. But part of the Bretton-Woods Convention was a system of fixed exchange rates which caused governments to keep the value of their currency fixed in terms of other currencies and to make adjustments, therefore, in terms of their own domestic fiscal and monetary policy.

It was the United States that, by devaluing in 1971 and again in 1973, literally forced the world to go to a system of flexible exchange rates. And we have been on a system of flexible exchange rates ever since.

Now the combination of those two developments, that emergence of an international capital market and the shift from fixed to flexible exchange rates, are two very important developments on the international scene which, in my view, have had important implications for U.S. agriculture. And it's to those developments that I want to turn in the third part of my paper.

I think it's fair to say that there are two major consequences for agriculture of those two developments. In the first place, the devaluations of 1971 and 1973 made U.S. agricultural products a great deal more competitive in international markets and contributed in a very important way to the commodity boom of the seventies.

You'll recall that after we devalued the second time in 1973, the dollar essentially stayed weak throughout the decade of the seventies. There were some good reasons for that which I discuss in my paper. But that is one set of consequences of the changed conditions that agriculture faced.

Now the second set of consequences is that these developments changed the way that monetary and fiscal policy impact on agriculture. Now it's very interesting to go back again and contrast the earlier period of the fifties and the sixties with the seventies. In that earlier period, monetary policy and fiscal policy really had very little impact on the agricultural sector. There was some linkage to the labor market, but really, it was a very limited factor. Monetary policy could be whatever it wanted to be and there would be very little impact on the agricultural sector.

Now in the seventies, it's a very different situation. Once we have that well-integrated international capital market, and once we're on a regime of flexible exchange rates, then agriculture, in contrast to being almost completely isolated from the twists and turns of monetary policy, really becomes one of the major sectors making the adjustment to it.

So agriculture, as an export sector and all other import-competing sectors under these new conditions, become the sectors of the economy that have to bear the adjustment to the changes in monetary and fiscal policy. And it's a very important linkage that one has that your changes in monetary policy change the value of the dollar in international foreign exchange markets and that, in turn, changes how competitive we are in international markets. So we get these shifts in foreign demand in response to the shifts in our domestic monetary policy.

And I would add, incidentally, that what contributes importantly to this instability is the twist in monetary policy in other countries that has the same effect on that as do just autonomous capital flows that go from one country to another.

Now there are two things that made that change in the way monetary and fiscal policy affect agriculture particularly important. The one is that trade just became more important to U.S. agriculture, and I don't need to go through the data here. U.S. agriculture is now very dependent on trade as a part of its market.

So that increasingly important part of foreign incomes became a very unstable component. And the second thing, of course, is that monetary policy during the 1970's has been quite unstable. It's been a period of stop-and-go monetary policies, where we have fluctuated back and forth from very high interest rates to rather low interest rates and consequently, we have been imposing rather significant monetary, what I would describe as monetary disturbances on the agricultural sector. And it's those monetary disturbances that are an important source of that big increase in instability that we had in the 1970's.

Now with that as background, we're in a position to understand somewhat better what has been happening to agriculture over the last year.

The value of the dollar rose very significantly during 1980. In fact, it started rising about November 1980, and peaked in about August of 1981. Very significant realinement in exchange rates. The dollar slacked off a little bit after that, but in recent weeks, it's been back up just about at those peaks.

Now that large rise in the value of the dollar has choked off our exports. It has made us less competitive in international markets. To put it somewhat differently, prices in the international markets are being reflected at lower levels into the domestic economy.

Now in my prepared statement, I have some tables where I try to show the impact of these exchange rates realinements and I think if you would look at tables 1 and 2, it provides an interesting contrast to show the consequence. If you look at table 1 and look under soybeans, what I show is what happened to the real price of soybeans from third quarter 1979 to third quarter 1980 and then again to third quarter 1981. You can see there that in percentage terms, we had 11 percent decline from the first period and a 13-percent decline in the second.

So within the U.S. economy, we're getting very significant declines in those soybean prices.

Over in table 2, what I have done is to take those same prices and convert them into German deutsche marks because it's in terms of deutsche marks that the German consumer is going to be paying for it. And what you can see in particular in the perod from 1980 to 1981 is that although soybean prices here in the United States declined in real terms during that period, they increased very dramatically in Germany in that same period.

Now that is one of the explanations for why our exports have been so sluggish over the last year to year and a half. To the foreign consumer, our products have become much more expensive because of these exchange rate realinements and despite the fact that our own prices are as low as they are.

Senator ABDNOR. Can I interrupt just a moment?

Mr. SCHUH. Yes.

Senator ABDNOR. Does that reflect fewer sales or just fewer dollars? I mean, have our prices dropped to reflect this dollar value or do we just sell less because we continue to seek the higher price?

Mr. SCHUH. What we have happening here is in this period, between the third quarter of 1980 and the third quarter of 1981 was that the value of the dollar rose something like 40 percent relative to the deutsche mark. Now that made our products more expensive to the German customer. They bought less than that, of course, as is reflected in the lower prices here at home. And that is the role of the exchange rate as it plays its adjustment function within the economy.

So what one would have as it works out in that economy market is higher prices being reflected to Germany and lower prices being reflected back here at home. And that's coming about because of the change in the value of the currency.

Do you want further explanation of that?

Senator ABDNOR. No; I just want to make sure—we might be selling just as many bushels, but just getting less dollars.

Mr. SCHUH. Yes, indeed.

Senator ABDNOR. But we're not necessarily selling less grain because of it.

Mr. SCHUH. Well, the way an exchange rate realinement works out is that in the short term, it's reflected in the commodities prices. In the longer term, it will be reflected in trade. And one of the points that I make is that what we have seen so far, these exchange rate realinements operate with a lag. They have an impact with a lag.

What we have seen so far is mostly the reflection in terms of prices. The dampening off of exports is still to come, although it's fair to say that the value of our exports were down this year and they're expected to be down again this year. And this year they're even forecasting a decline, a further decline, in the physical quantity.

So there are those kinds of adjustments taking place in the economy.

It's this realinement of currency values that is the source of an important part of today's problem in agriculture. The important point from a policy standpoint is that our current exchange rate realinement is a response to more than just the tight monetary policy. It also reflects the change in our energy policy, which has caused our petroleum import bill to decline rather significantly.

Consequently, I expect the dollar to continue strong into the foreseeable future. And if it does, agriculture faces, in my view, a rather serious adjustment problem. We will probably need to adjust resources out of agriculture at about the same magnitude that flowed into it in the late 1970's.

In some of my other work, Senator, I have made the point that agriculture benefited from bad economic policies during the 1970's because that gave us a weak dollar and agriculture is now paying the price of more sound economic policy, particularly on the energy side, and therefore, it has suffered the consequences.

Now the question is what can we do about all of this? I think we have to address two separate problems. First, we have to face the adjustment problem, which is a rather serious one. And second, we have to face the problem of instability.

The first one we can deal with by means of domestic policies. Of course, one way to do that is to discontinue the low prices that we've had and you'll eventually push those resources back out of agriculture. That's a very very painful way to do it and I don't see any reason why the farmer should be made to bear all of those adjustment costs.

Other kinds of policy measures, then, are to encourage adjustment by set-aside programs, by paid diversion, by a return to the soil bank, if we're talking about a longer term problem, and I happen to think that we are.

More constructively, we can help farmers to move out of agriculture and get employment in other occupations. And there is a fairly standard set of policy instruments for doing that.

One point that I would emphasize and it's a caution I raise is that in dealing with our problems, we ought to really try to get at the underlying problem and not deal with the symptoms. If we deal with the symptoms, we can do policies that are really counterproductive in the longer run.

Now the problem of instability is a longer term problem. An important point I make in my prepared statement is that our conventional commodity programs really are no longer capable of dealing with the kind of instability that we now get, an instability that largely comes from big monetary disturbances. Those commodity programs did not deal with the instability in the 1970's and the record will show that. And I see no reason to believe that they can deal with it in the 1980's.

The solution to this problem of instability really has to be sought elsewhere, and it has to be sought in dealing with the source of the instability. One of those sources is our very unstable monetary policy. So one means of providing a more stable agricultural sector is simply to get a more stable monetary policy here at home.

The second kind of things that we need to do is to undertake some reform of our international institutions. On this latter point, I argue that we need to press for an international central bank that would have responsibility for managing the growth of international monetary reserves, just as the Federal Reserve has here at home.

The point of that recommendation is that if one looks at our present situation, in addition to the change in the energy situation, the big decline in our import bill, what we see now is the United States going back to the role that it played in the fifties and the sixties of being the central bank for the world. We're essentially trying to squeeze inflation not only out of the U.S. economy, but out of the world economy.

Now that comes about simply because it is a very interdependent world these days. Now there's no doubt in my mind that we can do that. But we're going to do it at a very high cost to agriculture, to other export sectors and, I might add, to our import competing sectors because some of the problems of the automobile industry are exactly the same kind of problems that agriculture is facing. It's just the obverse side of it. Those automobiles are coming in at a much lower price in terms of our currency simply because the value of the dollar has risen as dramatically as it has.

Now my point and the reason that I think one can justify specific policy intervention is that there is absolutely no reason why agriculture and other trade sectors should bear all of this burden of adjustment.

More fundamentally, I think that the United States should provide the leadership to change this international system to modify the IMF, if you will, so that it has the responsibility for managing the monetary reserves and then the United States would not have to do it and it would not have to penalize certain sectors of its domestic economy to do it.

A second set of recommendations that I have on the international scene is to either reform the GATT or to provide something to replace it. The point here is a fairly simple one, that the GATT really serves the industrialized countries, the centrally planned or the less developed countries. Neither of those groups are signatory to it. The problem is that our agricultural trade has evolved importantly in the direction of the centrally planned economies in the less developed countries and, therefore, the rules of the game that the United States has worked so diligently to develop really has very little relevance to where the bulk of our agricultural trade is going.

Let me very quickly make a few concluding comments. I think I've gone over my time. I want to conclude by saying that the difficulties we now face as well as the general instability which has characterized agriculture in the seventies and early eighties is due to changes in the context of agriculture both in our domestic economy and in the international economies of which it is a part. Measures designed to deal with these changed conditions give us a rather unconventional policy agenda. But to the extent that the policy context of agriculture has changed so significantly, the policy agenda needs to change as well.

Solutions to our problems must be sought and improvements in the management of our own monetary policy and in the international arena from whence our problems come. Hence, we need to move ahead to reform that international system rather than to work piecemeal with outdated policy instruments that aren't going to do any good in any case.

In my judgment, our conventional commodity programs are not capable of dealing with the kind of instability that we now face at costs in terms of government expenditures that will be politically acceptable. Thank you, Mr. Chairman.

[The prepared statement of Mr. Schuh follows:]

PREPARED STATEMENT OF G. EDWARD SCHUH

Mr. Chairman, I would like to make four main points in my remarks today: (1) dramatic changes in the structure of the world's economy and in the institutional arrangements which guide that economy have significantly changed the context of agricultural policy in this country; (2) the present problems of agriculture are in large part a consequence of those changes in structure and institutional arrangements; (3) conventional commodity programs are an inadequate means of dealing with the problems agriculture now faces; and (4) solutions to the problem must be faced in more stable monetary policy here at home and in new institutional arrangements on the international scence.

My remarks are divided into five parts: (1) background on our current situation; (2) changes in the international economy; (3) implications of those changes for agriculture; (4) a discussion of the inadequacy of conventional commodity programs; and (5) some suggestions for a new policy perspective. At the end I will have some concluding comments.

Background

A bit of historical perspective can perhaps help us to gain some insight into our present problems. If one goes back to the period immediately following World War II - the period when I was a student and learning about the agricultural economy - it was a common belief - documented with much evidence - that in periods of inflation, farm prices went up more than other prices, and that in periods of deflation, farm prices fell faster than other prices. I don't recall there being any particular reason given for this difference in behavior between periods of rising and falling prices. But I do remember that there was a very important behavioral prescription that went along with it: Your success in farming would be determined more by when you were born than by how good a manager or entrepreneur you were.

These propositions were based largely in the historical experience of the U.S. economy and of its agricultural sector. The economy as a whole was characterized by large and severe cycles, with periods of rising prices followed by periods of falling prices, and overall there being little or no long-term inflationary trend in the economy. In fact, the price level at which we came out of World War II was just about the same as it had been over a hundred years earlier.

Many people expected the same pattern to repeat itself after the war. But it didn't. Contrary to expectations, the U.S. experienced an unusual period of economic stability during the 1950's and 1960's. There were fluctuations in economic activity, of course. But the recessions were fairly mild in historical terms, and the price level was reasonably stable as well. There was a slight inflationary bias to the economy, but it was only towards the end of the 1960's that the rate of inflation began to pick up. In the 1970's, of course, we had a severe bout with inflation.

Agricultural prices and incomes were also relatively stable during the 1950's and 1960's. After the commodity boom associated with the Korean War, these prices entered a period of secular decline if correction is made for inflation. Agriculture faced a secular income problem that was rather severe, especially during the 1950's, but year to year fluctuations in farm prices and farm incomes were for the most part rather modest.

The decade of the 1970's was another matter, however. Fluctuations in commodity prices were quite large, with large increases in 1973 and 1974, followed by a downturn through 1977, then another upturn into 1980, and now a severe downturn again. After reaching a peak in the middle of the 1970's, prices of corn and wheat, for example, have recently been below the low points they reached in 1932 - a period of severe monetary contraction.

A comparison of agricultural price patterns for the 1950's and 1960's with those for the 1970's suggests a significant change in structure. From a period of rather stable prices in the earlier period, there was a shift to a period of rather large and erratic price fluctuations in the 1970's.

Observers of agriculture have developed many explanations for this change in performance. Some blame it on the emergence of the Soviet Union as a major factor in international commodity markets. Others blame it on the weather - a common fallback when people don't understand what is happening. Others blame it on the emergence of a Malthusian crisis. And still others blame it on trade restrictions imposed by our trading partners.

It may be that all of these factors have contributed something to the change in performance. However, I want to focus attention in on important aspect of our international economy that does not receive the attention it deserves - the change in structure of the international economy and in the institutions which influence it. These developments, both of which are external to agriculture, have in my view contributed importantly to the increased instability of agriculture.

Changes in the International Economy

Two developments in the international economy have had a significant impact on U.S. commodity markets: (1) the emergence of a well-integrated international capital market, and (2) the shift from a regime of fixed exchange rates to a regime of flexible exchange rates. Let's look at each of these in some detail.

The Great Depression of the 1930's and the ravages of World War II practically destroyed the institutions involved in international trade. Many economies had been virtually destroyed by the war. There was little confidence in the international economy. And most countries turned inward to reconstruct and develop their economies.

Among other things, there was virtually no international market for capital. Such flows of capital as there were from one country to another were largely from one government to another, and on concessional terms. The Marshall Plan was an outstanding example, in which we provided from three to four percent of our GNP to other countries in the form foreign aid. Even after the heights of the Marshall Plan, the U.S. still provided significant quantities of foreign aid. For many countries this was the principle source of international capital.

During the 1960's, this situation changed very significantly. Foreign aid and concessional transfers of capital declined, both in real terms and as a share of GNP. And a very important international market for capital emerged in its stead. This market started out with the emergence of the Eurodollar market. Later it was tranformed into a Euro-currency market, and it has now grown huge. Countries ranging from the poorest of the less-developed countries to the centrally planned and industrialized countries now make effective use of it. In addition, consortia of banks in various countries put together loans to help individual countries finance their development programs as well as individual projects.

The important point, of course, is that this international market now links together the countries of the world in a very effective manner. We are accustomed to thinking of trade as the main linkage among countries. However, the international capital market is every bit as important a link.

The second significant development on the international scene was the shift from a regime of fixed exchange rates to a regime of flexible exchange rates. Recall that the Bretton- Woods Convention of 1944 established a regime of fixed exchange rates for the world economy. This was a response to the competitive devaluations of currencies during the 1930's, which many observers believed were responsible for making the Great Depression as severe as it was and for spreading it to many countries of the world.

The objective of the fixed exchange rate system was to force countries with disequilibria in their external accounts to reestablish balance by changing their domestic policies. If they were running large surpluses on their external accounts, they were to inflate their economies. If they were running large deficits, they were to deflate their domestic economies. In this way, the country that was out of balance had to take the corrective steps to get back into balance.

For a time, this system served the world economic community, and especially the industrialized countries, quite well. International trade grew faster than world GNP throughout the 1950's and 1960's, and the world economy was surprisingly free of monetary disturbances during this period.

However, by the late 1960's, the U.S. economy and the Japanese and German economies became increasingly out of balance. The U.S. was running increasingly larger balance of payments deficits as it tried to fight the Vietnam War without raising taxes and at the same time to implemented a major expansion of social and welfare programs here at home. Japan and Germany, on the other hand, were running increasingly larger balance of payments surpluses.

The U.S. tried to get Germany and Japan to revolve their currencies, arguing in part that it would be difficult for the U.S. to devalue given its role as supplier of the major reserve currency for the world. Germany and Japan were unwilling to change the value of their currency. Consequently the U.S. devalued the dollar in 1971. It did the same thing again in 1973, and eventually floated the dollar, essentially forcing the world to a system of flexible exchange rates. It is that system that has prevailed ever since.

To conclude this section, we summarize by noting that the structure of the international economy was significantly changed during the 1960's by the evolution of a well-integrated international capital market, and by changes in institutional arrangments as we shifted from a system of fixed exchange rates to a system of flexible exchange rates. Both of these developments had important implications for U.S. agriculture.

Implications for U.S. Agriculture

These developments on the international scence had two important consequences for U.S. agriculture. In the first place, the devaluations of 1971 and 1973 made U.S. agricultural products a great deal more competitive in international markets and contributed importantly to the commodity boom of the 1970's.[1/] What is often neglected is that the U.S. dollar was over-valued during the 1950's and 1960's. An over-valued currency is equivalent to an export tax. It was the presence of this export tax which caused the most productive agriculture of the world to have to resort to export subsidies to compete in international markets. Ironically, most people believe agriculture was the most subsidized sector of the economy during the 1950's and 1960's. They reach that conclusion only by neglecting the rather sizable tax that the over-valued currency represented, however.

The devaluations of 1971 and 1973 eliminated this tax and enabled U.S. agriculture to realize its true competitive advantage in international markets. The export boom which followed is familiar to us all.

1/ For detail, see Schuh, G. Edward, "The Exchange Rate and U.S. Agriculture", American Journal of Agricultural Economics 56(1): 1-13, February 1974.

The second consequence of the developments in the international economy may be more far-reaching. The shift from a system of fixed exchange rates to a system of flexible exchange rates, in the presence of a well-integrated international capital market, changed in a very important way the consequences of changes in monetary and fiscal policy for agriculture.[2/] From being almost completely isolated from the twists and turns of monetary and fiscal policy, agriculture (as well as other trade sectors) now bears the burden of adjustment to changes in monetary and fiscal policy.

The mechanism by which this occurs is quite important. When the Federal Reserve Bank pursues tight monetary policies, it attracts international capital to the U.S. This inflow of capital bids up the value of the dollar, thereby making our exports less competitive in international markets. This is reflected immediately in lower prices here at home. Eventually it leads to a decline in exports.

When the Federal Reserve tries to stimulate the economy, the reverse occurs. By causing interest rates to decline in the domestic economy, it leads to an outflow of capital. This causes the value of the dollar to fall, thereby causing our exports to be more competitive. This again is reflected immediately in a rise in prices here at home. Eventually, it leads to an increase in exports.

To summarize, with a flexible exchange rate regime and a well-integrated international capital market, agriculture and other trade sectors have to bear the burden of adjustment to changes in monetary and fiscal policy. This problem has been exacerbated during the 1970's and the early 1980's by the

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2/ See Schuh, G. Edward, "Floating Exchange Rates, International Interdependence, and Agricultural Policy", presented at the Annual Meetings of the International Association of Agricultural Economists, Banff, Alberta, Canada, Sept. 3-12, 1979.

extreme instability in monetary policy. The exaggerated shifts from periods of extreme monetary tightness to periods of relative monetary ease have imposed large monetary disturbances on international commodity markets. It is these disturbances which have contributed importantly to the large increase in instability in U.S. agriculture. The increase in instability coincided with the changes in capital markets and in the exchange rate regime.

With this as background, we are now in a better situation to understand the problems facing agriculture. The value of the dollar rose dramatically during 1981. From a low point in late 1980, it reached a peak in about August of 1981. Although it declined from that peak during the latter part of 1981, it has recently been back up to its peak levels.

It is important to note that the rise in the value of the dollar on this occasion is not due entirely to tight monetary policies. The rapid decline in our petroleum imports has contributed in an important way. These imports have declined from roughly 8.5 million barrels per day in 1979 to less than 6 million barrels per day in 1981. Moreover, the price of petroleum has declined as well. The rapid decline in the total petroleum import bill has contributed in an important way to the strength of the dollar. It has reinforced the strength that would have prevailed from tight monetary policies alone.

Data in Tables 1, 2, and 3 show the significance that exchange rate realignments can have for agriculture. Data in Table 1 show the prices of three important export commodities in selected periods of three recent years. Corrected for inflation (the bottom part of the table), the price of corn declined

Table 1

United States

Actual and Deflated Price of Corn, Soybeans, and Wheat in U.S. Dollars

Actual Prices

	Corn		Soybeans		Wheat	
	Dollars per MT	Percent Change $/MT	Dollars per MT	Percent Change $/MT	Dollars per MT	Percent Change $/MT
1979 III	125		286		173	
		+12.0		+1.4		+1.7
1980 III	140		290		176	
		-2.8		-5.9		-3.4
1981 III	136		273		170	

Deflated Prices

	Corn		Soybeans		Wheat	
	Dollars per MT	Percent Change $/MT	Dollars per MT	Percent Change $/MT	Dollars per MT	Percent Change $/MT
1979 III	91		209		127	
		0.0		-11.0		-11.0
1980 III	91		186		113	
		-9.9		-12.9		-10.6
1981 III	82		162		101	

Table 2
Germany
Actual and Deflated Foreign Price of U.S. Soybeans

Actual Prices

	Marks per U.S. Dollars	Dollars per MT	Marks per MT	Percent Change Marks/MT
1979 III	1.81	286	517.7	
				- 0.3
1980 III	1.78	290	516.2	
				+30.6
1981 III	2.47	273	674.3	

Deflated Prices

	Marks per U.S. Dollars	Dollars per MT	Marks per MT	Percent Change Marks/MT
1979 III	2.17	209	453.9	
				- 7.4
1980 III	2.26	186	420.4	
				+21.4
1981 III	3.15	162	510.3	

Table 3

Mexico

Actual and Deflated Foreign Price of U.S. Corn

Actual Prices

	Pesos per U.S. Dollar	Dollars per MT	Pesos per MT	Percent Change Pesos/MT
1979 III	22.8	125	2,850.0	
				+13.0
1980 III	23.0	140	3,220.0	
				+ 4.3
1981 III	24.7	136	3,359.2	

Deflated Prices

	Pesos per U.S. Dollar	Dollars per MT	Pesos per MT	Percent Change Pesos/MT
1979 III	13.0	91	1,183.0	
				- 10.0
1980 III	11.7	91	1,064.7	
				- 13.7
1981 III	11.2	82	918.4	

by 10 percent in the two year period, soybeans by 24 percent, and wheat by 23 percent.

Table 2 shows the price of soybeans converted to German Deutschmarks. In the lower half of the table one can note that from III quarter 1980 to III quarter 1981 the value of the dollar rose relative to the Deutschmark by almost 40 percent in real terms. The result was an increase of 21.4 percent in the price at which U.S. soybean prices were reflected to the German consumer, although in the U.S. economy the price of soybeans had declined by almost 11 percent. It is for reasons such as this that our exports have fallen off and that international prices are reflected here at home at such low prices.

Table 3 shows still another example. Until recently, the Mexican peso was fixed relative to the dollar. Given that domestic inflation in Mexico was outpacing the rate of inflation in the U.S., the peso was becoming increasingly over-valued. That caused U.S. prices to be reflected to that economy in real terms at a level that was even lower than in the U.S. Hence, we see that the U.S. price of corn was reflected to the Mexican economy at a decline of 13.7 percent from III quarter 1980 to III quarter 1981, although the dollar price declined by only 9.9 percent in the same period. By this means we see why Mexico was becoming such a strong customer of the U.S. for corn. The recent devaluation of the peso will change all of that, however, and now we are much less competitive vis-a-vis their domestic producer.

These examples should make clear how important changes in the values of currencies can be. To return to the current problem of the U.S., farmers' prices and incomes are low in large part because of the significant rise in the value of the U.S. dollar. Moreover, in my view U.S. agriculture faces a significant adjustment problem because I don't expect the value of the dollar to decline even if interest rates should decline. A more rational energy policy and more serious attempts to control inflation have improved the general performance of the U.S. economy. Hence in my view we can expect a strong dollar into the foreseeable future. This will force a significant adjustment problem on agriculture.

Many observers, of course, lay the blame on our current problems elsewhere. Common culprits are the abundant crops of last year, the general slack in the U.S. and world economy, and the Soviet grain embargo of January 1980. Clearly, the large crop of last year and the general slack in the general economy, both here and abroad, are important factors. But the realignment in the value of the dollar is in my view equally as (if not more) important as these two factors.

On the other hand, the blame that has been poured on the Soviet embargo is in my view completely out of balance to its true effects. There is no question in my mind that the embargo was an excellent example of shooting oneself in the foot. And in the long run I believe it will have a significant deleterious effect on our exports.

However, I believe it is very difficult to make a case that it is having a significant effect this year. After all, the Soviets have already purchased 14 million tons from us and we are only slightly over half way through the marketing year. Moreover, most observers expect them to take at least another 4 million tons, for a total of 18 million tons.

Equally as important, it appears that the Soviets will be importing in total up to the limit of their port and handling capacity. Hence, there is no constraint on their total liftings from the world economy. And it is their total liftings, not what they buy from us, that matters. The international grain economy is sufficiently well integrated that it doesn't matter whether the Soviets import from us or from somebody else. The important thing is the total imports of grain.

Inadequacy of Commodity Programs

Policy-making in the U.S. has not kept up with the changed circumstances in which agriculture now finds itself. Attention throughout 1981 was focused on a new farm bill, with the emphasis almost entirely on the conventional variety of commodity programs. Now as we move into 1982 and we recognize the severity of the farm situation, attention again is focused on changing the conventioanal farm programs and on providing credit to tide farmers over the rough spots.

I submit that our conventional commodity programs are not capable of dealing with the new situation. They were not capable of stabilizing farm prices or farm incomes during the 1970's. And they will not be capable of dealing with such instability now or in the future - at least at expenditure levels that will be politically acceptable. The basic problem is that these programs do not address the basic causal factors, which are fundamentally monetary disturbances. And they do not recognize the fact that agriculture is no longer a closed economy, and instead is part of an international economy. Policy measures will have to be consistant with these two characteristics of the new economic environment.

Suggestions for a New Policy Perspective

At our present juncture, we have to address two separate sets of issues. The first is that the weak dollar of the mid and late 1970's contributed to an export boom that induced a net flow of resources into agriculture. If the dollar remains strong, as I expect, the resources induced into agriculture will have to be shifted out. Without assistance by the government, this needed adjustment will be quite painful, and may take from three to five years.

Low prices and low farm incomes are one means of inducing the needed resource flow. But it requires a painful and sustained period of time to bring about such an adjustment by free market forces alone.

By the same token, policy measures which focus on the symptoms and not on underlying causal factors can be counterproductive. They can bid up costs and land values and thereby make agriculture even less competitive than it otherwise would be.

To facilitate resource adjustment, policies need to focus directly on the resource problem. This suggests that policies which lead to a tight labor market can be helpful. Similarly, policies that susidize resource flows, especially that of labor, can also be helpful. Such policies include formal schooling, training in manual and vocational skills, and policies which contribute to the consolidation of farm units.

The second set of issues has to do with the instability in commodity markets due to the monetary disturbances. The obvious place to tackle that set of problems is by means of a more stable monetary and fiscal policy. That requires an end in particular to the stop-and-go monetary policies which have characterized our economy over the last decade.

It may sound strange to argue that monetary policy has to be a key element to stabilizing commodity markets. But that is the kind of interdependent world we now live in. Moreover, farmers and those concerned about the welfare of farmers should direct more of their efforts to obtaining a more stable monetary policy than to fine-tuning commodity programs. As indicated earlier, commodity programs are not capable of dealing with these monetary disturbances at costs to the government that will be politically acceptable.

Commodity programs might be devised that could provide some means of dealing with the income instability that results from these large monetary disturbances. Elsewhere[3] I have proposed the establishment of an income insurance program that would be a logical extension of our current crop insurance program. However, I don't expect such a program to be a panacea, although it could be quite useful for groups in agriculture that are highly vulnerable to large price fluctuations.

In devising new means of dealing with the changed conditions in which agriculture finds itself, we also need to address the problem at its source - in the international arena. We will gain more stability for agriculture only by reforming some of our major international institutions. The two of these needing most attention are international monetary arrangement and the General Agreement on Trade and Tariffs (the GATT). Let me address each of these.

3/ See Schuh, G. Edward, "U.S. Agriculture in an Interdependent World Economy: Policy Alternatives for the 1980's", in D. Gale Johnson (ed.), Food and Agricultural Policies for the 1980's, American Enterprise Institute, Washington and London, 1981.

The major reform of international monetary arrangements now needed is the establishment of an International Central Bank. This could be accomplished by giving the International Monetary Fund the responsibility for regulating the rate at which international monetary reserves grow. It already has the authority to create international reserves in the form of Special Drawing Rights (SDR's). It needs the authority to control the rate at which monetary reserves are allowed to grow for the world economy as a whole.

Opponents to such a Bank argue that to create such an institution requires that we give up too much sovereignty over our own economic policy. My response is that one cannot give up what we do not have! Our world has just become too well integrated, both through trade and international capital markets,--to have very much "sovereignty" over our economies. We should stop pretending and recognize the problems we face.

Our current situation is very illustrative. Whether we like it or not, we are essentially acting as the world's central banker again, just as we did during the 1950's and 1960's. We are not just bringing inflation under control here at home. We are squeezing it out of the world economy as well. Given the importance of the dollar as a reserve currency, we can do that - despite our relative decline in economic power over the last decade or two. But we do it at a high cost to our export and import competing sectors. And we do it at a time when we are much more dependent on trade for our own resource needs.

The establishment of an International Central Bank would remove a great deal of the onus from U.S. monetary authorities of managing the international economy. In the process of doing that, we would reduce the adjustment burdens imposed on agriculture. If the International Central Bank were successful in providing more monetary stability, we would have more stable commodity markets. And with more stable commodity markets, we would have less need for domestic commodity programs.

The second major reform of international institutions involves the General Agreement on Trade and Tariffs (GATT). The U.S. has invested heavily in the development of the GATT, and has provided much of the leadership through a series of Multilateral Trade Negotiations under the auspices of the GATT to liberalize trade and to develop codes and rules of behavior for conducting trade.

However, there are a number of limitations to the GATT. In the first place, there are very few less-developed or centrally planned economies that are signatory to it. Yet our agricultural trade is evolving strongly in the direction of those two groups of countries. Equally as important, agriculture has never been a center-piece of the multilateral trade negotiations. In fact, agriculture is exempted in one form or another from many of the provisions of the GATT.

D. Gale Johnson has pointed out on a number of occasions that barriers to trade have been an important source of instability in agricultural commodity markets. Those barriers are especially important in light of the large monetary disturbances that have been imposed on the system this past decade. To remove these barriers we either need to reform the GATT so as to bring more countries into it, or we need to create new institutional arrangements. Whichever route is taken, we badly need to make more progress in liberalizing agricultural trade.

Concluding Comments

I would like to make two points in concluding my testimony. The first is that much of the attention that has been given this past year to the embargo on sales to the Soviet Union as the cause of our price and income problems in agriculture, and to changes in commodity programs as a means of dealing with these problems, is in my view misguided. Neither of these address, or are capable of addressing, the fundamental problems we face.

The difficulties we now face, as well as the general instability which has characterized agriculture in the 1970's and early 1980's, is due to changes in the context of agriculture both in our domestic economy and in the international economy of which it is a part. Measures designed to deal with these changed conditions give us a rather unconventional policy agenda. But to the extent the policy context of agriculture has changed so significantly, the policy agenda needs to change as well. Solutions to our problems must be sought in the international arena, from whence our problems come. Hence, we need to move ahead to reform that international system, rather than to work piecemeal with out-dated policy instruments that aren't going to do any good in any case.

Senator ABDNOR. Thank you, Mr. Schuh. You've already caused me to have to broaden my views and insights here on what I perceived as problems in agriculture.

Mr. McCalla, please proceed.

STATEMENT OF ALEX F. McCALLA, PROFESSOR OF AGRICULTURAL ECONOMICS, UNIVERSITY OF CALIFORNIA, DAVIS, CALIF.

Mr. McCALLA. It is, indeed, a pleasure to be invited to appear today. I'd like to abstract from my longer written statement, which I assume will be in the record.

Senator ABDNOR. Your prepared statement will be made a part of the hearing record.

Mr. McCALLA. And I'll try not to duplicate what Mr. Schuh has said, although I suspect that one will find that economists' views on some issues change, not basically with respect to the major elements, but with the degree of emphasis that one might give to each one.

Given that most of my work has been on commodity markets, international commodity markets, I'll focus on that dimension, the international dimension of agricultural commodity markets. And really, I'll be asking four questions: To what extent are the causes of today's farm difficulties international in origin, and this will be supplementary to Mr. Schuh's comments; to what extent are the causes transitory—in other words, are we in a short-term confluence of difficulties or are they the start of a longer term trend; can policies correct those causes if we could identify them; and fourth, what are the policy options open to the United States at this point in time?

Well, as I've said, there probably are as many explanations for the farm problem as there are economists, and you'll no doubt hear a few of these today. I think it's relatively easy and mostly correct to say that the current problem stems from some combination of the following factors—worldwide recession; a relative strengthening of the U.S. dollar, as Mr. Schuh has said; high interest rates; high levels of U.S. domestic inflation; a slackening off of the rate of increase in agricultural exports, which I'll comment on in a moment, which a phenomenal in the seventies; some loss of international market share to aggressive competitors; relatively good crop years for most of the last 3 or 4; rising stocks and constrained domestic demand.

The above is by no means a complete list, but it's sufficient, I think, to illustrate the complexity of the issue. Now many of these potential explanatory variables have international components. We need not comment, I think, for this group on the changing character of U.S. agriculture since 1960 in terms of domestic farm structure. Fewer and fewer farms producing 40 percent more in terms of physical volume in roughly the same land area. And I think the other major change is that the export market has emerged as the major outlet for this increase in output.

Just let's refresh our memory a bit. In 1960, about 55 million acres out of 345 million harvested crop acres were exported, or about 16 percent. In 1980, about 120 million acres, or over a third of our crop acreage produces crops for export. But even these figures, I think, obscure the degree to which the crop sector depends on the international market. In 1980, 30 percent of farm cash receipts depended on export sales, but 54.3 percent of crop cash receipts came from the export market.

Senator ABDNOR. That's 30 percent?

Mr. McCALLA. About 30 percent total cash receipts from export sales. But 54 percent of crop cash receipts from the export market. That follows primarily from the fact that we are not active in the export market on the livestock side. In fact, that's an import side more than the export side. And of that crop cash receipts, two-thirds of that comes from three commodity groups—wheat, feedgrains, and oil seeds, and that reflects about two-thirds of our cropland use as well.

And I think that we need also to remember that in the 1970's, we more than tripled our wheat exports. We quadrupled our corn exports. And we more than tripled our soybean exports. And so that now in each of those commodities, we export 65 percent of our wheat production, about a third of our corn production, and about 60 percent of soybean production.

And let's also remember that in recent years, we've exported more than 60 percent of our production of rice, cotton, almonds, and sunflowers, and over 40 percent of our production of sorghums and tobacco.

These increases in exports were clearly a positive factor in easing the burdens of adjustment in U.S. agriculture in the 1970's. Rapidly rising productivity and slowed domestic demand growth created imbalances in the 1950's and 1960's. Growth in exports was a very important and sustaining farm income in the 1970's.

The basic question for the remainder of the 1980's is can that rate of export growth be expected to continue? I comment a bit more on some of the issues, but I'll pass those over and simply say that it appears that part of the difficulties at least in the farm sector in 1981 and 1982 result from a mixed performance in the international market. Corn exports are down almost 8 million metric tons. Cotton and oil meal exports also dropped. However, there were substantial increases in wheat exports and in terms of value of exports, our 1981 figure was $43 billion, a record.

Now how much of that is a function of monetary dimensions and how much is a function of others is a point that is difficult to assess?

Further weaknesses in the export market appear evident this spring and prices have continued in general to skid downward. This coupled with last year's record crops and uncertainty about world demand and the rising dollar all contribute to the current set of concerns.

So the basic question is: Is 1982, early 1982, simply a short-term confluence of unfortunate events which, when passed, will allow a return to the strong growth of most of the 1970's? Or are they the leading edge of a longer run downturn?

It is tempting to say that if economic recovery occurs in other countries which simultaneously expands demand and lessens the increased movement or the upward movement of the dollar, that everything would be OK. But I think that that is too short a run view of the world market. I comment in the paper that countries basically participate in trade because it's in their economic advantage not to balance supply and demand domestically, and that the trend over the postwar period has been for more and more countries to become net importers of large quantities of food and feedgrains, while a few large exporters, of which the United States is the largest, have supplied those increased quantities.

These balances between domestic supply and demand are influenced by domestic variables in all of the participants in international markets, the kind of variables that contribute to changes in domestic demand, domestic supply, and particularly policy changes within importing and exporting countries, influence the net position that a country takes in the international market.

Thus, the answer to the question as to whether the current condition is a short-run cyclical dip or a long-term trend, requires that we have some notion as to where those general variables that influence long-run supply and demand are going.

Most analysts, though by no means all, would agree that for the 1980's, the following are likely to occur. First, that the changes in the structure of world grain markets, in particular, which accelerated in the 1970's will continue. That is, developing countries in centrally planned economies will increasingly dominate the world wheat market. They are already 70 to 80 percent of that market. And that middle income developing countries, including OPEC countries in the centrally planned economies, will be the points of most rapid growth in the demand for feeding stock.

Second, population growth in the developing countries, income growth in both the developing countries and the centrally planned economies, plus commitments to improve diets, will continue to have a tendency for increased import demand in the 1980's.

Third, that unless major biological breakthroughs occur, increases in domestic output in most of these countries will not meet demand growth in most years.

Fourth, most governments will continue to intervene in agriculture and participate in mechanisms of isolating their domestic economies through international markets.

And fifth, we won't learn how to control the weather.

Thus, the prevailing conventional wisdom appears to be that aggregate longer term forces suggest that the rate of growth of aggregate demand should exceed the rate of growth of supply, portending a trend of rising real prices for food in the 1980's. And, as I said, it should be noted that this is not a universally held view.

However, given the relative short-run unresponsiveness of supply and demand to price changes, and the absence of major stocks or unused production capacity will mean that weather shocks or significant changes in Government policy will cause potentially wide price fluctuations around that rising trend.

In sum, the world market, then, would be characterized by rising, but unstable, price in the 1980's.

Whether one accepts this scenario or the opposite view, that real prices will be constant or declining, both camps appear to agree that prices will be very unstable in the 1980's. And while I find it difficult to disagree with the numbers in terms of projection of supply versus demand that would suggest a rising price trend, I'm still skeptical about whether it will actually happen.

Early 1982, then, could be characterized as one of the cyclical downturns around the long-term trend, and it's being deepened by economic recession. But that conclusion is little comfort to farmers currently suffering income difficulties.

So the question is what can we do about it? Well, I think the first point that needs to be made is that the internationalization of any economy or sector of an economy means that in terms of domestic policy variables, we can be less influential in managing domestic economic difficulties.

This is clearly the case in monetary and fiscal realms, and Mr. Schuh has pointed out, but it's also true in agriculture. Obviously, several of the variables that we've talked about earlier in terms of causes of the problem—population income growth in other countries and trade and agricultural policies, and so forth—are beyond our control.

However, we can influence these by domestic policy in terms of growth in exchange rate and trade policies given the economic position of the United States.

In agricultural markets, however, the range of options may be larger, given the dominance that we are in many markets. We are almost half of the wheat market, two-thirds of the feed grain market, and over 70 percent of the soybean market in terms of U.S. exports. We are also a large factor in rice, cotton, and tobacco markets. And therefore, what we do domestically has potentially large impacts on world market price formation.

So what are the options that we can undertake? And I comment on them in somewhat more detail in my paper, but I'll simply run down them quickly now because I know we're short of time.

I suppose the first option is to do nothing and to say that we are simply experiencing a short-run cyclical price decline and that the basic income protections contained in the 1981 act will be sufficient to get U.S. agriculture through the current recession.

A second option would be to increase income protection of U.S. farmers by, in the short-run, raising target prices and implementing the supply management provisions of the 1981 act. Also, I suppose, the farmer-held reserve could be made more attractive to hold current supplies off the market and attempt to raise world prices. These are all familiar approaches that have been tried in the past and are reminiscent of the approach of fine-tuning of agriculture that was attempted in the 1960's.

A third option would be to attempt in some sense to unilaterally exercise U.S. market power by attempting to hold stocks off international markets and thereby raise price. Presumably, this could be done both by increasing CCC acquisition of stocks and by implementing strong supply control measures. This approach of behaving like a monopolist, which is sometimes suggested to raise world prices, would be expensive and could be a bonanza for other exporters and could do damage to poor and foreign exchange short developing countries who are, in fact, our major wheat customers.

A fourth option which could be pursued in conjunction with any of the others would be to substantially increase Public Law 480 sales to pull supplies off of commercial markets, though it's by no means clear that it's as easy now to separate markets so that there's not leakage from one to the other.

And a fifth option, which I clearly would not recommend, would be for the United States to retreat from its position of not segregating or separating domestic prices from international prices and to pursue a more isolationist, inward looking domestic farm policy. This option would be extremely expensive and could lead us back to a beggar-my-neighbor kind of policy that occurred in the 1930's.

None of these approaches in terms of domestic policy are new, but I'm not sure that there are any new policies hidden under a rock that we haven't yet found.

Now I also comment about some international collaboration options. These are international commodity agreements, multilateral trade liberalization, international stock management to stabilize world prices, and exporter collective action or cartel approaches to manage world supply and world prices.

I comment at the outset that I'm not recommending any or all of these. I'm simply commenting on them as options we might think about, but I also caution you that they are not options that would have immediate impact on the current situation.

I think it's fair to say that the number of successful exporter-importer primary commodity stabilization agreements in the post-World War period that have been successful is limited.

Second, I think it's fair to say that while there has been a great deal of discussion about internationally managed stocks to seek market stability, there had been little progress in this.

Third, nations of the world have had a great deal of difficulty in both the Kennedy and Tokyo rounds of GATT negotiations in agreeing to reduce significantly agricultural trade barriers in larger commodities. And while, in my judgment, to continue to move toward a more liberal trade regime is in the long-run interest of U.S. agriculture, the absence of a current round and without one in prospect suggests that multilateral liberalization is not a likely outcome.

There has been much talk about exporter collaboration to manage supplies and enhance export prices. The so-called cartel arrangement generates many emotional and philosophic responses on both sides. Some colleagues and I recently completed a study of an exporter association for wheat and feed grain and our conclusions, I think, can be stated relatively simply. One cannot dismiss a cartel as theoretically unworkable, nor can one say that they don't work because there is significant evidence in the postwar period that some cartels have been successful in raising export earning.

Our empirical analysis suggests, given its assumptions, that under certain operating procedures, that gains to exporters in terms of enhanced foreign exchange earnings could be substantial, at least in the short-run. However, there are serious and very difficult operational difficulties which might render it very difficult to operate such a cartel.

Further, the kind of cartel selected would make a great deal of difference on the domestic outcome. A producer oriented cartel which raised prices by restricting supplies in both domestic and international markets would have serious impact on domestic livestock producers, consumers, and in the low income developing countries.

However, an alternative approach to manage international prices by an export tax could have benefits to the United States in general, but would not necessarily improve producer position. I'm not mentioning this option to recommend it, but rather, to say that it seems to me it would be possible if exporters wanted to pursue it.

Well, let me just make some brief concluding comments. I'm afraid that as a characteristic of my profession, what I've done is basically laid out the alternatives and not the solution and that is, I think, the case for two reasons. One is that economists don't always have solutions. And second, I think there are so many imponderables in terms of international variables, not to mention only one—the British-Argentina case now—that has significant commodity market impact, so it's hard to predict.

So it's not clear what actions should be taken. If the long-run trend is for rising prices, then policy actions should be tempered to deal with the immediate short-run situation. This could suggest using currently available instruments and not moving toward a more isolationist trade policy. If the problems are longer term, then the task, I think I would agree with Mr. Schuh, is adjustment, domestic adjustment to changing circumstances and we should not necessarily put that adjustment off.

In either case, it seems to me the great uncertainty of the current situation suggests that this may be an appropriate time for the United States to consciously decide to build a substantial grain reserve and use it to stabilize domestic and world prices.

I should note, also, that in whatever we decide to do, that the alterations in Government policy should be stabilizing rather than destabilizing. For example, if we implement strong supply restrictions now and we have a reversal of the price situation, we'll exacerbate the instability by the time they come into effect rather than moderate them.

The task ahead is difficult, given the uncertainty of world markets. I thank you for the opportunity to appear and I hope that my analysis will be of some help in understanding the issue. Thank you.

[The prepared statement of Mr. McCalla follows:]

Prepared Statement of Alex F. McCalla

I. Introduction

It is indeed a pleasure to be invited to appear today and present my perspectives on this very important topic. Given that most of my research career has been spent dealing with international commodity markets and their linkages with domestic agricultural policies, I will focus today on international dimensions. In essence I will be looking at the following questions:

(1) What is the current economic problem in U.S. agriculture?

(2) To what extent do the "causes" of that problem have international dimensions.

(3) To what extent are the "causes" of the problem transitory or random as opposed to those which result from longer term trends?

(4) Are these "causes" amenable to policy correction? I ask this question because all to often I think we assume that public policy is capable of solving most if not all problems.

(5) What are the range of U.S. policy options open if we want to try to influence these problems?

II. What is the Current Economic Problem in U.S. Agriculture?

I need not review in detail, for this body, the status of the current U.S. farm recession. We are all aware that farm prices have slipped steadily since January 1981 with the exception of a small recovery late last year. They have fallen to levels this spring which in real terms approaches prices of the 1930's. At the same time costs have continued their relentless increases fueled mainly by domestic inflation, high interest rates and continued high petroleum prices. Net farm income has fallen substantially and, as outlined in a recent New York Times article, farm bankruptcies are increasing rapidly. The question becomes; why is this happening? Why is U.S. agriculture, which just a decade ago experienced per capita incomes on par with or above the nonfarm sector, experiencing these current problems.

III. WHAT ARE THE APPARENT CAUSES AND DO THEY HAVE INTERNATIONAL DIMENSIONS?

There are probably as many "explanations" as there are economists and you will hear a few of them today. Each of these explanations has merit but the answer is probably a result of the complex interaction of many more variables than we can effectively analyze. But we do clearly need to understand what at least are the major factors influencing the current situation.

It is relatively easy and mostly correct to say that the current problem stems from some combination of the following factors: worldwide recession, leading to a less rapid increase in the demand for meat; a relative strengthening of the U.S. dollar which makes our exports more expensive, high interest rates and high levels of domestic inflation; a slackening off in the rate of increase in agricultural exports, prospects for some large crops even given low prices (this is particularly true for wheat), some loss of international market share to aggressive competitors; several years of "good" weather and good crops (except for the U.S.S.R.); rising stocks; and high food prices which coupled with declining real incomes and rising unemployment have constrained domestic demand increases. The above is by no means a complete list but it is sufficient to illustrate the complexity of the issue.

Many of these potential explanatory variables have international components. To understand their importance we need to review quickly changes in U.S. agriculture in the past two decades paying special attention to ones relating to the importance of world markets. The changes in the character of U.S. agriculture since 1960 are phenomenal. Fewer and larger farms are producing nearly 40 percent more in physical volume on roughly the same land area. The export market has emerged as the major outlet for that increase in output. In 1960 the production of about 55 million acres of the 345 million acres harvested was exported or about 16 percent. Now approximately 120 million acres or over one-third, of the about the same harvested acreage is exported. But these gross figures often obscure the distribution of that export dependence. Let me quote a few other numbers, in 1970 exports made up 13.4 percent of total farm cash receipts, by 1980 that figure had doubled to 30.2 percent. But if one looks at crop receipts only, 54.3 percent of crop cash receipts came from the export market in 1980 (FATUS Nov./Dec. 1981).

Given that three commodity groups—wheat, feed grains and oilseeds and oilseed products—account for over two-thirds of harvested acres and that the same groups accounted, in 1980, for almost two-thirds of our agricultural exports we need to refresh our memories about those crops. In 1969–70 we exported (much of it under P.L. 480) about 16 million metric tons (mmt) of wheat—44 percent of our production; in 1980/81 we exported 42 mmt—over 65 percent of our output. In 1969–70 we exported about 15 mmt of corn (up from 6 mmt in 1960) about 13 percent of our production. In 1980/81 we exported about 60 mmt (a 400 percent increase in a decade). This was almost one-third of our output. At the beginning of the decade we exported about 8 mmt of soybeans and soybean products—about 50 percent of our production. In 1980/81 we exported in excess of 20 mmt; nearly 60 percent of our production. Also in recent years we have exported over 60 percent of our production of rice, cotton, almonds, and sunflowers and over 40 percent of our sorghum and tobacco production (FATUS Nov./Dec. 1981). These increases in exports were a positive factor in easing the burden of adjustment in U.S. agriculture. Rapidly rising productivity and slowed domestic demand growth created imbalances in the 1950's and 1960's. Growth in exports was very important in sustaining farm income in the 1970's. The basic question for the remainder of the 1980's is can this rate of export growth be expected to continue.

These numbers are cited not to suggest participating in the world economy is good or bad but rather to say that occurrences in world markets will increasingly influence domestic outcomes. Given that the United States, unlike most other countries, does not basically separate domestic prices from "world prices," fluctuations in international supply and demand impacts, U.S. agriculture through prices. Further what we do in terms of domestic macro economic policy, both monetary and fiscal, impacts on the value of the dollar which in turn influences our ability to sell abroad. I will not go further into that subject as it has been well covered by Professor Schuh. Finally given that the domestic livestock industry depends heavily on feed grain inputs which are influenced by world market forces, we have a situation where U.S. agriculture is heavily influenced by international developments and changes in our internal policy which influence trade.

IV. TO WHAT EXTENT ARE THESE CAUSES TRANSITORY?

Part of the difficulties in the farm sector in 1981 and early 1982 result from mixed performance in international markets. Feed grain exports dropped off almost 8 mmt tons. Cotton and oil meal exports dropped also. However, increases in wheat exports plus slightly higher prices yielded record export value in excess of 43 billion dollars. Further weaknesses in the export market are evident so far this spring as prices have skidded downward. This coupled with last years record crops and uncertainty about world demand and the rising dollar all contribute to the current set of concerns.

The basic question facing analysts is—is early 1982 simply a short term confluence of unfortunate events which when past will allow a return to the strong growth of most of the 1970's or are they the leading edge of a longer run down turn? It is tempting to say that if economic recovery occurs in other countries which simultaneously expands demand and reverses the upward movement in the dollar, everything would be OK. Further some argue if weather returns to average or below we could quickly revert to a shortage situation characterized by rapidly rising prices a la 1972–73. This scenario then could implicitly suggest that most of the international causes are transitory and we should take no corrective action.

However, I believe such a short term view of world markets is inadequate. Countries basically participate in international trade because there persists an economic advantage in not exactly balancing domestic production with domestic consumption. Over the wide range of products produced by countries, each country has a different pattern of exports and imports. In the markets we are discussing, essentially food grains and feeding stuffs, the dominant trend in the post WW II period has been for more and more countries to become net importers of larger quantities while a few large exporters (the largest of which is the United States) have supplied their increased imports. These imbalances between domestic supply and demand are therefore influenced by all the domestic variables which contribute to both. To use a little jargon, net export supply or net import demand is a function of both domestic supply and demand.

To begin to develop a longer term perspective we need to try to understand what influences the net position of countries in international markets. Long run demand for food is influenced basically by three variables—population growth, income growth, and relative prices. Long term supply is influenced by land availability, technology (yields) and relative prices of products and of purchased inputs such as fertilizer. Supply is randomly shocked by weather, the major uncontrollable in the system. If demand variables contribute to a more rapid growth in demand than in supply then there is a tendency for a country to have an imbalance and to enter world markets as an importer. The opposite in differential rates of growth protends an export position. Whether a country actually becomes an importer or an exporter can be and is influenced by government policy. A domestic price support program for agriculture which encourages domestic production and restrains imports can modify or even offset a potential import position (e.g., the EC in wheat). Further the general balance of payments position of a country influences exchange rates and in the short run, foreign exchange availability. Finally institutional structures such as state trading can mute though not completely offset domestic responses to changing international conditions.

World markets for agricultural products are influenced by all of these and more factors. Thus the answer to the question of whether the current condition is a short run cyclical dip or a long term trend requires that we understand what the longer term trend may be. It is to this question I now turn.

Let me begin with a few stylized and over simplified facts. First the fact that an increasing number of nations have become net importers in the post WW II period suggests that in most countries domestic demand growth has been exeeding supply growth. In the 1950's and 1960's supply in the few large exporters—United States, Canada, Australia, Argentina, etc.—grew more rapidly resulting in excess supplies, substantial stocks and relatively low and stable prices. The 1970's, especially after 1972, saw stocks drawn down and the balance between supply and demand become more precarious resulting in wide swings in prices. There swings were exacerbated by weather fluctuations and protectionist domestic policies which tended to export domestic supply instabilities into the residual world market of which the United States is the major actor.

What do the remainder of the 1980's portend? Most analysts would agree that: (1) changes in the structure of world markets which accelerated in the 1970s will continue. Developing countries in general and the centrally planned economies will increasingly dominate the world wheat market (they are already 70–80 percent of the market) and that the middle income developing countries including OPEC countries and the centrally planned economies will be the points of most rapid growth in demand for feeding stuffs; (2) in the developing countries population growth continues to greatly exceed that in developed and centrally planned economies. In both the developing and centrally planned countries income growth and committments to an improved diet for their people will continue to cause demand to increase rapidly; (3) unless major breakthroughs occur, increases in domestic output will not keep up with demand growth in most years; (4) most governments will continue to intervene in agriculture and will continue to state trade and (5) weather will continue its unpredictable annual behavior and that we may experience a series of relatively "bad" years as opposed to a fairly steady succession of "good" years in recent times.

Thus the prevailing conventional wisdom appears to be that aggregate longer term forces suggests that the rate of growth of aggregate demand will exceed the rate of growth of supply portending a trend of rising real prices for food in the 1980's. (It should be noted however that this is not a universally held view.) However, given the relative short run unresponsiveness of supply and demand to price changes, and the absence of major stocks or unused production capacity, will man that weather shocks or significant changes in government policy will cause potentially wide price fluctuations about that rising trend. In sum world markets will be characterized by rising but unstable prices in the 1980's. Whether one accepts this scenario or the opposite view that real prices will decline, both camps agree that prices will be unstable. I find it difficult to disagree with the numbers that suggest rising prices but am still skeptical about it actually happening.

Early 1982 could then be characterized as one of these cyclical down trends which is being deepened by economic recession in many countries. But such a conclusion is of little comfort to U.S. farmers currently experiencing a severe economic squeeze. Nor does it imply that the United States should not consider corrective action. It is to these issues that I now turn.

V. WHICH OF THESE CAUSES ARE AMENABLE TO POLICY CORRECTION?

The internationalization of any economy or sector of an economy means that domestic policy variables are less influential in managing domestic economic difficulties. This is clearly the case in the monetary and fiscal realm but it is also true for agriculture. Several of the variables mentioned before are outside of U.S. control-population growth, fiscal, monetary, trade and agricultural policies in other countries, supply developments in the rest of the world and the weather to mention a few. Some of the variables such as rates of income growth, exchange rates and trade policies in other countries are indirectly influenced by this nation's policy actions given U.S. economic power. In agricultural markets however the range of options may be larger given U.S. dominance in world markets. Again let us refresh our memories. The United States supplies between 40 and 50 percent of world wheat exports; between 60 and 70 percent of feed grain exports and between 70 and 80 percent of world soybean trade. We are also a large factor in rice, cotton and tobacco markets. Therefore what we do domestically has potentially large impacts on world market price formation. In fact some would argue that the U.S. domestic markets for grains and oilseeds are in fact world markets given that the United States does not separate domestic prices from world prices as most other countries do.

VI. WHAT ARE THE RANGE OF U.S. POLICY ACTIONS?

The fact that U.S. agriculture is now an open sector increasingly dependent on world markets does not alter at least one set of policy options which could assist in the continuing adjustment of U.S. agriculture. These I call pure domestic options. A second set which require international collaboration are discussed subsequently.

1. Domestic options

A first option is to do nothing. If in fact we are experiencing a short term cyclical price decline which will soon right itself, we could argue that the basic income protections contained in the 1981 Act will be sufficient to get U.S. agriculture through the current recession.

A second option would be to increase income protection of U.S. farmers by raising target prices and implementing the supply management provisions of the 1981 Act. Such an approach of using currently available instruments to shore up income and reduce supplies could have the dual effect of improving incomes and raising (after a lag) United States and world prices. Also the farmer held reserve could be made more attractive to hold current supplies off the market and raise prices. These are all familiar approaches that have been tried in the past. It is reminiscent of the approach of fine tuning of the 1960's. However it must now be recognized that in pursuing these domestic measures, as long as we don't separate domestic markets from world markets, these efforts will be diluted by the fact that other exporters can take advantage of raised prices and will have no supply restriction costs. How effective marginal changes in these domestic variables would be in the short run is open to question.

A third option would be to attempt to exercise U.S. "market power" by substantially reducing free stocks by CCC acquisition and implementing strong supply control measures. This approach of "behaving like a monopolist" to raise world prices would be expensive and could be a bonanza for other exporters and could damage poor and foreign exchange short developing countries who are our major wheat customers.

A fourth option which could be pursued in conjunction with any of the others would be to substantially increase P.L. 480 sales to pull supplies off commercial markets. This also is expensive and depends on our ability to prevent P.L. 480 sales from leaking into commercial markets and depressing prices.

A fifth option is to implement various kinds of trade barriers to isolate the U.S. market from world markets and pursue a domestic price support policy which accomplished domestic objectives. This option would also be expensive and could, as did the Smoot-Hawley tariff of 1930, lead to retaliatory trade restrictions, a contraction of agricultural trade and clearly reverse the U.S. trend towards an export oriented agriculture.

None of these approaches are new, but as my former teacher W. W. Cochrane used to say, there are no new panaceas hidden under rocks yet to be turned over.

2. International collaboration options

There are also a limited set of possible actions which would require international collaboration. These are international commodity agreements, movements toward multilateral trade liberalization, international stock management to stabilize world prices and exporter collective action to manage world supplies and prices. I will discuss each very briefly.

The number of successful exporter-importer primary commodity agreements into post WW II period is very limited. Extreme price instability tends to increase importer interest in such arrangements. However the time required to conclude such agreements, even if they are possible, is so long that it offers no short term possibilities. Similarly internationally managed stocks to seek market stability have been widely debated for food gains but little progress is evident and the future seems to hold more of the same. Nations of the world have had great difficulty in both the Kennedy and Tokyo Rounds of GATT negotiations in agreeing to reduce trade barriers in agricultural products. While in my judgment to continue to move towards a more liberal trade regime is in the long run interest of U.S. agriculture, the absence of a current Round and without one in prospect renders this a limited short run option.

There has been much talk of exporter collaboration to manage supplies and enhance export prices. The so-called "cartel" arrangement generates many emotional and philosophical responses. Some colleagues and I recently completed a study of the pros and cons of an exporter association for wheat and feed grains.[1] Our conclusions can be stated simply. One cannot dismiss a cartel as theoretically unworkable nor as a type of arrangement which has not worked in the past. OPEC I suppose is one piece of evidence. Our empirical analysis, given its assumptions, suggests that under certain operating procedures, that gains to exporters in terms of enhanced foreign exchange earnings could be substantial at least in the short run. However several difficulties need to be mentioned. Operational procedures for agreeing on price, supply management, enforcement of pricing agreements and prevention of transhipments, to mention but a few, would be difficult to formulate. Further grains differ from oil in two important respects. First grain production is potentially expandable, i.e., grain could be considered a renewable resource. Second, domestic markets are more important than the export market for most participants. Thus a producer oriented cartel which raised prices by restricting supplies in both domestic and international markets could have serious impacts on three different groups—livestock producers in the United States and Canada, consumers in general and, in particular, the urban poor in low income developing countries. An alternative approach would be to manage internatonal prices via a export tax. One could then maintain low domestic prices and apply, if one wished, the same prices to low income LDC's. An export tax cartel could enhance the U.S. foreign exchange position but would not necessarily improve producers positions.

I mention this option, not to recommend it but rather to say it seems possible if the exporters wanted to pursue it. However again as with the other options requiring international collaboration, it would certainly not offer short term relief.

VII. SOME CONCLUDING COMMENTS

I recognize that, characteristic of my profession, I have basically laid out alternatives without saying which one is the best for the current situation. I have done this for two reasons. First international variables are not the only ones that are influencing the current situation. Thus "international" options must be considered in a broader context. Secondly our ability to predict the future is so limited that to deem one approach as the best is foolhardy. The domestic and international market situation could, given the close balance between aggregate supply and demand, turn around quickly. Suppose Britain and Argentina engage (perish the thought) in war which interrupt or suspends Argentine exports. This could substantially increase wheat, corn and soybean prices. Or suppose that the severe winter and spring has or will delay plantings of summer crops in the United States and Canada. This could reduce output and move prices upwards. One could go on but these are sufficient to illustrate the uncertainties ahead.

In sum, it is not clear what actions should be taken. If the long run trend is for rising prices, then policy actions should be tempered to deal with the immediate short term situation. This could suggest using currently available instruments and not moving towards a more isolationist trade policy. If however the long term trend is downwards, then the task is to adjust to changing circumstances rather than put off that adjustment. In either case, given the great uncertainty of the current situation, it seems that this may be an appropriate time for the United States to consciously build a substantial grain reserve and use it to stabilize domestic and world prices. Finally I should note that we must be careful that alterations in government policy do not destabilize rather than stabilize domestic and/or world markets. For example, if the United States implements supply restrictions, which necessarily involves a lag, before it is effective, and prices turn upward, policy would contribute to instability rather than stability.

The task ahead is difficult given the uncertainty of world markets. I thank you for the opportunity to appear. I hope my analysis will be of some help in understanding the issues.

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[1] Andrew Schmitz, Alex F. McCalla, Donald O. Mitchell and Colin A. Carter, Grain Export Cartels, Cambridge, MA.; Ballinger Publishing Co., 1981.

Senator ABDNOR. Let me assure you that your analysis is very, very helpful. It will be up to us, I guess, to disseminate some of these comments and proposals and thoughts. Certainly they have to go into any long-range farm solution. All of these things have to be considered. So we appreciate your input very much.

Mr. Tweeten, please proceed.

STATEMENT OF LUTHER TWEETEN, REGENTS PROFESSOR, DEPARTMENT OF AGRICULTURAL ECONOMICS, OKLAHOMA STATE UNIVERSITY OF AGRICULTURE AND APPLIED SCIENCE, STILLWATER, OKLA.

Mr. TWEETEN. Thank you, Chairman Abdnor. I appreciate the opportunity to be here.

Before prescribing a treatment for the current economic ills of the farming industry, it is necessary to diagnose the sources of those ills.

The depressed farming economy of the 1980's does not trace, in my judgment, to a failure of demand. In 1980 and 1981, growing exports, domestic population, and real per capita income expanded real demand for our farm products an average of 3.4 percent per year. That is double the average rate of increase of the past 5 decades.

The problem also in 1980 was not weather. The productivity index, which in the short run, is a measure of weather effects, was the same in 1980 as the average of the 4 years, 1975 through 1978. The decisive factor in 1980 that brought on the farm depressed conditions was the cost price squeeze induced by inflation. Prices paid by farmers for items of nonfarm origin increased a massive 16 percent. And despite a fairly significant rise in prices received by farmers, the parity ratio fell 9 percent.

In 1981, the cost price squeeze was joined by another significant element, and that was highly favorable weather, as indicated by a jump in the productivity index by 10 percent over the previous year.

The important point is that unlike the 1960's, when excess capacity was caused by chronic oversupply of resources in farming, the 1980's problem so far is mostly a matter of transitory elements; namely, a surge of inflation in 1980 and a surge of favorable weather in 1981. With normal weather—and that's a big "if"—and economic recovery worldwide, by the mid-1980's, production in U.S. agriculture is not expected to exceed utilization at prices that will bring an acceptable return to farmers.

However, some measures are required to deal with the current excess supplies in the case of several commodities.

Inflation causes other economic difficulties in addition to the cost price squeeze. It creates instability as monetary fiscal policy strives to acieve an unsustainably low unemployment rate, which, in turn, brings on inflation and this, in turn, brings on monetary fiscal restraint to halt the inflation, slow the economy, and it brings on recession.

There is also a foreign counterpart that has already been talked about to this inflation cycle in the domestic economy. All of it places farmers on a kind of rollercoaster of economic conditions. Farmers can adjust to a strong economy very well. They can even learn to adjust to a weak economy. But it is very difficult for them to adjust to an unstable economy.

The third and final effect of inflation is the most serious of all. It's the cash flow squeeze. It is especially insidious because 100 percent of parity price supports for full-cost of production pricing will not cure it. The basic principle underlying that difficulty and supported by both economic theory and empirical evidence is that the ratio of current land return to current land price is about 4 percent on the average, whatever the inflation rate or level of farm prices. But the mortgage interest rate is approximately 3 percentage points, which is the real rate of interest, plus the expected inflation premium.

So whether inflation is 3 percent or 15 percent, the normal rate of return on farm real estate assets, and real estate assets comprise about 80 percent of farm assets, is about 4 percent. This has been incorrectly interpreted to mean that rates of return on farm real estate are low. That is a misconception.

Capital gains will more than compensate for the higher cost of mortgage interest rates. But with nominal inflation, the current rate of return on farm land is about 4 percent and the interest rate is near that. There is no cash flow problem. With 10 percent expected inflation, and that's very near the rate that we have now, you have the 3 percentage points for the real rate of interest to that, you have a 13-percent mortgage interest rate and you're receiving a 4-percent return on investment. That is a frightening cash flow problem that threatens the very existence of the family farm over the long run.

The next thing I want to turn to is a set of recommendations. In making these recommendations, I want to note that the acute problems of the farming industry are concentrated at least in terms of excess supplies largely in the case of two commodities—feedgrains and dairy. So let me treat those two first.

Recommendation No. 1 is the immediate need to deal with excess supplies of feedgrains by introducing an emergency 10 percent paid diversion to supplement the existing 10 percent unpaid diversion. The first 10 percent diversion is expected to reduce production about 2 percent because of very substantial slippage in the program. The second 10 percent paid diversion is expected to reduce production about 4 percent, for a total reduction of 6 percent. The expected carryover of feedgrains at the end of this marketing year is about 65 million metric tons; 50 million metric tons is the upper desired limit. Carryover above the 50 million metric tons has little or no value. It's cheaper for the Government to pay farmers not to produce than to pay farmers to store it.

So we need to get on with this policy and to do it immediately.

The second item of recommendations deals with the diary program. The dairy program poses unusually difficult problems because of a strong institutional framework that has developed over the years based on a rather central proposition; and that is that you can't turn milk production on and off like a spigot. And so these programs were set up to insure that local milk supplies would be produced locally for consumption.

Milk production, rather, milk supplies, currently can be turned on and off like a spigot through UHT reconstituted and sterile milk products that allow storage and transportation at much lower cost than in the past. And that requires a reexamination of the entire dairy program.

And so recommendation No. 2 is that the President should appoint a blue ribbon commission to examine the dairy problem and make policy recommendations within 6 months to be followed as soon as possible thereafter by policy action.

Issues to be examined include whether price discrimination in the form of higher prices for fluid milk consumers which has the effect of subsidizing consumers of manufactured milk products, should be continued. Number two, whether blend pricing of milk with its chronic tendencies for overproduction should be replaced with a system that pays farmers only the market price, a free market price, on their surplus output. And No. 3, whether there is any longer any justification for keeping out of the market products such as UHT reconstituted and related milk products that offer promise to raise efficiency in milk storage and transportation.

My third recommendation, No. 3, is for the Farmers Home Administration to provide credit assistance to financially troubled farmers with demonstrated management capabilities. This is a far less costly measure than across-the-board price support increases, because it can be focused on those farmers who need help and it doesn't go indiscriminately to both rich and poor farmers.

Recommendation No. 4 is a conservation reserve general land retirement program with long-term sealed bid contracts is needed to remove erosion-prone cropland from production. The primary purpose is to conserve erosion-prone cropland. And a secondary purpose is to reduce production and hold reserve capacity for emergencies.

Recommendation No. 5 is last among my recommendations, but far most important, is for Congress to assume leadership in reducing inflation and real interest rates by establishing a credible policy to balance the Federal budget by 1984. The farming industry today is being devastated by high interest rates and farmers have a greater stake in sound monetary fiscal policy than in commodity programs. Record real interest rates arise because the public doubts that the Federal Reserve Board can hold the line on expansion of the money supply without help from the more nearly balanced Federal budget. Creditors unwilling to commit funds at lower interest rates to long-term investments needed for economic growth, when the Government waivers in its resolve to hold down inflation, which would wipe out gains from funds invested at lower interest rates—interest rates will fall if a credible program is established to join the current monetary restraint with fiscal restraint in the form of a balanced budget by 1984.

A Federal deficit can be justified in 1982 because of recession, but cannot be justified with economy recovery in 1983 and 1984. The proposed Federal deficit that could run to $200 billion by 1984 will crowd out private investment and increase interest rates, thereby aborting the economic recovery. Accelerating the economy with deficit spending at the same time that the economy brakes are applied by tight money makes as much sense as running your motorcar with full accelerator and brake applied simultaneously.

Finally, there are some recommendations which I do not make. No. 1, it would be most unwise at this time to raise price supports for several reasons. It would give farmers the wrong signal to produce more when, in fact, they should be producing less.

No. 2, farmers, as I have indicated before, have a major stake in fiscal responsibility and they would hardly be setting a desirable example for others if they themselves make a raid on the Treasury.

No. 3, there is likely to be substantial cost overrun over budget estimates for farm commodity programs in 1982 and 1983. These constitute a shock to many, and it would be most unwise to increase that shock and threaten the very existence of those programs by enhancing price supports in the coming year.

No. 2, in things that I don't recommend: Currently, there is a lot of talk about charging the full cost of product in export market. This would be a major mistake. Back in the twenties, there were five McNary-Haugen bills, each of which proposed full parity, full parity in the domestic market and releasing the remainder of production in the export market for whatever price that market would bear.

That made some sense if the purpose was to raise net farm income because a higher price in the inelastic domestic market, and a lower price in the export market would raise receipts in both.

The new proposal, which would entail full cost of production pricing in the export market, would reduce receipts in the export market because it's elastic, and the excess supplies would be dumped on the domestic market, which, because it is an inelastic market, would reduce receipts there.

So the effect would be to reduce receipts in both markets and it would be a very foolish move. Thank you.

Senator ABDNOR. Thank you, Mr. Tweeten.

[The prepared statement of Mr. Tweeten follows:]

PREPARED STATEMENT OF LUTHER TWEETEN

Causes and Cures for Economic Problems of the Farming Industry in the 1980's

The economic pain being experienced today by the farming industry is real whether measured by the parity ratio, net farm income, rate of return on investment, ratio of net farm income to debt, or by bankruptcies. In economics as in medicine, proper treatment of this pain follows proper diagnosis.

The Diagnosis

Some ills can be ruled out. The current farm depression does not trace to a failure of demand for farm output. Components of annual demand averaged for year 1979/80 and year 1980/81 grew as follows: 1.1% for population, .4% for real per capita income and a sizable 7.7% for exports (Table 1). Together these components shifted forward the real demand curve for farm output about 3.4% per year, or double the average annual growth rate of the last five decades!

Even with sharply higher demand, real farm prices fall if suppy outruns demand. The real supply curve of farm output shifts forward from gains in productivity which are the result of weather and technology. I as well as other economists expected a slowdown in productivity growth in the 1980's in view of the secularly declining actual annual trend as shown below:

Years or Decades	Average Annual Productivity Increase %
1949-59	2.1
1959-69	1.7
1969-79	1.5
1976-79	1.1

Due mainly to weather, the productivity index was down 3.4% in 1980 and up a massive 9.6% in 1981 over the previous year.[1] Unusually favorable weather as evident in widespread record harvests accounts for the low farm prices and incomes in 1981 - - but the farm recession began in 1980 when real demand increased 4.4% and supply decreased 3.4% to create a large excess demand, 7.8%. World production and carryover also were not high enough to explain a weak farming economy in 1980.

To solve this puzzle we must look beyond productivity on the supply side and beyond population growth, income and exports on the demand side. Low farm prices in 1980 were

[1] In estimating excess or reserve capacity, it would be extremely useful to separate technology from weather in the productivity index. It is conceivable that we had normal weather in 1981 after experiencing very unfavorable weather in the late 1970's. A weather index is not available but could be constructed by observing yields on test plots with the same treatment except weather from year to year.

caused in part by the grain embargo and by convergence of the cattle and hog cycles at high output. But the principal culprit was inflation which lifted prices paid by farmers for items of nonfarm origin by 15.8% compared to only a 9.0% gain in the GNP deflator. Despite an increase in prices received by farmers, the parity ratio fell 9.3% between 1979 and 1980. This cost-price squeeze occurs systematically because demand-pull inflation is manifest more quickly and fully in prices paid than in prices received by farmers. Farmers as price takers have no immediate means to pass along inflated input prices as can economic sectors characterized by negotiated and administered prices.

The important conclusion to this point is that current economic ills of the farming economy trace mainly to a burst of inflation in 1980 and a burst of good weather in 1981 - - both of transitory nature and quite unlike the chronic overcapacity which arose from excess resources that characterized farming in the 1950's and 1960's.

Inflation causes farmers economic hardships in addition to the cost-price squeeze. The search for unsustainably low national unemployment rates by expansionary monetary-fiscal policy has created an <u>inflation cycle</u> of high growth leading to high inflation (expansion phase) followed by monetary restraint and recession to slow inflation (stabilization phase).

The domestic inflation cycle generates a foreign counterpart. Easy money and falling interest rates cause dollars to flow overseas to earn higher interest, depleting our capital account. Also in the expansion phase, the booming economy and increasing prices cause imports to rise and exports to fall, depleting our trade account. Deteriorating balance of payments evident both in the capital and trade accounts along with expectations that the dollar will inflate faster than other currencies cause the value of the dollar to fall in world markets. A given amount of foreign currency buys more U.S. commodities, and demand expands for our wheat, corn and soybeans. The opposite sequence is generated by the stabilization phase of the inflation cycle, culminating with the situation in which we now find ourselves - - the dollar is overvalued, foreign currencies buy fewer dollars and export demand shrinks for our wheat, corn and soybeans. The farming industry can eventually adjust to a vigorous economy or to a stagnant economy, but it is very difficult to adjust to an unstable economy characterized by rising and falling inflation rates, income and prices.

The most serious long-term problem caused by inflation is the cash-flow squeeze. Inflation creates a liquidity shortage and low current rate of return on farming equity relative to interest rates that cannot be avoided <u>whatever</u>

the parity ratio! The fundamental principle underlying the cash-flow squeeze is that the current rate of return on farm real estate is invariant to inflation. Whether the inflation rate is 3% or 15%, the normal ratio of farmland earnings or rents to land price tends to average about 4%. But the mortgage interest rate responds to inflation and is approximately 3 percentage points plus the expected inflation rate. With low inflation and a perpetual mortgage, farmland earnings of 4% and interest cost at a similar rate create no cash-flow problems. But with 9% expected inflation, farmland earnings again at 4% coupled with interest at 12% (3% + 9%) create a severe cash-flow deficit equal to 8% (12% - 4%) of the value of land owned with full debt. Interest three times earnings means that net returns from three acres are required to pay the mortgage interest on just one acre with 9% inflation.

Many erroneously interpret this conclusion to mean that farmland is overpriced and that total returns in farming are low. If, as expected, land earnings and values keep pace with inflation as in the past (land prices increased much faster than inflation from 1965 to 1980 but have not kept pace with inflation since 1980), the farmland investor can expect to receive capital gains of about 9% to go with current earings of 4%, bringing total returns to 13% compared to 12% mortgage interest. But the mortgage costs are immediate while returns (capital gains) are deferred. In essence this impact of inflation is to create not only a severe liquidity crunch but to force land investors to save three-fourths of their returns with 9% inflation. High price supports and production controls will not alleviate this problem for entering or expanding farmers. The cash-flow problem caused by inflation threatens the long-term existence of the family farm.

Magnitude of Overcapacity

The magnitude of the overcapacity in agriculture can be judged by comparing the 1980's with the three-year period 1977-79 when farm prices averaged 71 percent of 1910-14 parity. In the late 1970's for the first time in many decades, the farming industry was near equilibrium in aggregate resource use as measured by per capita income of farmers averaging 96% that of nonfarmers. Farm real estate values appreciated at 12% per year and rates of return on farm equity averaged far higher than on alternative investments (20% versus 8% from dividend plus capital gain on common stock, 10% Federal Land Bank new-loan rate, 13% PCA loan rate): These farm rates were unusually high because land values were catching up after being underpriced in previous years.[2]

Land is no longer underpriced and land earnings and values today would probably increase at about the same rate as the general price level with farm commodity prices at 65-70% of parity. Farm prices are now approximately 17% below this estimated equilibrium level, suggesting approximately -.25(17) = 4% temporary overcapacity based on a -.25 short-run price elasticity of demand.[3] This is

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[2]Computation of rates of return on farm equity by the USDA is a tedious process using elusive measures of expenses and receipts along with some arbitrary imputations. Consequently, the estimates quoted above are frequent targets of those who contend that rates of return in farming have been substantially overestimated by the USDA and in fact have historically been low compared to alternatives. Fortunately, rather easily calculated numbers provide a check on the above estimates. Land prices are readily measured over time and appreciated in value by 11% annually on the average from 1965 to 1980. Cash rents are also fairly easily measured and averaged about 6% of land value over the same period. The sum of rents and appreciation, 17%, is well above inflation and interest rates and represents a substantial real return on farm equity capital. The return on equity is higher than on real estate when return on assets exceeds interest rates, as in the 1965-80 period. In short, the data just cited substantiate the USDA estimates of rates of return on equity in farming.

[3]The parity ratio was 57% of the 1910-14 average in mid-March. The parity ratio is conceptually incorrect to measure changing buying power because the denominator, the parity index, includes prices of items which are interfarm sales. Because interfarm sales have no net influence on the farming industry buying power, their inclusion biases the parity index downward and the parity ratio upward when the farm economy is depressed and biases the parity index upward and the parity ratio downward when the farm economy is booming. Productivity gains make 100% of the 1910-14 parity ratio a meaningless measure of the ratio required today to achieve comparable incomes (or rates of return) between the farm and nonfarm sectors.

approximately the accumulated production caused by unusually favorable weather in the 1980's, by the cost-price squeeze from inflation, and high dairy price supports dating prior to the 1980's.

The excess production is concentrated mostly in feed grains and dairy, but each of these commodities presents quite different situations. Overproduction of milk as measured by CCC removals from the market totaled nearly one-tenth of milk output in 1981. Overproduction will continue because the drop in milk price supports is offset by low prices of grains fed to dairy cattle. Overproduction of milk is a long-term problem that defies easy solution in the face of the current institutional structure of the industry. I headed a Task Force on Commodity Programs in 1978 which recommended a shift to direct payments (target prices), marginal cost (as opposed to blend) pricing, lower price supports (no more than 75% of parity) as well as greater market flexibility (e.g. possible use of reconstituted or sterile milk) to increase storage and transport efficiency in the system. The dairy program needs major surgery and that proposal as well as others deserve careful reconsideration in light of the massive Treasury cost of the current program.

In feed grains, reserves are expected to total 65 million metric tons in October, about 15 million metric tons in excess of needed carryover and about 6% in excess of normal production. (A normal crop in 1982 will severely strain storage space - - an issue USDA needs to examine carefully.) Carryover in excess of 50 million tons has little or no net value, but each bushel costs the Treasury 26.5 ¢ storage plus 41¢ interest (14% of $2.90 reserve loan) for a total of 67¢ per year or $2 for three years in the Farmer Owned Reserve. An alternative is a diversion program which pays farmers $2 or less to not produce the bushel of corn. The paid diversion makes sense, saving farmers the costs of production and of storage (amortized costs of building new storage well exceed the 26.5 ¢ payment per bushel, especially if the storage is needed for only a year or two).

The lowest Treasury cost to reduce excess carryover is to divert about 6% of feed grain output from the market. My calculations indicate that the Farmer Owned Grain Reserve is financially very attractive to farmers and participation rates in the Reduced Acreage Program will run high if storage is available. Still the current 10% diversion will reduce production by no more than 2%; the needed 6% reduction will require a paid diversion of an additional 10% of the base.

Recommendations

The 1981 Agriculture and Food Act regulations virtually ruling out selective embargoes along with recent statements by public officials renouncing embargoes are long overdue means to shore up our severely impaired image as a reliable supplier of food to foreign nations. The beef cattle and hog industries are progressing out of the low-price phase of their respective cycles. If this nation and the world experience normal weather and a growing economy accompanied by lower inflation and interest rates, the U.S. farming economy will not have excess capacity by 1984.

Although current excess capacity is for the most part transitory, strong measures are needed to restore economic vitality to the farming industry.

1. The first need, requiring immediate action, is to reduce burdensome feed grain stocks with an emergency 10% paid acreage diversion program on top of the 10% unpaid diversion program already in place. The Agricultural Stabilization and Conservation Service might make a special effort to reduce slippage in the diversion program as a means to reduce Treasury cost and to raise farm income.

2. The second priority is for the Farmers Home Administration to provide credit on concessional terms to farmers experiencing acute financial hardship but a

satisfactory record of management to see them through the current economic crisis. Such a program is less popular among farmers than high price supports but is recommended because Treasury outlays will be far less with a program targeted to the needy rather than made available to all farmers whether rich or poor.

3. A conservation program patterned after the Conservation Reserve of the late 1950's should be reinstated with the primary purpose of converting cropland with the most serious erosion problems to permanent soil conserving use. The secondary purpose would be to reduce crop output.

4. The President should appoint a blue ribbon commission to examine the dairy problem and make recommendations for restructuring dairy programs to provide incentives for production adjustments and sharply lower government purchases and costs. The commission needs to address issues of price discrimination and alternative products such as reconstituted milk. The commission needs to deliver its report within six months after being formed so that prompt policy action can follow.

5. Inflation is the number one source of farm problems today. Fifth on my list of recommendations but far most important because it deals with inflation is for the Federal government to enact a credible program to balance the Federal budget by FY 1984. The 1982 deficit is

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justified by the need to stimulate the economy during recession. But continued massive planned deficits following 1982 will abort the economic recovery as public borrowing drives up interest rates and crowds out private borrowing for investment in economic growth.

Though unnecessarily erratic and unsteady in its implementation, the Federal Reserve Board's (FED's) policy of monetary restraint is essential to control inflation and deserves full public support. But the public doubts whether the FED can sustain it's policy of monetary restraint in the face of expansionary Federal deficits. Monetary and fiscal policies working at cross purposes make as much sense as running an engine with full throttle and brake applied simultaneously. Monetary restraint has slowed the economy as expected but, for lack of an assist from complementary fiscal restraint, in doing so has generated record real interest rates that cannot persist. The public has reason to be unwilling to commit funds at low interest rates to long-term investments when the Federal government vacilates in its fiscal commitment to complement monetary restraint and slow inflation.

The economy is now at a crossroads. The FED can cave in to pressures to expand the money supply, which will lower short-term interest rates and temporarily get the economy moving but at the expense of subsequent inflation, high interest rates, another round of the inflation cycle and loss of its most precious possession - - credibility. Or public policy can help to ensure a healthy economic recovery by joining monetary restraint with a commitment to a balanced budget in FY 1984. The impact will be to firm up long-term expectations for price stability and reduce interest rates to stimulate investment. By bringing down interest rates, a bona fide commitment to a balanced Federal budget by 1984 will diminish cost-price, instability and cash-flow problems that are devastating the farming industry.

The national economy has great potential for growth because of strong latent demand for autos, housing and other durables. The immediate need in to move to a balanced budget, but sustained growth with price stability will also require policies I have outlined elsewhere that reduce the natural unemployment rate, increase downward flexibility in wages and prices and enhance savings, investment and efficient resource allocation.[4]

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[4]Luther Tweeten. Policy to Control Inflation and Revitalize an Underachieving Economy. pp. 1-20 in Keith Scearce, ed., Proceedings: Farmers Agricultural Policy Conference. Stillwater: Agri. Ext. Serv., Okla. State Univ., March 1981.

Finally, I list two actions that are not advisable.

1. To raise commodity price supports at this time is unwise for several reasons. One, it would provide incentives to increase farm output when in fact the appropriate message to farmers is to reduce output. Two, it would be costly to taxpayers. At a time when the farming industry has a huge stake in having the nation embrace fiscal responsibility, the commitment of the farming industry to that goal is compromised by a farm raid on the Treasury. Finally, the Treasury cost of the farm program will overrun budgeted outlays by billions of dollars in FY 1982 and 1983. The shock of such overruns jeapordizes the very existence of commodity programs -- it makes little sense to add to that shock by raising price supports and Treasury costs.

2. A seductive notion attracting more and more adherents these days is that farmers will be better off if agricultural commodities are sold abroad at no less than full cost of production. The notion is a curious turnabout of an idea which first received widespread fame as the five McNary-Haugen Bills of the 1920's. The Bills specified that output used in domestic markets would be sold at full parity or full cost of production and the residual output should be sold abroad at a lower price that export markets would bear.

The McNary-Haugen supporters were on the right track if the goal is to raise farm income because less output sold in the inelastic domestic market and more sold on the elastic export market would raise receipts in both markets. The current proposal would lower farm receipts in both markets by selling less output in the elastic export market and by selling more output (dumping the overflow from the shrunken export market) in the inelastic domestic market. When supplies are abundant, farmers make more profit or realize less loss if they do not restrict sales in export markets -- even if the export price covers only variable costs of production.

I have been telling farmers that the economic outlook for the farming industry in the 1980's is basically bright but clouded by prospects for monetary-fiscal mismanagement of the economy. So far the clouds have dominated and a major reversal of policy will be required to dispell them.

Table 1. Components of Total Shift in Real Demand for Farm Output from Year 1976/77 to 1980/81.

	Domestic Demand				Export Demand		Total
Year	Domestic Share of Demand	Domestic Population Growth	Income Elast. of Demand	Real Income Growth/Capita	Exp. Share of Demand	Exp. Growth[a]	Demand Growth
			(Percent)				
1976/77	72.8	1.00	.1	2.52	27.2	5.17	2.32
1977/78	71.2	1.04	.1	3.35	28.8	23.25	7.68
1978/79	70.2	1.12	.1	1.91	29.8	.46	1.06
1979/80	66.2	1.16	.1	-.45	33.8	10.83	4.40
1980/81	65.9	1.01	.1	1.16	34.1	4.64	2.32
	[(1)/100] X	{(2) +	[(3) X	(4)]} +	[(5)/100 X	(6)]	= (7)[b]

[a] Quantities adjusted for changes in prices to reflect real changes in export demand by the formula for adjusted export quantity $\bar{E}_t = E_t[1 - (\Delta P/P_{t-1})\ (-.5)]$ where P is deflated prices received and -.5 is the short-run price elasticity of demand for exports E. Export growth for year (t - 1)/t is $100\ (\bar{E}_t - \bar{E}_{t-1})/\bar{E}_{t-1}$ where $\bar{E}$ is adjusted exports.

[b] Computed as shown in row with column data designated by numbers in parenthesis. Column number (7) shows the annual percentage shift in the demand curve at the farm level with deflated prices received by farmers on the vertical axis.

Senator ABDNOR. Thank you, Mr. Tweeten, for your comments on this. You give us further thoughts to digest. Our last presentation is by Mr. Breimyer, and we're very happy to have you here, Mr. Breimyer, and we'll now listen to your comments.

STATEMENT OF HAROLD F. BREIMYER, PROFESSOR OF AGRICULTURAL ECONOMICS AND EXTENSION ECONOMIST, UNIVERSITY OF MISSOURI-COLUMBIA, COLUMBIA, MO.

Mr. BREIMYER. Senator Abdnor, I'm Harold Briemyer, professor and extension economist at the University of Missouri at Columbia. A century ago, Thomas Carlyle said that economics is a dismal science. Many people have said that you can put economists end to end, but they'll never reach a conclusion. I think that you can say that we've got four economists who are not going to reach many conclusions.

I don't know who ordered this position at the table, but I think we're in descending order of some arrangement or other. At least I find myself differing quite a bit with my colleagues here and I think perhaps differing even more with those who have faith in macroeconomic policies such as monetary policy, which Mr. Schuh mentioned.

I am the most senior. I am the least macroeconomic, the least theoretical. I'm old enough, Senator, that the data from the inflation of the thirties aren't merely something in a book. I have the scars. The experiences then are vivid in my memory. And I don't think we are enough concerned about the similarity. You'll find several differences in my point of view compared to what has been said.

I will make my points very quickly. It's getting a little bit late. Agriculture is in trouble, and that's been said. I won't dwell with that. But I agree with others that, as a whole, it's not in financial crisis. I rather pick up Mr. Tweeten's point in a way. What we have in agriculture now is the widest spread of individual situations that I have known in my lifetime. Veteran farmers who own their land and equipment, clear of debt, have money in the money market funds, they're in no jeopardy whatever. Their philosophies often match. Some of them support the present national economic policies, whichI regard as repressive. A few of them are waiting for young farmers to give up so that they can buy their farms at discount prices.

But I want to insist that this is a minority. It's a small number, but it's the outer post. It's the polar position at one end.

In the middle, I suppose, are the majority of farmers who are neither fully secure, nor dangerously insecure. But a third contingent is in distress, genuine distress. Mr. Tweeten didn't mention the first of these. I divide these into two groups. The first ones are the big ones, the big operators who lever themselves to the hilt and got caught by the rising variable interest rates and downturn in land value.

But we have a great many young farmers who bought into agriculture the only way they could get in; that is, to borrow money and get a foothold with a little land. In my State of Missouri, many are surviving, I think, on the sufferance of creditors who have been really quite considerate. They are in double jeopardy in many cases because quite a few depend on off-farm jobs and those jobs are disappearing. These people have my sympathy.

My second point is that in any honest assessment, we need to distinguish, Senator, between the asset part of it and the cost price squeeze. And Mr. Tweeten did that. In the 1970's, we had a speculative binge in buying farm land. When the price of land went up faster than either the general price level or the interest rate, a land market boom got underway. It brought investors from everywhere. The price of land spiraled. It rose to a level twice its current earning power. It did't reflect, as Mr. Tweeten said, the anticipated further inflation. But it rose to about twice its current earning power from the product sold.

During the seventies, it was twice or three times as profitable just to hold land for capital gains as to farm it. And no one screamed more than I did that this was flimsy, dangerous, doomed to collapse. I called it a bubble that would burst, a chain letter game, and any other metaphor of warning.

But farmers joined in this. They supported all the tax shelters, the low rates in capital gains and other measures that helped defeat it. And many other nonfarm investors got in. Those who got in and out before 1980 did very well. As in all chain letter games, the last in got caught and they are caught now.

I didn't know just what would bring the end to this land boom, but it turned out that the Federal Reserve Board didn't. And Chairman Volcker, in October 1979, said that arresting the inflation and asset values was a major object of the new tight money policy. He did not add that pursuing that good goal would also force the depression on the economy, but some of us predicted it then. We were correct.

There's no way that farm incomes can be improved to a point to justify the present level, the recent level, of farm land prices. You can't build the 1980 prices into support formulas. The budget is in enough trouble now. It can't be done.

At this point I concur fully with Mr. Tweeten. What about the young farmer who, without being aggressive, particularly, finds himself in a very difficult commitment? And I think that I would give him help on a strictly selective basis and not as a general bailing-out for all the big investors. I concur fully with Mr. Tweeten. It must be selective.

Now my third point is the price cost squeeze, which is different. Those squeezed most, of course, are those with heavy interest payments. But in general, the relationships are pretty tight. And here I disagree with my colleagues. It's partly the cost side, but it's the demand side, too. I think we forget that we sell more than wheat and corn. We sell beef and we sell pork and we sell dairy products. We have just exactly what we had in the 1930's. The consumers found themselves tighter and tighter on their purchasing power. My colleagues who are analysts studying the beef and the pork situation say it's perfectly clear that weakness in the markets for those products has been contributed to by reduced buying power on the part of consumers.

And this is a part of the general economy. We may disagree among us here as to what all is involved. It's a part of the general economy. We have been over-impressed with exports, just because we sell a lot of wheat and rice and so on. Now I don't know where Mr. McCalla got his figures, but I have a USDA report of last year that says that less than 25 percent of the value at the farm represents exports. You have to be careful. The quoted data on value of exports is far beyond the farm; $43 billion of exports translates to about $25 billion at the farm. And I use three-fourths of our market is domestic. We have taken that for granted.

During the 1930's, we learned that the basis for prosperity lies in employment and income of the mass of common people. That's still the bedrock of the demand for the products of agriculture. If we're going to have rising unemployment, more and more people laid off, losing incomes, it's impossible, in my judgment, to be very optimistic about the demand for farm products. And exports won't bail it out.

My fourth point is where we do concur here. The agricultural sector can't do very much about its situation. Supply control in the 1981 law is certainly not strong enough. There aren't enough teeth in the law for any really effective supply control. You'd have to go to a new diversion program and so on.

The fifth one—I think the way that the 1981 law was drawn up and administered with relatively high price supports under the farmers reserve, low target prices, adds to the problems in farm programs. We learned, I think, over many years that to rely too much upon price supports to protect farmers' incomes runs the risk of loss of markets, particularly foreign markets, and of building up excess stocks.

I have in my notes—it's slightly sardonic—that agriculture will bounce back only if we have a new prosperity and a bad crop year. That's pretty gloomy, but if we were to have continued weak demand and really bumper crops in 1982, the amount of grain in loan would be very large, and I think a serious matter.

Now my sixth point, I meant to say at the beginning that I have never testified before, before this committee before, and so I am going to be pretty direct and candid. This is certainly not diplomatic, but I think a point that hasn't been made—I think the farming community has lost its capacity to deal with its agriculturewide problems. Things went so well for so long. Meanwhile, the agricultural community has fractionated itself internally to the point of being incapable of really agriculturewide leadership. The commodity organizations have replaced general farm organizations' political influence. I don't object to them, but I raise the question: Who worries about agriculture as a whole? All of agriculture and all its farmers, I think we have been tempted into unconcern for agriculture as a whole and too much concern for the individual parts.

Tax laws are my favorite target. Farmers who have big gains in assets, they were more interested in avoiding taxes than they were in making agriculture strong. I mention this because I think we face a very genuine threat right now. We're going to find all kinds of proposals to bail out the overmortgaged farmers by some kind of tax-free loophole, nonfarm tax shelter investment coming in.

General Oppenheimer is volunteering to be a broker. He's coming to our campus to tell us how to do it. I think it's a Trojan horse because I'm almost certain that if we transfer the source of capital, we're going to transfer control. I think that agriculture should be very careful it doesn't sell its birthright for the porridge of mortgage bail-out.

And my last point, Mr. Chairman, is that, drawing on my life-long experience, I think that farmers are going to face a very basic philosophical question, if I may just take 1 more minute.

Senator ABDNOR. Go right ahead.

Mr. BREIMYER. I pulled a quotation from a local newspaper. A young dairy farmer in Missouri said this:

> We don't want to be given any government price supports. We don't want them controlling us. We want a fair shake, too. The name of the game is survival.

I think what he's saying is that he expects somehow the economy to assure good markets and a good opportunity for him, but he should not have to do anything at all. He's asking too much. Dairy farmers and grain farmers and cotton farmers and other farmers can't have it both ways. Government can't be generous without expecting something of farmers themselves. I am sympathetic with the young farmer, but I'm also realistic. I think he asks too much.

I think, Mr. Chairman, in the next few years, because our Nation is in crisis, agriculture is approaching prices—I think we're back where we were in 1931 and we're going to have to ask the questions, just what is the relationship, the proper relationship, between farmers and the Government? What does Government owe to farmers? But what also do farmers reciprocally owe to Government?

Thank you very much.

[The prepared statement of Mr. Breimyer follows:]

Prepared Statement of Harold F. Breimyer

"We don't want to be given any /government price supports/, and we don't want 'em controlling us, but we want a fair shake, too. The name of the game is survival now." -- Young Missouri dairyman quoted in Columbia Missourian

The privilege of testifying before the Joint Economic Committee comes to me in my 46th career year. As it is unlikely, despite best efforts, that I will be available to respond at my next turn I will make the most of this opportunity.

That is to say, I will offer my judgments with candor. I won't pussyfoot, or even worry about being diplomatic.

Before declaring my credentials I compliment this Subcommittee for holding hearings on the important subject that is addressed. The Joint Economic Committee has made a notable contribution over the years to understanding of agriculture. Probably no member of the present staff is acquainted with the landmark publication of 1957 in which 66 of the country's best economists and journalists described the basic economics of agriculture in 60 articles that for two decades were a text for public discussion and classroom teaching. (Policy for Commercial Agriculture: Its Relation to Economic Growth and Stability, Joint Committee Print.)

I present myself as a veteran of policy wars in agriculture and as a survivor of that instructive experience, the Great Depression of the 1930s. I worked for the Agricultural Adjustment Administration as early as 1933 and joined its Program Planning Division as my career began in 1936. I have never been far from the farm policy scene.

Nor have my sympathies ever been far from farmers, and particularly not from the rank and file of full time owner operators, the genuine family farmers. I so declare because that sympathy and loyalty does not make me automatically supportive of whatever may be the political advocacy of any group at any moment. On the contrary, in my observation farmers and their leaders have a remarkable capacity to seek programs and palliatives that promise narrow short term benefits but have the seeds of long term general harm. My role as economist has been to warn of the pitfalls and eventual futility -- though my audience sometimes turns a deaf ear.

I will offer seven brief, pointed comments.

First, agriculture is in trouble. That is a moral and statistical fact.

Most of agriculture now has narrow or negative profit margins.

Once that is said, nothing more is to be added about agriculture as a whole.

Agriculture as a whole is not in financial crisis. Its net worth tripled in the last decade and approaches a trillion dollars. Periods of low income are a part of agriculture and veteran farmers know they must prepare for them.

What we have instead is the most uneven, diverse individual situations within agriculture that I have known in my lifetime. Veteran farmers who own their land and equipment clear of debt and have money in money market funds are in no jeopardy. Their philosophies may match; some of them support present national economic policies (policies that I regard as repressive). A few are waiting for young farmers to give up, so they can buy their farms at discount prices. But this class is a minority. It is not representative of agriculture.

Probably the majority of farmers are in a middle category of being neither fully secure nor dangerously insecure.

But a third contingent of farmers is in distress, genuine distress. Some of these are big operators who levered themselves to the hilt and got caught by rising (variable) interest rates and a downturn in land values. A great many more of the farmers who now teeter on the insolvency wall are younger men who took the only route open to them to enter farming, namely, to borrow money in order to get a foothold on a few acres. They are in serious difficulty indeed. Many are surviving in 1982 on the sufferance of creditors. Some of these young people are in double jeopardy, as they have held off-farm jobs that are now uncertain.

These distressed young farmers have my sympathy.

Secondly, in any honest assessment of the state of affairs in agriculture a distinction has to be made between deflation of asset values and the price-cost relationship for farm products.

A decade ago farmland investment took off on a speculative binge. When the price of land escalated faster than either the general price level or the interest rate, a land market boom got underway. It attracted investors from everywhere. The price of land spiraled. The expected further increase in value was built into it, so that it rose to about twice its current earning power from products sold.

During the 1970s it was twice or three times as profitable to hold land for capital gains as to farm it for net income.

No economist shouted more loudly than I about how flimsy the whole sequence was, and how doomed to collapse. I called it a bubble that would burst, a chain letter game, and any other metaphor that would convey a warning.

Farmers generally reveled in the boom and supported the tax shelters, low rates on capital gains, and other measures that helped to feed it. Investors who got in and out before 1980 did very well. As in all chain letter games, the last in got caught.

When making my dire predictions I could not foretell when the end would come or what would bring it about. I was certain only of its inevitability.

The Federal Reserve Board proved to be the agent of bubble-bursting. Chairman Volcker announced in October 1979 that arresting the inflation in asset values (all fixed assets, not just land) was the primary object in shifting to a tight money policy. He did not say that pursuing that worthy goal would also force a depression on the economy.

There is no way farm incomes can be improved to a level to justify the recent level of farmland prices. Land prices of, say, 1980-81 dare not be built into support formulas in farm programs.

The federal budget cannot gush enough to float all the oversize loans that have been made.

What about the small man who was not intentionally speculating but only trying to gain a foothold by buying a little land? My only suggestion is that any aid be given him on a selective basis.

For my third point I turn to the price-cost squeeze. Farmers carrying a heavy load of interest payments are squeezed almost to financial death but it's a tight fit even for farmers without interest obligations. Cash flow problems are serious.

The overriding reason for the squeeze is that consumers are victims of an economy in depression -- depression, not recession.

We are back at 1931. Almost precisely so. My recollections of that dreary time are disturbing. The economy is in shock, consumers are hard pressed, and no improvement is in sight.

It has been popular the last few years to pretend that export demand is the foundation for the farm economy. It is not. Our own consumers buy more than three-fourths of the products of agriculture and they are its bedrock.

Because I see ourselves as at the equivalent of 1931 I cannot be optimistic. During the Depression we learned, painfully, that the base for prosperity lies in sustaining the employment and income of the mass of common people. We used the arm of government openly, unabashedly, to redistribute income for that purpose. In the last decade it has been fashionable to go the other route. We are reverting to the 1920s, reestablishing the philosophies and policies of Andrew Mellon. So long as we continue on that path there is little hope for revived markets for the products of agriculture. Those markets depend so much on widely distributed purchasing power.

My fourth point follows. Unless and until demand strengthens the agricultural sector can do little about its situation. It cannot use supply control to any major effect because the 1981 farm law does not have enough teeth in it. The one land retirement program that could reduce production substantially, paid diversion, would cost a trunkful of federal dollars.

Farm laws enacted since 1970 have been progressively weaker instruments for supply control. The laws did not run into trouble because demand, notably for export, kept the situation manageable. Acreage Reduction is a weak reed. Furthermore, even as farm laws provide for only token restraint on output, tax laws with all their loopholes and shelters have been expansionary. The laws contribute to surplus. Their write-off subsidy has especially helped the larger farmers and the non-farm investors to expand production, even uneconomic production. Tax shelters have done little or nothing for smaller, low-income farmers.

Fifth, the 1981 farm law as currently being administered will run into very serious trouble unless the economy blooms and the Corn Belt doesn't. Economic recovery combined with smaller 1982 crops would bail us out. Otherwise, we will have problems.

We veterans of farm policy are disturbed by decisions to depend less on direct (deficiency) payments and more on price supports (for grains, primarily via the Farmers' Reserve) as means to bolster income from grains and cotton. Unless the economy recovers while crops are bad, the almost certain prospect is for stocks to build up again. Moreover, we veterans learned years ago that using commodity price supports to underpin farmers' incomes runs the risk of losing markets, especially markets abroad. That's why direct payments were turned to. A blind alley looms now, I greatly fear.

My sixth point exhibits my non-diplomacy. The farming community has virtually lost capacity to address serious problems. It has done so for two reasons. One, in recent years booming exports kept problems from being serious. Two, the community has fractionated internally to the point of being incapable of agriculture-wide leadership. Commodity organizations have replaced general farm organizations in political influence, and the latter, in at least some cases, have vitiated their strength by becoming little more than mouthpieces for their internal interest groups. I do not object to commodity organizations per se, but I ask the question: who worries about agriculture, all of agriculture and all its farmers?

Tax laws are my favorite target. Farmers who enjoyed big gains in assets became more interested in avoiding income and estate taxes than in contributing to a viable agriculture that can remain in farmers' hands. The present distress brings the issue up to the moment. We will now see all sorts of schemes for tax-free investment to bail out over-mortgaged farmers. The tax loophole route is a Trojan horse; if it continues to be used it will eventually cost farmers control over farming. If the public interest justifies keeping certain capable younger farmers on their land instead of foreclosing them, then for heaven's sake let's just subsidize them directly instead of adding more tax write-offs that inevitably will get diverted to someone else's benefit.

My seventh and last point is one of regret that farmers generally have not come to grips with fundamental issues of the role of government relative to their own participatory obligation. I call attention to my opening quotation, which epitomizes the understandable yet self-contradictory wishes of many farmers. They don't want restrictions on production or other governmental rules -- they also, incidentially, don't want to promise loyalty to their own cooperatives -- yet they want a "fair shake," which is to say, some major action that assures them a good income without obligation on their part. They ask the impossible.

Dairy farmers and grain farmers and cotton farmers and other farmers cannot have it both ways. Government can't be generous without expecting something of farmers themselves. To repeat, I am sympathetic with the young farmer I quoted but I am also realistic. He asks too much.

Our nation is in crisis. Agriculture is approaching crisis. To repeat homilies about a fair shake while doing business as usual is an exercise in futility.

I think we are indeed back at 1931; and the American people, including farmers, are going to have to re-ask the searching questions about government and citizens that we asked in the 1930s and 1940s. For most people the ground will be new. For only a few of us will it be old and familiar, and not entirely confidence-building.

Senator ABDNOR. Mr. Breimyer, that certainly winds up the testimony on a high note. A wide spectrum of thought was brought out today. My concern is well founded because I, too, think that agriculture has some serious problems today. What has bothered me up to now in this subcommittee, and not in my particular subcommittee but the full committee, is that I have heard numerous outstanding economists come in here and discuss the economic picture and where we're going and what's going to happen, but they never bring up the word "agriculture."

I am correct, and would you all agree with me, that agriculture is an important part of the overall economic formula? Have you detected in articles you read by leading U.S. economists who are often called in to testify that they don't seem to know agriculture exists?

Is that a misstatement, would you say, Mr. McCalla?

Mr. SCHUH. It's a very accurate statement.

Senator ABDNOR. I don't know what portion or what part of the overall economy agriculture is. Maybe they just look at the 2½ or 2¾ percent of the people that are farming and therefore think we don't have to pay that much attention to them. And sometimes I think, politically, regardless of the administration in power, the main concern is fighting this inflation—to keep food prices down more than it is to let it go up. I don't know whether that's correct. I get to believing that. But it seems like every time I read a statement on the part of some sale overseas, we also find a statement that the Consumer Price Index should not rise because of the export sale.

I think it's a fair statement to say that if we are going to get farm prices up, food bills are going to go up, too. Can I assume that? I don't know of any way to get around that yet.

Let me put it this way. How high would food prices have to go before farmers would start benefiting, at least to a degree to keep operating, without a lot of subsidies and controls and all? Would any one of you make a comment? Mr. Tweeten?

Mr. TWEETEN. The indications are, based on the ratio of farm to nonfarm incomes, based on trends in land prices, based on rates of return, on farming investment, that there would be essentially equilibrium in farming with the party ratio today approximately 65 to 70 percent of the 1910 to 1914 average. That's a long way from 100 percent of parity, the 1910 to 1914 average.

Currently, the parity ratio is 57 percent, which means that farm prices will probably be rising roughly 16 percent in order to catch up with that. I think that that is the kind of increase that we're talking about.

Senator ABDNOR. Now what would that relate to food prices, with about a third of the food dollar going to agriculture?

Mr. TWEETEN. That's correct.

Senator ABDNOR. So it's really about one-third of the 16 percent.

Mr. TWEETEN. We're talking about a 5-percent increase in food prices.

Mr. BREIMYER. May I just add, Senator, it depends a lot on what foods are being considered. The meat, the beef, and the pork, there is a very close relationship between what the farmer gets and what consumers pay for the meat at the supermarket. But I think you've seen in the illustration of the slice of a loaf of bread many times, the relationship between the price of wheat and the price of bread is really very small.

Senator ABDNOR. Well, yes, that's Secretary Butz's favorite story—bring in the loaf of bread and set out the slices, or whatever. And then you can go to the other extreme, I guess. Meat is more the other way.

Well, sometimes I wish that we could send some of our economists down to the classrooms that you gentlemen head up. If you've got room for them, I may suggest that they take a short course in it so that they would have a little more appreciation for it.

We have had three former Secretaries of Agrictulture who told us, in a meeting I had with them, that while many farmers are, indeed, in financial trouble, we should not panic. They counsel that farmers have to take the bad with the good. And farmers have now experienced 3 consecutive bad years. Even if farmers enjoyed a 50-percent increase in net income in 1983, that level, we figured it out here, would only be equivalent to about the 1981 farm income.

Now while we certainly should not panic, isn't there sufficient reason to believe that the current economic problems facing agriculture are symptomatic of more than just another bad year? And are we not, in fact, seeing some fundamental structural changes in the means of producing food in this country coming from this?

Would you care to comment on that, Mr. Schuh?

Mr. SCHUH. Well, I would comment by observing that I think the structural change has to do with the fact that one can no longer think about agriculture in isolation from the rest of the economy or in isolation from the international economy. It's interesting to me that we give a lot of lip service to saying that we're part of an international economy now, but that never sort of gets translated into policy in a policy perspective. We do have a highly internationalized agricultural sector now. And given that it is, to work with policy instruments that are piecemeal, that are sectoral, just simply doesn't come to grips with the basic problem.

And I think that that is really the significant change that we have had happen over the last 10 to 12 years. It seems to me that the argument for trying to help farmers at this point, and I would agree, I think that they are in serious difficulty, particularly people that have a lot of debts—the argument for doing something to help them is that they are bearing the consequence of policies that may be in the national interest and there's no reason why particular groups in society should be singled out to bear all of that burden.

Senator ABDNOR. Mr. McCalla, do you have a thought on that?

Mr. MCCALLA. Well, I think that it's very clear that that there's serious difficulty at the moment. I think that the consistent theme across the comments that you've heard today is that you have two kinds of issues: One is that you have a level of income which is a function of both prices and costs; but also, you have a serious instability problem. And I think that one of the things that's always been argued to differentiate agriculture as a sector of the economy from the rest is that it involved, given that it's a biological process, with long lags between decisionmaking and final outcome. And that in that kind of a circumstance, instability is an even more difficult problem because it exacerbates, if the reaction to current situations doesn't come about for a year, or 2 years, or 5 years from now, you may make the instability worse.

So it seems to me that a first step is to, in some sense, come to grips with the question of instability in agriculture. And I think that I would agree with Ed and Luther both that that is more and more influenced by macroeconomic variables domestically, and I would also say that it's influenced very heavily by happenings in world markets.

All of these things sort of bounce down the string and catch the farmer at the end. So I agree that there's a serious problem and I think it's a question first of trying to deal with the instability question, and then, second, I think, coming to grips, I would agree, on a selective basis with farmers that are in serious difficulty at this point.

Senator ABDNOR. I think it's getting to be a higher percentage of those farming that are getting in more and more difficulty and I'm just wondering, we've gone through 3 years of the dropping of our income. What would happen if we went through a fourth and a fifth? And I don't know of any quick answers to reverse this. As you say, there's always a lag and a delay there when you do attempt to solve the problem.

What do you think about that, Mr. Tweeten? What do you think that the year 4 and 5, the next year and the year after, might mean here?

Mr. TWEETEN. Well, it certainly would be extreme hardship. Again, I think it comes back to needed measures to help farmers stay in operation. We need these young, efficient farm operators out there for a time when their production is needed.

And that's why I made the recommendation, and I think that the others agree, that some kind of selective assistance to those fellows to keep them in business is important and I think that's going to occur.

In other words, I anticipate a real turnaround in the farm economy about the mid-1980's and I think that most of these fellows are going to survive until that time.

Senator ABDNOR. You really feel that they will be able to survive?

Mr. TWEETEN. Yes. If I could digress for just a second because I didn't get a chance to rebut anybody here this morning.

Senator ABDNOR. OK.

Mr. TWEETEN. Harold Breimyer and I are very good friends and we don't take these things personally, but we do have this little difference about whether land is overpriced or not. My beliefs are so firm that I recently purchased a farm. I purchased the farm, very carefully calculating that the rent on that farm was going to be 5 percent of the price I paid.

Now was that price too high? Perhaps, but I don't think so. And the reason is that I think that I'm going to get a capital gain at least equal to the interest rate—pardon me—to the inflation rate. I also thing that I'm going to pay interest on that equal to 3 percent, plus expected inflation. So I'm paying a real interest rate of 3 percent and getting a real rate of return of 5 percent.

I don't understand how anybody can say that land is overpriced.

Senator ABDNOR. But Mr. Tweeten, let me ask you. We constructed a chart showing total farm assets. And in the last 2 years, if our figures are proper and correct, they have been dropping. I mean, we have hit that peak and are coming down some. You don't think it has, evidently.

Mr. TWEETEN. Well, yes, land prices have dropped. In fact that is one of the reasons I bought a farm. But I think it's a plateau. I don't look for a continued substantial drop and the reason is that if current price supports are continued, and I'm kind of depending on Congress to insure that [laughter] if current price supports are continued, it does provide a floor.

Senator ABDNOR. Don't take this wrong—you're like I am. I'm a farmer. But I've got a nice job down here that helps supplement a farm. You have a farm and you're not totally dependent on that farm because you've got a position that serves you well.

Mr. TWEETEN. Yes.

Senator ABDNOR. What about that guy that hasn't?

Mr. TWEETEN. Well, it's a frightening cash flow problem that I can't overemphasize the importance. But you've got to look at the cause of it. And the cause of it is a terribly mismanaged economy and Congress shares a big share for most of that.

Senator ABDNOR. Go right ahead. You can say what you want to. I agree with you.

Mr. BREIMYER. Mr. Tweeten didn't listen to what I said. [Laughter.] He said that the price of land in the past has accurately reflected capital gains, and that 's correct. What I said is that the price is overvalued relative to its current earning power from products sold.

Now, then, if they're going to have a new surge of inflation in land values, then, of course, prices are still solid and he should buy. If we are going to have an end to the inflation, no more capital gains, then I would have to argue that the price of land is too high relative to what you can earn at present prices of wheat, corn, cattle and hogs. His own numbers will show that the price in the past has been partly current return, partly built-in capital gains.

Senator ABDNOR. In other words, farm production won't stand on its own.

Mr. BREIMYER. In the long run, it has to stand on its own. In the long run, you're not going to make any prosperity from capitalizing future capital gains. It's simply playing numbers.

Senator ABDNOR. Go right ahead.

Mr. TWEETEN. Well, I'd like to reply to that. If we don't get the capital gains, if farm earnings don't keep up with inflation, and I think they will, but if we don't get inflation, I'll still get my 5-percent rate of return and I'll still be paying a 3-percent rate of interest. There won't be the inflation premium either in the interest that I am paying because I've got an indexed mortgage. So the inflation premium won't be on the mortgage interest and it won't be in the return. And I'm going to come out all right on that, too.

Senator ABDNOR. Talking about interest rates, let's change the subject here a little bit. I guess by all indications, interest rates should be dropping a little, at least if inflation has much to do with it. The only problem, I guess, is the fact that if this Congress doesn't do something in the very near future and just leaves everything as is, we now stand to look at $180 billion deficit in 1983 and certainly, those in the money markets are not going to be inclined to lower interest—I doubt it—for that situation.

But if we did come up with a $100 billion deficit—and I never thought I'd say that $100 billion deficit would be satisfactory—we're going to be doing well to approach that. It looks like we are facing a crucial day in that decisionmaking. If we did lower the deficit and if it did bring interest rates down another 4 or 5 points, do you think that some of these farmers who are heavily in debt can still survive the next few years with the trend going the way it is?

Mr. TWEETEN. It would make a massive difference.

Mr. SCHUH. I was going to say the same thing. I think it makes a very significant difference if you can get it down that far, yes. It's going to help a great deal in a lot of cash flow problems out there.

Senator ABDNOR. In the long-run, we still have to get prices up. How do we do it? I guess you each have given thought to it. Do I understand that some of you feel more strongly that imports aren't as important a factor in this as some of the rest of you here? How do you feel about this?

Mr. SCHUH. I think it's a mistake, Senator, to put the emphasis on getting prices up, because I think we have to worry about our international market. I think what we need to be worrying about is what is the return on the resources. That's the issue. That's influenced, in part, by prices. But if we worried just about prices, I mean, we could raise price support levels. I, frankly, think that that would be very counterproductive.

I think, as was indicated earlier, I think it gives farmers the wrong signals. Our problem right now is one of excess production relative to demand. And I just think that it gives the wrong signals to producers.

Senator ABDNOR. I wasn't suggesting that we were going to do it through any kind of subsidies or additional price supports. Frankly, we can't just add $5 billion more to the 1982 budget and the supplementary appropriations for commodity credit. I mean, when you're trying to cut from the budget and you have our city cousins in Congress who say, "Look, you're not going to take it all out of my programs and keep putting it into agriculture," we're going to be honest with ourselves: that's not going to happen.

I was wondering, how are we going to get the market price up? Do imports play a very important part of getting prices higher?

Mr. SCHUH. We're going to get the market price up by adjusting some of the resources. Again, I think it was interesting that the consistency that was on many of the recommendations here—land retirement program of some kind of another—are the way that one begins to get the resources out and to get supply back in line with demand.

Those, again, are not programs that are cost-less. They cost a great deal, in fact. But I think what one has to recognize is that when you have an agriculture sector as far out of adjustment as it currently is, there's no easy solution to it. There simply isn't a solution to it.

Mr. MCCALLA. If I might comment, it seems to me that part of the problem is that I think we look at one side and the other of the equation and we say, okay, if we have rapidly rising costs, then one solution is to raise prices. I think that all of us as economists would, in general, agree that there's a law of economics that says, if you raise "P", price, in some sense it's going to have a negative quantity adjustment.

In other words, you cannot, it seems to me, proceed on the assumption that by raising prices, that you are going to be able to sustain current levels of sales. And that is particularly true, I think, in the international market. The real question becomes whether or not in terms of total return whether raising price increases or decreases total revenue. And I think that that is where part of the debate with respect to the international market comes about, is whether or not the demand in international markets is such that if you raise prices, you would simultaneously increase total revenue by virtue of the fact that, proportionately, quantity would fall less. And I think that I would tend to disagree, to some extent, with my colleague, Professor Tweeten, on that. I think it's no so clear that demand in many of the major international markets is that elastic with respect to price.

But, on the other hand, I think that we have to recognize that we got through the 1970's in part by very rapid expansion in exports. No small part of that is the fact that our exports became relatively cheaper. I think that Mr. Schuh is absolutely correct on that in terms of changes in relative exchange rates. And that's something that is very difficult to manage from an agricultural sector point of view. You can't simply mess with exchange rates in the kind of economy that we are to make agricultural exports relatively more competitive in international markets.

But I think that it is clear that the rate of growth of export demand in the 1970's is unlikely to be sustained in the 1980's. Now how much it grows is a debatable point.

So I think the question of demand expansion and therefore, price enhancement, as a solution to the problem is going to be an incomplete solution.

Mr. SCHUH. Senator, could I make just one point?

Senator ABDNOR. Yes.

Mr. SCHUH. I think it's interesting to try to go back and put our present situation into some kind of historical context. You know, between the mid-twenties, around 1925–26, and the mid-seventies, 1975–76, there was virtually no change in the total stock of resources in agriculture. All of that increase in output during that period came about through gains in productivity.

That is a phenomenal performance, no doubt.

Senator ABDNOR. Yes.

Mr. SCHUH. The interesting thing is that from 1975 to the present, there was a rather significant increase in resources in agriculture as a consequence of the export boom. Now that's just exactly what one would have expected with that realinement of exchange rates.

Now the point I want to emphasize about this is that probably what we are facing is to reduce that stock of resources by about that same amount. The point I want to emphasize is that it's important that policymakers focus on that as a resource adjustment problem, which is what it is, rather than to focus their emphasis on the product market and to tinker around with prices.

We have to recognize that we're facing a rather serious adjustment problem and deal with it as an adjustment problem. Thank you.

Senator ABDNOR. Let me ask you, by what percent do you think that our production is in surplus? Of our production today, how much lower would it have to be in percentage terms?

Mr. SCHUH. I would suspect that if we were to lower it by 5 to 6 percent—it's one of those things that doesn't take a lot—if we were to lower it by 5 or 6 percent, it would begin to have a significant impact on resource returns in the commodity market.

Mr. TWEETEN. I indicated earlier that prices currently are roughly 16 percent below an equilibrium. With the short-run price elasticity of demand that economists use of about minus 0.25, that translates into 4 percent excess capacity.

But my point is, that capacity, that excess capacity, is primarily in two areas—feedgrains stocks and in dairy. In my judgment, it is primarily of transitory nature. So there may be a slight excess of resources in agriculture, but I think that it's very slight.

Senator ABDNOR. Well, let me just ask your thoughts on exports, though. Don't you think that we are faced with some unfair trade barriers in our export markets? Something was said about corn exports having dropped. Hasn't Europe and the European Common Market, where we used to have a strong market for corn and other products, cut back? Has that been done mostly through trade barriers, Mr. McCalla?

Mr. McCALLA. Well, I think that it's been a favorite topic of U.S. economists and policymakers to look at protective and isolationist domestic policies in other countries. And I think the favorite example has been the European Community, with a variable levy mechanism that gives them absolute protection against world price changes. And I think it's very true that by the maintenance of high levels of price support in the Community, that the Community has switched from being an importer of wheat to being an exporter of wheat. I don't think that many people understand that, that the Community, while it still imports some wheat, it exports more. And that in terms of rates of growth of imports into the Community in corn, in the 1970's, it wasn't very substantial at all. The quantities are about the same. There has been more growth in the Japanese market, but the principal points of growth have been in the so-called NIDC's—the newly industrialized developing countries, like Taiwan and Korea—and also feedgrain imports into the centrally planned economies.

So that I think that the importance in international markets of traditional Western-developed markets has declined substantially in both absolute and relative terms in the 1970's.

Now when you get into the other markets, particularly in the wheat market, where you have virtually all of the countries that participate in the international wheat market who pursue state trading practices of one sort or another, I think it's very true that Government policy decisions in most of the importing countries have a much greater impact on what happens to quantities imported and therefore, the prices, than do what we would call fundamental conditions of supply and demand. And those policies, by and large, in the developed countries are ones which maintain domestic agricultural prices above so-called world prices.

But I hasten to point out that in many of the developing countries where you have now the rapid growth in wheat imports, sometimes the opposite policies occur. In other words, the domestic prices are maintained below world market prices for domestic consumers and, in many instances, for domestic producers, which has the opposite effect of increasing the dependence of those countries on international markets.

So as the structure of the market changes, the relative importance of countries that are pursuing high domestic price supports with absolute protection for their agricultural producers declines, others that are pursuing a variety of policies with respect to domestic prices increases, and that exacerbates the instability of the international market as well.

So that you have, in the case of several countries, very important differences in terms of their position in the international market depending on such variables as their foreign exchange earning capacity, their domestic budget constraints, and their ability to subsidize domestic food, and simply transmitting to the international market any variation in domestic production.

And I think that the Soviet Union is the most startling example of that.

All of these things add to instability in international markets and I think that gets translated back to us because we don't differentiate between domestic and international prices.

Senator ABDNOR. I was going to say in an overcrowded market already, the European Common Market has got to have a great advantage with the subsidized agriculture that they put in direct competition at, apparently, whatever price they deem necessary to make sales. Isn't it true that a lot of the revenues they use to finance agriculture done by collections—I don't know whether you call them duties, taxes, and the like—that they impose on imports coming into their countries?

Mr. McCALLA. It's true that most of the revenue from their common agricultural policy has historically come from duties collected on imports.

Senator ABDNOR. And then they turn around——

Mr. McCALLA. And then they turn around and use those.

Senator ABDNOR. Some of those countries you're talking about are those where they seem to have the upper hand, those developing countries, particularly in the Middle East and Africa and some of those countries. I think you'll find that they have the greatest percent of the market over there. Maybe I'm wrong?

Mr. SCHUH. Well, I think the question of negotiating for a more open market is a terribly important one. One of our problems is that we have done that in the past under the auspices of the GATT. And with GATT—most of our trade is with countries who are not signatories to GATT. And so it really is not a very good venue to be doing negotiation. On top of that, if you look at the seven or eight different multilateral trade negotiations that we have had, it was only the most recent one that agriculture had a very important role in. And even then, it was put off on another track during most of the negotiations and then brought back at the last minute.

Now the final point I want to make, however, is that it's easy for us to blame trade barriers on the other side as part of the problem, but I think that we all have to recognize that we're in danger of making some rather bad mistakes on this, too. And I have in mind the voluntary restraints that were imposed on the Japanese vis-a-vis automobiles. And somebody seems to have forgotten that that is our largest single agricultural customer, over $6 billion a year, and that if we're going to be unwilling to take automobiles from the Japanese, they can very well be unwilling to take our agricultural exports.

So we have to recognize that trade is a two-way street and that we're guilty of some of the same sort of things that we accuse other countries.

Senator ABDNOR. I'm sure that that is true.

Mr. Breimyer, how much of a possible expansion of red meat do you think we could find in Japan if it wasn't for their extremely large—whatever they call it, a duty or fee, whatever they place on us?

Mr. BREIMYER. May I be facetious?

Senator ABDNOR. Yes.

Mr. BREIMYER. The same amount that was to be found when Eisenhower was President, the same amount that was found when Lyndon Johnson was President. There will always be a little luxury demand in Japan for what we call our higher-grade meat. The potential in that direction is always trivial. We've sent delegation after delegation to tell the Japanese, look how good our beef is. Don't you want to buy our beef instead of raising your own expensive cattle? And Japan says, we're a sovereign country. This is the way that we see fit to do it.

I think we will be beguiling ourselves if we say that that is really any major, sizable potential. Believe me, I was here in the Department of Agriculture and we went through that in at least five different missions on that same question. It's always the same answer.

Senator ABDNOR. If we lessened price, you don't think that they would buy additional quantities?

Mr. BREIMYER. Not unless they have a total change in their internal philosophy. But so long as Japan retains its internal philosophy, our entreaties won't affect it. The same thing as the Common Market. There's no difference.

Senator ABDNOR. The Japanese people are pretty united in that. As a matter of fact, the Prime Minister, I guess, is mostly representative of agriculture right now, they tell me.

Mr. BREIMYER. To be real honest about it, beef cattle is not where we have a greater comparative advantage worldwide. We don't have the big plains that Argentina has, for example. The grains are where we have had, and will continue to have, our best prospects in world trade. It won't be in beef.

Senator ABDNOR. Well, Mr. Schuh, I noticed that in your testimony today, you dwelled on the value of the dollar in international exchange and the effect on trade that a devaluation would cause. Would you advocate going pursuing a devaluation and suggest looking at that area of it?

Mr. SCHUH. I think that part of our problem today is due to the fact that the value of the dollar is so high. There are open markets now if there is an overvaluation, which would imply something to intervene in the market. It would be because we are doing what I said, playing the role of the world's banker.

And to that extent, you know, I think that that dollar probably is overvalued. That's the way a country performs the role of the world banker. The question is: How do you do something about that? And I don't think that it's an appropriate response to shift out of the flexible exchange rate system. It would serve the United States quite well, even though it may have penalized individual sectors.

The solution, in my mind, is to recognize that this is an international problem that has to be resolved by international institutions and for the United States to take the lead in trying to negotiate that international central bank idea that I was talking about.

Senator ABDNOR. But, again, isn't what we have been trying to do over the last few years is strengthen our dollar? I guess I thought that that's what Washington did in some of the policies that we instituted.

Mr. SCHUH. To strengthen the dollar is one of those things that serves the country as a whole quite well. It might not serve individual sectors of the economy quite well. And I think that we have had some very significant gains from that rise in the value of the dollar. That's part of the reason why the rate of inflation has dropped off as quickly as it has.

But one should not think that just getting the dollar higher and higher is necessarily a good thing. What one wants is some kind of a balance that reflects the true demands of the conditions.

Senator ABDNOR. Well, I've kept you here after 12 a.m. Some of you may be getting hungry. This has been very interesting and I'm sorry that some of our people were out of town today. But your testimony will certainly be made a part of the record and I hope, in publishing these hearings, somebody in this country starts reading some of the facts on agriculture and where agriculture fits in relation to the whole economic picture. You gentlemen all were very helpful in that with your contribution of your statements and in your answers to questions.

I do thank you. I know that some of you have come from all parts of the United States. It's taken a lot of time on your part. We thank you for it.

Which one of you gentlemen said—which year was it, the last time we had an agricultural report? That was you, Mr. Breimyer? You made reference in your prepared statement, I think, you referred to—apparently, they did discuss agriculture rather extensively in this committee a number of years ago. Could you tell me about that?

Mr. BREIMYER. In summary, I did not read that part of my prepared testimony, but in my text, I call attention to the fact that I suppose for about 10 or 15 years, a now classic study of the economics of agriculture put out 25 years ago, 1957, 66 different economists and journalists. I used it for 10 or 15 years in my teaching. It was more or less a bible. It was a really signal piece of work.

I think it would be worth the time of the present staff of the committee to dig that out, the 1957 report, which still, I think, looks good.

Senator ABDNOR. Good. I have to admit that I wasn't aware of that report. Was it out of this subcommittee? Was the Joint Economic Committee established by that time?

Mr. SCHUH. Senator, could I make one historical note since we're doing that?

Senator ABDNOR. Yes, surely.

Mr. SCHUH. We are undertaking a major study at the University of Minnesota on the North American graineries. A faculty member who is working on that was in the library one day and decided, I'm going to look and see what Commissioners of Agriculture and Secretaries of Agriculture were saying about the problems of agriculture 100 years ago. So he went into the files and retrieved the report of the Commissioner of Agriculture, who at that time was the Secretary, the Commissioner of Agriculture for 1883. And the Commissioner in his report said that U.S. agriculture faced three major problems. The first was that we were exporting all of our soil resources and destroying the land base. The second was that we had to give a great deal more attention to value-added and not just be exporting raw materials. And the third one was even more fascinating, which was to say that our problems of agriculture are due to all those trade distortions out of the country. [Laughter.]

The point is that we're dealing with a timeless subject matter.

Senator ABDNOR. That's something. Well, I hope that we on this subcommittee can come up with something. I'll have to see how that was put together, constructed, how the hearings were held because I would like to see something like that compiled again. I think something should be produced that all economists in this country could look over and either contribute to it or explore it any way they want to. But I just think that we need to get more attention on agriculture. It just seems to me that in the years that have gone by since that report was put together, Mr. Breimyer, I think we're paying less and less attention to what agriculture means to the economy. It disturbs me.

What do you think would happen, gentlemen, if the portion of income devoted to food purchases exceeded the 16½-percent that Americans currently pay? I've heard that figure includes liquor and tobacco. Is that true?

Mr. TWEETEN. It doesn't include liquor and tobacco.

Mr. SCHUH. No.

Senator ABDNOR. It doesn't? Just pure food. What is France's? Closer to 30 percent? Or the Europeans. It's not at all unusual for them——

Mr. McCALLA. The 20- to 30-percent range for most of the European countries.

Senator ABDNOR. We wouldn't have to have 25 percent of take-home pay in food to have agriculture almost a booming industry. I guess my real point is what a great contribution agriculture makes to the other areas of the economy when only a small portion—16½ percent—of take home pay has to go to food. That releases a lot of revenue for other sources that go into the economy.

Mr. TWEETEN. Could I play the role of the dismal economist in one final remark? And that is if, in fact, we did raise our farm prices so that farmers would get, or the food industry would get, 25 percent of the consumers' food budget, once you raise the parity ratio above 65 and 70 percent, the benefits are going to be bid into the land prices and the new owners of land, once that has occurred, are going to be no better off than they are under other conditions.

Senator ABDNOR. I'm afraid I'd have to agree with you, looking back on my own situation where land rose pretty fast at one time. Those extra dollars would make quite an impact on the overall economy, though, wouldn't they, if that was directed into agriculture, the higher percent?

Mr. TWEETEN. It would depress the economy and cause more inflation.

Senator ABDNOR. Well, gentlemen, I thank you all for coming out. Tomorrow morning, we're going to have an additional hearing and it's going to be a panel of farm writers and broadcasters, the people who write the news. I thought that it might be interesting to receive some input from these people, from their side of the picture, and we're looking forward to that, too.

These are very helpful meetings and, again, we thank you for coming out.

The subcommittee stands in recess.

[Whereupon, at 12:15 p.m., the subcommittee recessed, to reconvene at 10 a.m., on Thursday, April 29, 1982.]

THE CHANGING ECONOMICS OF AGRICULTURE: REVIEW, EVALUATION, AND FUTURE DIRECTIONS

THURSDAY, APRIL 29, 1982

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON AGRICULTURE AND TRANSPORTATION
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 6226, Dirksen Senate Office Building, Hon. James Abdnor (chairman of the subcommittee) presiding.

Present: Senators Abdnor and Jepsen.

Also present: Robert Tosterud, legislative fellow.

OPENING STATEMENT OF SENATOR ABDNOR, CHAIRMAN

Senator ABDNOR. The Subcommittee on Agriculture and Transportation of the Joint Economic Committee will be in order.

I guess the first thing I want to do is to apologize to you gentlemen. This is a big day here. We have all kinds of committees going, but more than that we started voting early and, unfortunately, the first vote came right when we were ready to come to this meeting. But we do want to welcome you gentlemen.

This is the fourth in a series of subcommittee hearings on the changing economics of agriculture and we've had some very fine meetings; our witnesses have given us some very worthwhile information. We certainly appreciate the effort you're making to be with us today.

Each of you has been asked to provide your thoughts and perceptions on the current economic condition of agriculture. Thus far, this subcommittee has received and benefited from the views of four former Secretaries of Agriculture, the Secretary of Agriculture, John Block, and then four national experts in agricultural economics. We now seek your unique perspective on agriculture. You are close to the land, the farm families, agribusiness and rural communities. Your talents of investigation, writing and broadcasting are extremely effective in interpreting the farm scene.

As you are well aware, great concern has been voiced within the Congress regarding the present and future economic viability of U.S. agriculture. Even here in Congress, many take false comfort in thinking that farm problems stop at the farm gate. I try to tell my colleagues that consumers—a constituent group common to all Members of Congress—have more at stake in the future price and supply of food that farmers even. In this regard, I'm very fond of a quote by William Jennings Bryan, and you probably all know it by heart but he said: "Burn down your cities and leave our farms and your cities will spring up again as if by magic, but destroy our farms and the grass will grow in the streets of every city in the country."

Again, I do want to welcome you and thank you for your effort in being here and, of course, we are looking forward to hearing from you.

One of the great farm leaders in this U.S. Senate, the gentleman to my right, Senator Jepsen of Iowa, is very outspoken in agriculture and also the vice chairman of the Joint Economic Committee.

Senator Jepsen, do you have any comments?

OPENING STATEMENT OF SENATOR JEPSEN, VICE CHAIRMAN

Senator JEPSEN. Thank you, Mr. Chairman. I wish to echo your comments with regard to welcoming these gentlemen here today. I view with fond respect and appreciation the work of Senator Huddleston, with whom I serve on the Agriculture Committee. Too, Mr. Samuelson, you're a legend in the farm circles of the Midwest. I think folks who have a message they want to get to the agricultural world appreciate and respect the impact that they have if they are lucky enough to be mentioned either by you or be on your program. Mike Henry, welcome from the great State of California.

If one wants to know the true state of agriculture, its problems as well as all of its joys, its drawbacks as well as its advantages, one need only to turn to the pages of the newspapers which really care how farmers are faring. I'm not talking about newspapers now that run an occasional article purporting to have the lowdown on what's right or wrong on the farm. I'm talking about newspapers which cover agriculture on a regular basis, newspapers like the Cedar Rapids Gazette from Cedar Rapids, Iowa.

For that reason, I take great pleasure in introducing the Iowa member of this panel of distinguished farm editors and broadcasters, Mr. Al Swegle, who is the farm editor of the Cedar Rapids Gazette, one of two or three newspapers in the Nation which run a daily farm page. In fact, the Gazette has had a daily page since 1923.

The Gazette takes agriculture seriously and so does Al Swegle. As farm editor since 1969, he is holder of some of agriculture journalism's most prestigious awards. He was named the Nation's distinguished farm editor in the year of 1970–71 by his peers, the Newspaper Farm Editors of America. Al is a native Iowan, born and raised on a dairy, beef, and hog farm near Osceola. His testimony today will be less a reflection of his own thoughts, although one can hardly escape those entirely, but more a reflection of thoughts of farmers, implement dealers, and the farm businessmen in Iowa who help make 82 percent of everything that happens in the economy in Iowa directly related to the agricultural area.

Mr. Swegle figured this panel would be interested in the gut feelings of farmers and others in rural America during these troubled times. To gather these feelings, he ran a 10-question survey on the farm economy and he asked for responses. The questions covered virtually all of the areas, the background of those responding, their outlook, their optimism or pessimism in economics, the farm situation, farm solutions, credit farm programs. And if one wonders just how much praying farmers do these days, Al included that in his questions.

So it's really a great privilege to welcome all of you and to my good friend, Al Swegle of the Cedar Rapids Gazette, welcome. And thank you, Mr. Chairman. We are sharing the Chair here today, and I'll be leaving to attend a meeting for a while and then I will come in and take the Chair because Senator Abdnor has to leave. Thank you.

Senator ABDNOR. Thank you, Senator Jepsen.

Mr. Swegle, we are certainly anxious to hear from you. I know you've done considerable research among the farmers and agriculture as part of coming here today and we're very, very anxious. The agricultural economists of national fame to come to our sessions following visits on the farm talking to these fellows like you gentlemen do. This is why we are having this hearing today, and along with others that we've had, I think that we, as a subcommittee, can pursue some of the areas the Agriculture Committee itself just can't get into. We certainly hope that when we conclude the hearings for the year that an excellent report will be forthcoming. We hope people who read the so-called prestigious Joint Economic Committee reports will see it, because it's a story that needs to be told to a lot more than just farm representatives down here. This issue is everybody's concern.

So, Al, we welcome you to the subcommittee and you may proceed in any fashion you care to.

STATEMENT OF AL SWEGLE, FARM EDITOR, CEDAR RAPIDS GAZETTE, CEDAR RAPIDS, IOWA

Mr. SWEGLE. Thank you, Senator Abdnor, and thank you, Senator Jepsen, for allowing me to appear here today. I've been impressed by the lineup of experts that have been dealing with this subject and I think it's impressive to follow in the footsteps of Secretary of Agriculture John Block, and four former Secretaries of Agriculture. It's an honor to be introduced by Senator Jepsen, Iowa's senior Senator, as he has been very active in the farm field. Mr. Jepsen has been very active in soil conservation affairs trying to keep politics out of the Soil Conservation Service, for example, and has done considerable work on the Senate Agriculture Committee to prevent grain embargoes such as we had imposed in January 1980 by then President Jimmy Carter.

Farmers appreciate the pledge that President Reagan gave last month before the Magazine Ag editors that there will be no embargoes in times of short supply.

I had the pleasure of accompanying Senator Jepsen on a factfinding mission to the Port of Houston in December 1979 to see if exporters could redesign their rail yards there so that we could get rail cars from Iowa to the gulf in a shorter period of time. This trip was an interesting experience and it's a sign that Senator Jepsen is concerned about farmers.

Senator Jepsen called me a couple weeks ago to present some thoughts to you about how my farm readers feel about the farm plight. After discussing the prospects of appearing here today with a member of your staff, Bob Tosterud. I asked farmers in my circulation area how they felt. We ran a clip-out questionnaire—attached to my prepared statement—in the farm section of the Gazette on Sunday, April 18, and tabulated 118 responses. That response is about comparable to what Wallace's Farmer magazine, which is a respected statewide magazine, bases their farm opinion poll on.

Before I run over the results of the questionnaire, I thought I might give you a little background on our 16-county circulation area. Our farm readers are dairymen, hog farmers, cattlemen, and corn and soybean farmers. The gentleman from California may be interested that we have a few truck farmers in our area—Fayette County and Muscatine County in particular. Our readers range from very large farmers, some as large as 3,000-acre grain farms down to small 1-acre plots operated by those who work in the cities but enjoy living in the country.

There are some unique things about our circulation area that you might find interesting. For example, we have one county, Clayton County, that has more cows than New Hampshire, Nevada, Wyoming, and Montana. We have in our situation directly to the north of us Delaware County which produces the most hogs in the Nation. They produce enough hogs to feed a city the size of Denver, Colo., which has a population of 1.58 million, for a year.

Our area is in eastern Iowa where most of the population is located for Iowa and most of our industries are food related in nature, and until a year ago packing plants were located in Cedar Rapids, Waterloo, the Quad Cities, including Senator Jepsen's hometown of Davenport, and Dubuque. But the packing industry has fallen on hard times, especially cattle packers, and packing plants have recently closed in the Quad Cities and Dubuque.

As you know, the farm machinery industry has fallen on hard times. For your background, tractor sales are down about 13 percent nationwide and John Deere and International Harvester have laid off some workers in surrounding metropolitan areas of Waterloo, Dubuque, and the Quad Cities, and I leave with you some unemployment figures for our area.

Hopefully you've heard about Cedar Rapids. The population of our metropolitan area is 110,000 which makes it the second largest city in the State. The main industry is grain processing and the processors in Cedar Rapids have been very innovative in coming up with new food and energy products. Archer-Daniels-Midland, for example, since the mid-1970's has had the world's largest wet corn milling plant in Cedar Rapids producing an inexpensive corn sweetener called fructrose, which in the last 5 years has become widely used by the soft drink industry.

ADM's corn sweetners also has a facility to mix corn alcohol with gasoline, producing gasohol, a product that has caught on very fast in Iowa, and we have some other innovations in the grain processing area. One industry produces Bacos, an artificial bacon substance that you sprinkle on salads. One firm puts out Honey Nut Cheerios, Crispy What, and Raisins, Betty Crocker frostings, Bisquick, Life cereal—you name it, we've got it.

One industry in town is called Cargill, which you will recognize as one of the big five grain exporters, so we are interested in grain exports.

So this background will show you that food is a big industry in Cedar Rapids. So is exporting. Major grain export terminals are located in our circulation area at McGregor, Dubuque, and Davenport. And Cedar Rapids has the distinction of being the largest exporting city for its size in the Nation.

With this background, you can see that our readers are interested in agriculture and farmers from a very personal level. Many jobs depend on how farmers do on the farm.

As you know, there are two basic solutions to the farm program policy options, if you believe in the economic laws of supply and demand like most of us, you either cut supply or boost demand, and we've had some interest in that area.

For example, in the hog industry, a friend of mine who was a fundamental hog analyst has this rule of thumb about hog prices: When the volume declines a percentage point, prices rise a percentage point. The ratio is 1 to 1. If the economy is strong and consumer demand is high, prices do better in this rule-of-thumb ratio. On the other hand, if the economy is weak, hog prices may not be as good. That rule of thumb explains why livestock producers in particular are interested in keeping the domestic economy healthy. As Forest Mykleby, manager of the Wilson Foods plant, a hog processor in Cedar Rapids puts it: "You can't sell pork to someone who is unemployed."

Basically all farm organizations base their policy stance on supply and demand. However, each organization has its own variation on the theme. If you ask 118 farmers, like we did in our survey April 18, what their solutions are to the farm program, you get roughly 118 different answers, but I'm going to risk offending my readers by categorizing the responses.

For your background, I've talked a little bit about supply and demand. I'm going to skip text in my prepared statement.

Senator ABDNOR. Your full prepared statement will be made a part of the hearing record.

Mr. SWEGLE. Fine.

I say all of this as background for analyzing the questionnaires that follow. Rather than talking to the farm organization leaders, I thought you might like to know what real farmers are thinking.

You talk to farm organization, agribusiness, and export lobbyists all the time, so I thought the survey attached to my prepared statement would be of more interest to you than a rehashing of something you may already know.

The questionnaire was designed not to show a pro-free trade or pro-strong Federal farm program bias. We were careful not to allow farm organizations to stack the survey.

The only bulk responses came from the high school senior agriculture class which I think adds a new dimension to the survey because these people will be the future leaders in agriculture.

Generally, the Gazette survey indicates that the farm community wants to pursue a middle of the road course in future farm policy. There wasn't a strong bias toward either all-Government programs or to all exports. You might say this survey has something in it for everyone.

And I think this reflects the opinions of farm leaders in general. Most favor a mix of policies to boost demand as well as to cut back supply. An analysis shows that most of the respondents favored lowering interest rates and to reduce trade barriers overseas.

Both of those responses were checked by 25 percent of those marking that particular question. That accounts roughly for half the folks that filled out the survey.

Raising price supports was favored by only 8 percent of the respondents, mainly because, I suppose, such a proposal comes pretty late in the game for this planting year. The deadline for signing up for the farm program was Friday prior to the survey which ran in the Sunday paper.

I don't think this is an indication of dissatisfaction with price supports in general because we asked basically the same question two other times in the survey. Once we asked if the grain reserve should be abolished. Only 7 percent of the respondents chose that as one of their top three policy mixes.

Then, under credit, we asked if price supports are helpful in troubled times; 73 percent said yes. One respondent wrote a note to us saying that her family is taking advantage of the price support program for the first time this year, and this would indicate that times are tough.

The reserve and price support question is a popular farm policy question in Iowa. As you know, Senator Jepsen, the farm bureau, the State's largest farm organization, has come out in opposition to price supports except in times of a grain embargo.

That organization argues that Block's farm program may lead to a buildup in reserve stocks that may overhang the market in the days ahead.

Two letter writers reflected this view. One said that there should be less government in agriculture; another said that the United States needs to be a reliable supplier of farm products.

Then another view was given by Gene Weih of Tipton, a treasurer with the Agriculture Council of America and a member of the Iowa Corn Promotion Board, who defended Block's farm program. Weih writes:

> I like Block's program. Let's put some limits on government programs so we don't subsidize the farms that are too big. Large payments to big farmers will only be guarantees that we will lose more of our acreage to smaller size farmers.

We in the farm press hear equally divergent views on credit. Our stories reflect whichever position currently makes the best case for either more credit or less of it.

Our survey reflects a wide range of opinion on this subject. Some 44 respondents said they had no problem getting credit, while 7 said they had to sell some assets to get credit, and 3 said they didn't get credit at all. Two had to quit farming.

On the other hand, 17 said that they didn't borrow money and, of course, they said they were happy with the high rates that they get on their savings.

Before giving you the results of the survey, I should point out that there are two points of view on farm credit. There are some who argue from one extreme point of view that forced liquidations are good for the agricultural economy. Forced liquidations means bankers refuse to extend credit. They argue that this cuts down on the number of farmers producing commodities, and thus prices will be higher for the surviving farmers. So some have to quit in order for things to be good for those who survive.

Critics of this approach say that that's good for the rich farmers who stay, but not for the poor farmers who must quit. They argue for compassion. They argue that farm prices are cyclical in nature and that lenders should be generous in tough times so that if necessary the marginal operator can sell out when prices are better. They argue that the time to clamp down on poor managers is in good times, not bad, as, they argue, buyers under bid prices when they think the seller is in a desperate situation.

Well, we heard from both sides among the survey responses, but on balance the latter group won out. Some 59 percent favored more credit to get through the tough times. Another 63 percent favored a 1-year moratorium on foreclosures by the Farmers Home Administration.

We got several compassionate letters in the survey. One fellow who didn't sign his name writes:

> Can you imagine the gut wretching feeling of being told by your lender that in 6 months you will have to come up with $500,000 or they will be forced to auction off some of your assets?

Another gentleman, Richard Morris of Palo, writes:

> When you ask the question are things as bad as the Great Depression, it depends upon your position. If you are an established farmer with a high percentage of equity in your farm, it isn't. But if you just started farming in the last 4 years, it's worse than the Great Depression. During the Great Depression, you didn't have high interest rates. When you have high production costs, high interest rates, low consumer demand and low prices, you have absolutely no future at all.

Morris gives a case study. He said when he started his farm in 1978 his interest rate payment to his lender was $157 an acre and now, because his lender varies his interest payments with the cost of money, his interest payments are $243 an acre.

So I read to you these letters to indicate some of the frustration out there. What you're probably interested in is how bad it is out there, and everyone—I guess 98 percent, to be exact—seems to agree that farming is in the doldrums. The question is a matter of degree. The great majority, 67 percent, say things are worse than the 1950's, but 64 percent say things aren't as bad as the Great Depression.

One respondent said, "Anyone who says things are worse than the Great Depression never lived through it. We aren't burning corn cobs yet."

On the whole, our survey showed farmers to be surprisingly optimistic. Sure, 54 percent were pessimists, as you would expect, but the figure of 46 percent optimistic to me is surprising, considering the times.

As one anonymous letter writer put it, "No recession can last forever."

And I would add that things can turn around quickly in farming. Last spring at this time we were worried about dry weather in my area. Farm prices on the futures market were hovering around the $3.80 a bushel mark. Now we're worried about just wet fields and just the opposite type of prices. If we have a short crop this year, we could see good prices in grain farming within as short a time as a year.

You may be interested in our question on Reaganomics. Some 34 percent said it was working, the 66 percent said it wasn't. The big compliment about Reaganomics, a remark that was checked by 45 percent of those surveyed, was the fact that interest rates are too high.

Incidentally, you may be interested in what our readers said about the current farm economic situation; 59 percent blamed the current low prices on the Carter grain embargo which Senator Jepsen has been working on preventing in the future; 50 percent blamed the low farm prices on down domestic economy, and some 46 percent pointed out the export demand is down worldwide.

Surprisingly, only 33 percent of those surveyed blamed low prices on overproduction last year.

Summing up, I'd like to report that there is some good news out there. We ran across one Waterloo dairy couple who was forced to quit farming due to the credit situation, but they were able to get their rented ground planted this year thanks to a good neighbor and some understanding creditors. The neighbor is loaning him the machinery for planting and harvesting at no charge and his suppliers, the seed corn people and the fertilizer people, are waiting for their money until the harvest next fall. That's a heart-warming story and it shows that there are good people out there even in tough times.

I'll close with one remark. Adversity tends to bring out the best in man and his most creative instincts. In Italy, for 30 years, they had warfare, terror, murder, and bloodshed, but they produced a Michelangelo, a Leonardo De Vinci and the Renaissance period. In Switzerland, they had brotherly love, they had 500 years of democracy and peace, and what did they produce? They produced the cuckoo clock. So with that, I'll close.

[The prepared statement of Mr. Swegle, together with attachments, follows:]

PREPARED STATEMENT OF AL SWEGLE

Thank you, Sen. Roger Jepsen for introducing me and Sen. James Abnor, the subcommittee chairman, for allowing me to appear here today.

I've been impressed by the lineup of experts appearing before this body on the subject: "The Changing Economics of Agriculture: Review, Evaluation and Future Directions."

I'm impressed to follow in the footsteps of U.S. Secretary of Agriculture John Block, four former U.S. Secretaries of Agriculture, and the fine men and fellow farm reporters testifying here today.

It's an honor to be introduced by Sen. Roger Jepsen, Iowa's senior senator, as he has been very active in the farm field. Mr. Jepsen has been very active in soil conservation affairs, trying to keep politics out of the Soil Conservation Service, and has done considerable work on the U.S. Senate Agriculture Committee to prevent grain embargoes such as we had imposed in January 1980 by then President Jimmy Carter.

I had the pleasure of accompanying Mr. Jepsen on a fact-finding mission to the Port of Houston in December of 1979 to see if exporters could redesign their rail yards there so that we could get rail cars from Iowa to the Gulf in a faster period of time.

A FASTER TURN AROUND would have eased the rail car shortage which was plaguing the industry at the time, and the trip yielded several unique ideas to solve that particular problem. That isn't a problem today, however, as right now there isn't a shortage of cars. Not as much grain is moving as some had predicted, and rail carriers have been cutting rates to attract more business. But the demand will pick up as grain prices pick up.

The trip was an interesting experience, and a sign that Sen. Jepsen is concerned about farmers.

Sen. Jepsen called me a couple of weeks ago to present some thoughts to you about how my farm readers feel about the farm plight.

After discussing the prospect of appearing here today with Bob Tosterud, who is on your Joint Economic Committee staff, I asked farmers in my circulation area how they felt about economic conditions.

We ran a clip out questionaire in the farm section of The Gazette on Sunday, April 18, and tabulated 118 responses. This return we considered to be quite good.

That response is about a half what is used in the latest issue of Wallaces Farmer magazine to base findings of their statewide farm opinion poll, and our circulation is based in less than a quarter of that magazine's area.

BEFORE I RUN over the results of that questionaire, I thought I might give you a little background on our 16 county circulation area.

Our farm readers are dairymen, hog farmers, cattlemen, and corn and soybean farmers. Our readership rangesgreatly. Some run 3,000 acre grain farms on down to small one acre plots operated by those who work in the city but enjoy living in a rural community.

There are some unique things about farmers in our circulation area:

- The state's five leading dairy counties are located in our circulation area.
- One county alone — Clayton County — has more cows than New Hampshire, Nevada, Wyoming and Montana.

• Clayton produces enough dairy products each year to feed Milwaukee, Wis., (634,998 population) for a year.
• The nation's leading hog production county — Delaware County — is located just north of Cedar Rapids.
• Delaware produces enough hogs to feed each year to feed a city the size of Denver, Colo., (population 1.58 million) for a year.
• The county with the second highest corn yields in the state — Cedar County — is located just southeast of Cedar Rapids. Cedar farmers produce corn yields of 124.6 bushels per acre.

Our area once was the leading center of the state in terms of cattle production, but cattle feeding since the mid-1960s has moved west in Iowa and southwest regionally into the Panhandle areas of Oklahoma and Texas. As a result, some of our beef packers have also moved out of our area.

THE BULK of the population in Iowa is located in eastern Iowa where Cedar Rapids is located, but the industry is primarily food-related in nature.

For example, until a year ago packing plants were located in Cedar Rapids, Waterloo, the Quad Cities, including Sen. Jepsen's home town of Davenport, and Dubuque.

But the packing industry has fallen on hard times, especially cattle packers, and packing plants have recently closed in the Quad Cities and Dubuque. Rath Packing in Waterloo is also finanically troubled, but employees recently took over ownership of the firm and it appears to be on sound footing again.

As you may know, the farm machinery industry has fallen on hard times. Tractor sales were down 13 percent nationwide last year, and implement manufacturers, primarily John Deere and International Harvester, have laid off workers in their plants in the surrounding metropolitan areas of Waterloo, Dubuque and the Quad Cities.

UNEMPLOYMENT FIGURES show two metropolitan areas running ahead of the national unemployment average of 8.8 percent during February. The figures for February show:
• Black Hawk County (Waterloo) had an unemployment rate of 8 percent • Dubuque County (Dubuque) had an unemployment rate of 9.6 percent.
• Linn County (Cedar Rapids) had an unemployment rate of 7.2 percent.
• Scott County (Davenport) had an unemployement rate of 7.7 percent.

HOPEFULLY, you have heard about Cedar Rapids. The population of our metropolitan area is roughly 110,000, which makes it the second largest city in the state.

The main industry is grain processing, and the processors in Cedar Rapids have been very innovative in coming up with new food and energy products. Unemployment in the grain processing sector has been relatively low.

Archer-Daniels-Midland, for example, since the mid-1970s has had the world's largest wet corn mill in Cedar Rapids, producing an inexpensive corn sweetener, called fructrose, which in the last five years has become widely by the soft drink industry.

All major soft drink bottlers except Pepsi now use fructrose in their drinks, with no apparent change in taste. Pepsi has tried fructrose in some syrups but as yet hasn't added it to their bottled drinks.

ADM's Corn Sweetener division in 1981 also constructed a facility to mix corn alchol with gasoline, producing gasohol, a product that has really caught on in Iowa selling last year for less than regular gasoline.

This one corn market alone uses 200,000 bushels of corn a day, a major market for farmers within a 100 mile radius of Cedar Rapids.

Other innovative new products coming from Cedar Rapids includes Bacos, an artificial bacon substance that you sprinkle on salads and something that soybean and corn producers hope will be the wave of the future, namely artifical meat products.

Bacos have been produced since General Mills first opened its operations in Cedar Rapids some 10 years ago. The firm also produces cereals such as Honey Nut Cheerios and Crispy Wheat and Raisins, Betty Crocker frostings and Bisquick products.

Quaker Oats (which makes Life, a ready to eat cereal, and Quaker Oat Meal) has the world's largest cereal mill in downtown Cedar Rapids. Those cereals are made out of oats, but they also buy white corn, a human food used in the making of grits, a Southern dish and torillias in the Spanish speaking countries of South America.

Cargill, Inc., which probably is a recognizable name to you as one of the big five grain exporters, operates two soybean processing plants in Cedar Rapids, two of the five in Iowa and two of the 15 in the U.S.

Cargill's Iowa soybean plants process about 66 million bushels annually, producing 1.58 million tons of soybean meal and 350,000 tons of soybean oil.

Cargill also has a wet corn milling operation in Cedar Rapids, as does Penick and Ford. National Oats, processors of Three Minute Oatmeal, also has their national headquarters in Cedar Rapids.

Latest Chamber figures show our processors to be processing over 500,000 bushels of corn, oats and soybeans per day. And our food industry in Cedar Rapids are major employers, employing 4,800 people.

SO FOOD is a big industry in Cedar Rapids. So is exporting. Major grain export terminals are located in our circulation area on the Mississippi River at McGregor, Dubuque and Davenport.

And Cedar Rapids has the distinction of being the largest exporting city for its size in the nation. As a result, reporters from national publications frequently visit Cedar Rapids to see how we're doing. The New York Times, for example, is currently doing a series of updates on us.

We may not be Muncie, Ind., otherwise known as Middletown USA, but we're close to it.

Last week Cedar Rapids was in the national news twice. A toxic shock syndrome case was settled in court in Cedar Rapids, and a fugitive stockbroker gave himself up in our town.

WITH THIS BACKGROUND, you can see that our readers are interested in agriculture and farmers from a very personal level. Many jobs depend on how the farmers do on the farm.

THERE ARE TWO basic solutions to farm farm program, if you believe in the economic laws of supply and demand like most of us. Cut supply or boost demand.

The law of supply and demand says that when supplies are tight, prices rise. When supplies are abundant, prices are low.

That helps explain why corn and soybean prices have been relatively low this past marketing year, because economists are predicting a record carryover next Oct. 1 of both commodities.

That also explains why both commodities have started their annual springtime rally 10 days to 2 weeks ago. Farmers are holding tight, refusing to sell at low prices. So processors in my town have had to bid up prices — comparatively to the Chicago Board of Trade — to get farmers to sell.

Supply and demand also explains why there has been record interest in the Chicago Merchantile Exchange in hog futures this summer. Supplies are projected to be tight, and prices are expected to be up there about as high as they were back in 1975.

A FRIEND of mine who is a fundamental hog market analyst has this rule of thumb for hog prices. When volume declines a percentage point, prices rise a percentage point. The ratio is one to one.

If the economy is strong and consumer demand is high, prices will do better than this rule of thumb ratio. On the other hand, if the economy is weak as it it now, he says hog prices may not be as good as the fundamental figures would indicate.

That hog rule of thumb also explains why livestock producers in particular are interested in keeping the domestic economy healthy. As Forest Mykleby, manager of the Wilson Foods plant, a hog processor, in Cedar Rapids puts it: "You can't sell pork to someone who is unemployed."

Basically all farm organizations base their policy stance on supply and demand. However, each organization has its own variation on the theme. If you ask 118 farmers like we did in our survey April 18 what their solutions are to the farm program, you get roughly 118 different answers, but I'm going to risk offending my readers by categorizing the responses.

SOME ADVOCATE restricting supply.

Extremists in the catergory favor mandatory government programs. The only problem with this approach is that it restricts the freedom of producers, and mandatory programs haven't been too popular in the Corn and Wheat Belts since the Kennedy wheat referendum was voted down in 1962.

Another approach to restricting supply is through a carrot and stick approach. Since mandatory controls seem too strict, they argue that government should give high price supports or a diversion payment — a rental payment on the land taken out of production — to get farmers to cut back their output.

Sweeteners, such as high price supports, sometimes don't work, as we saw in 1979, when only 51 percent of the farmers in Iowa signed up for the farm program.

The stick seems to be working quite well. Some Reagán administration farm officials were predicting we'd see $1.50 corn prices in Iowa this year if farmers didn't sign up in the farm program. Our survey shows that our readers aren't that pessimistic.

We analyzed The Gazette survey results of the the diversified farmers, the ones who grow both grain and livestock, who responded to our survey. We had two who said corn prices would dip to the $1.50 level, but one reader thought corn prices at country elevators in our area would be as high as $3.30 a bushel. The most popular price prediction for corn for highs was $3 a bushel, four responses, and $2.80, four responses. The most popular low corn price prediction was $2 and $2.25, each with three responses.

Of course grain prices could fall below that in Western Iowa, because at times there is a 30 cent a bushel variation in grain prices in Iowa, with Western Iowa generally having prices that are about 30 cents lower than Eastern Iowa, where the grain processors are located.

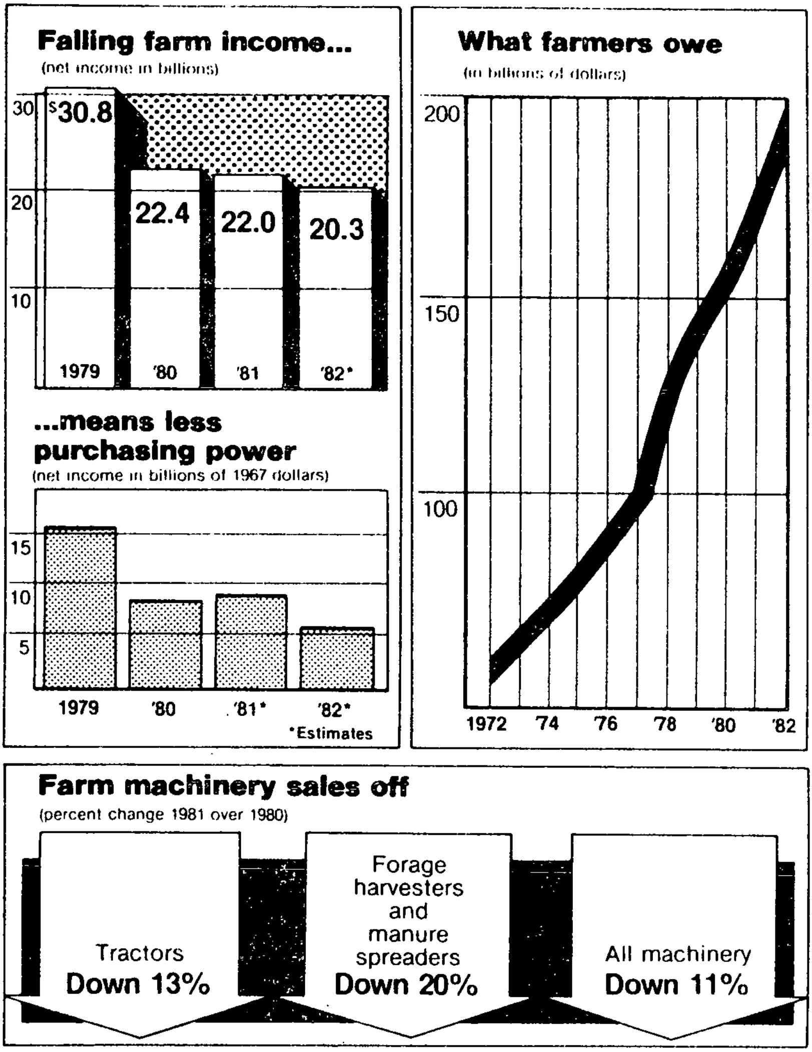
NEVERTHELESS, the scare talk of possible low corn prices influenced the signup in Iowa. Latest figures show 74 percent of the farmers in Iowa have signed up for the federal reduced acreage program, not because the support levels were high but because they fear they would lose price protection if general grain prices were low.

Fear of low grain prices apparently is more of a motivator for federal farm program signups than greed.

Since we've seen such strong farm holding of our record corn and soybean crop in my area this year, the grain observers I talk to expect some strong grain rallies at planting time to shake loose grain before farmers are locked into the federal program at certification time of July 30. The rallies may be a good time to hedge and forward contract grain in my area.

With so many farmers in the farm program this year, corn prices will likely have to be above the national minimum loan rate of $2.55 a bushel to get much grain movement in the country.

For farmers, the depression's here



SOURCE: Farm and Industrial Equipment Institute

BY THE WAY, you may be interested in the philosophy behind federal acreage reduction programs. As you know, farmers are manufacturers in many ways, like auto manufacturers in Detroit.

But instead of the big three, as we have in the U.S. automobile field, we have the big 2.5 million. That's the number of farmers producting crops each year in the U.S.

Three auto manufacturers can restrict supplies quite easily by shutting down production lines, but asking farmers to cut down production is easier said than done.

Once the seed has been planted, the farmer isn't about to restrict production by plowing up acres. He has to pay the banker, among others.

So, since the 1930s, the federal government has been offered programs to get farmers to cut back the large volumes that come to market. Uncle Sam shuts down the farm supply line like the Big Three does in the auto field.

YOU MAY BE wondering why we don't have supply management programs for livestock. We do in some cases, like milk, where the products can be stored safely for long periods of time, but not with red meats, where the products spoil.

Dairymen, as you know, are in trouble. U.S. Agriculture Secretary John Block in Seattle said the dairy price support program is costing taxpayers a quarter million dollars every hour.

Our survey shows broad support for dairy industry proposals to share in the government cost of the program. Some 83 percent thought the National Milk Producers Federation proposal was a good idea, although one critic questioned why dairymen need supports if they have enough money to share in the cost of the program.

The critic's point was that the program does not control the supply of milk.

INCIDENTLY, there's another way to restrict supply and that is the way that Mother Nature does it. She's not always fair. For example, in 1977, she provided us with a drought in Iowa. Some 44 counties in the 99 counties in Iowa were declared as disaster areas, but the other farmers in the parts of the state that got rain still produced the sixth largest crop in history.

Higher prices didn't make up for the lost crops, especially on the farms that got 30 bushel corn yields.

You can reach a compromise on the weather issue by hoping for good weather in the U.S., but hope for a drought in a competing foreign country, such as Brazil. But this isn't a good idea from a humanitarian standpoint. Our readers protested vigorously last January when a headline on the farm page read: "Iowa farmers hope for a drought in Brazil." Many of the strongest protests came from farmers who would have benefitted from the higher prices. The point is that no one likes a drought — or hunger.

But fears of bad weather do raise prices somewhat. The rule of thumb among commodity traders is that farmers generally "lose the crop" three times from the time they plant it in my area in late April and May and July. That means prices go up on the rallies, and farmers are happy because their crops generally look pretty good.

Every good idea has a flaw, and the flaw with restricting supply is this. While the U.S., the major grain exporter, is cutting back production in years of a worldwide grain glut, generally nobody else is.

American farmers pay the price, but farmers in the other countries of the world continue to produce and reap the benefits of whatever higher prices that are out there.

THE OTHER MAIN grouping of farm policy advocates are those who want to raise prices by expanding demand.

Extremists in this category oppose government programs altogether. They favor free enterprise and the marketplace. The only government involvement they favor are tax and employment policies to keep the domestic economy perking. Sometimes they favor government research into new products and stimulating the export market.

Critics of this approach say exports aren't any good if the products aren't marketed at a profit. Farmers in The Gazette area generally don't sell their grain unless they can make money. They hold even though the nation's farmers produced at record corn and soybean production levels last year.

The holding was so tight in our area last winter that elevator, barge, and rail operators say the pipeline was virtually empty. And grain merchants say they're facing a tough time because little grain is moving due to tight farmer holding.

Farmers have learned a lesson. One way to force markets to go up is not to sell. And it has worked in our circulation area.

Local demand is strong, although prices aren't terrific. The grain processors in Cedar Rapids are bidding up local prices in relation to what the speculators are paying on the Chicago Board of Trade. As a result, the basis — a technical indicator of price relationship between the Chicago Board of Trade and country elevators — is the tightest in the Cedar Rapids area since 1973.

And there has been some country movement of grain in recent days, since grain prices have rallied in the last three weeks.

BEFORE MOVING ON to the main findings of the survey, I might explain why the federal government has farm programs for corn and not for soybeans. I've often wondered the question myself.

Basically, it has to do with exports. Corn faces tough export barriers in the European Economic Community and Japan. Soybeans, to a large extent, does not. That's why we saw a great interest in this area on The Gazette's survey.

Soybeans have also moved well in the domestic processor and export market, despite increasing total production in recent years.

But soybean prices haven't been terrific either this year, and farm program advocates say this indicates that exports aren't necessarily the salvation of farmers.

I SAY ALL of this as background for analyzing the questionaires that follow. Rather than talking to the farm organziation leaders, I thought you might like to know what real farmers are thinking.

You talk to farm organization, agribusiness and export lobbiests all the time, so I thought the following survey would be of more interest to you than a re-hashing of something you may already know.

The questionaire was designed not to show a pro-free trade or pro-strong federal farm program bias. We were careful not to allow farm organizations to stack the survey.

The only bulk responses came from a high school senior agriculture class who, I think, added to the dimension of the survey.

GENERALLY THE GAZETTE survey indicates that the farm community wants to purse a middle of the road course in future farm policy.

There wasn't a strong bias toward either all government programs or to all exports. You might say this survey has something in it for everyone.

And I think this reflects the opinions of farm leaders in general. Most favor a mix of policies to boost demand as well as to cut back supply.

An analysis shows that most of the respondents favored lowering interest rates and to reduce trade barriers overseas.

Both of those responses were checked by 25 percent of those marking that particular question. That's half of the folks.

Raising price supports was favored by only eight percent of the respondents, mainly because, I suppose, such a proposal comes pretty late in the game for this planting year.

I don't think this is an indication of dissatisfaction with price support programs, because we asked basically the same question two other times in the survey.

Once we asked if the grain reserve should be abolished. Only seven percent of the respondents chose that as one of their top three policy mixes.

Then, under credit, we asked if price supports are helpful in troubled times. Seventy-three percent said yes. One respondent wrote a note to us saying that her family are taking advantage of the price support program for the first time this year. This would indicate that times are tough.

THE RESERVE and price support question is a popular farm policy question in Iowa, as the Farm Bureau — the state's largest farm organization — has come out in opposition to price supports.

That organization argues that Block's farm program may lead to a buildup in reserve stocks that may overhang the market in the days ahead.

Two letter writers, Don Lyness of Ryan and John Kittleson, reflected this view. Kittleson, for example, said there should be less government in agriculture.

But Gene Weih of Tipton, treasurer of the Agriculture Council of America and a member of the Iowa Corn Promotion Board, defended Block.

"I like Block's program," Weih writes. "Let's put some limits on government programs so we don't subsidize the farms that are too big. Large payments to big farmers will only be guarantees that we will lose more of our acreage to smaller size farmers."

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Our survey reflects a wide range of opinion on this subject. Some 44 respondents said they had no problem getting credit, while seven said they had to sell some assets to get credit and three said they didn't get credit. Two had to quit farming.

On the other hand, 17 said they didn't borrow money, and of course they said they were happy with the high interest rates that they get on their savings.

Before giving you the results, I should point out that there's two points of view on farm credit.

There are some who argue from one extreme point of view that forced liquidations are good. Forced liquidations means bankers refuse to extend credit. They argue that this cuts down on the number of farmers producing commodities, and thus prices will be higher for the surviving farmers. So some have to quit in order for things to be good for those who survive.

Critics say that's good for the rich farmers, but not for the impoverished farmers who must quit. They argue for compassion. They argue that farm prices are cyclical in nature and that lenders should be generous in tough times so that, if necessary, the marginal operator can sell out when prices are better. They argue that the time to clamp down on poor managers is in good times, not bad, as, they argue, buyers under bid prices when they think the seller is in a desparate situation.

We heard from both among the survey responses, but on balance the latter group — the compassionate ones — won out. Some 59 percent favored more credit to get through the tough times. Another 63 percent favored a one year moratorium on foreclosures by the Farmers Home Administration.

THE GAZETTE has done several stories on farm credit, focusing on the Farmers Home Administration. I recognize some of the names on the full committee who have done work in this field.

As you know, the best way to get into farming is to be born to rich parents, and, baring that, to marry the daughter of a rich farmer. If you didn't adopt either one of those approaches, you go to the Farmers Home.

As you have heard, Farmers Home had been clamping down on credit, although the agency has eased up after Block issued a directive to that effect in late January.

We helped a borrower in our circulation area get money from Farmers Home, and we've talked to about a dozen or so who have had trouble getting credit. Two of the biggest complaints of borrowers seems to be: (1) lack of appeals if they are turned down for credit and (2) no funds being available from the agency to hedge on the futures market.

As a result, Farmers Home borrowers can't cash in on rallies in the futures market. They'd like a line of credit to meet margin calls when they hedge. Most brokers recommend that they have margin money equal to $20 per acre, roughly the same amount as is spent by farmers each year to buy herbicide for crops.

But that's another story. Getting back to the survey, I'd like to quote from some of the letters that accompanied the survey sheets on the subject of credit.

ONE FELLOW, who didn't sign his name writes: "Can you imagine the gut reching feeling of being told by your lender that in six months you will have to come up with $500,000 or they will be forced to auction off some of your assets?

"The feeling is comparable to that I felt when my brother was killed several years ago. I guess the feeling of having to lose some of your land is like a death in the family. It is really like losing a part of yourself."

Richard Morris of Palo writes: "When you ask the question are things as bad as the Great Depression, it depends on your position.

"If you are an established farmer with a high percentage of equity in your farm, it isn't. But if you just started farming in the last four years, it's worse than the Depression.

"During the Depression, you didn't have high interest rates. When you have high production costs, high interest rates, low consumer demand and low prices, you have absolutely no future at all."

One of the big problems facing Morris is high interest rates. When he started farming, his interest payments totalled $157 an acre. Today, with grain prices no higher than 1978, the interest payments total $245 an acre.

Morris concludes: "There's no future in farming unless you're rich."

I read to you these letters to indicate some of the frustration out there.

EVERYONE — 98 percent to be exact — seems to agree that farming is in the doldrums. The question is a matter of degree.

The majority — 67 percent — say things are worse than the 1950s, but 64 percent say things aren't as bad as the Great Depression.

One respondent wrote: "Anyone who says things are worse than the Great Depression never lived through it. We aren't burning corn cobs yet."

On the whole, our survey showed farmers to be surprisingly optimistic. Sure, 54 percent were pessimists, as you would expect, but the figure of 46 percent optimists to me is surprising, considering the times.

As one anonymous letter writer put it: "No recession-depression last forever."

And I would add that things can turn around quickly in farming. Last spring at this time we were worried about dry weather. Corn prices on the futures market were hovering around the $3.80 a bushel mark. Now we're worried about wet fields and just the opposite type of prices.

PERHAPS the most interesting question on the survey from your standpoint is the gut reaction of agricultural leaders to Reaganomics.

Some 34 percent said it was working, while 66 percent said it wasn't. The big complaint about Reaganomics, a remark checked by 45 percent of those surveyed, was the fact that interest rates are too high.

Incidently, you may be interested in what our readers thought caused our current farm economic situation.

As you might expect, 59 percent blamed the current low prices on the Carter grain embargo. Fifty percent blamed the low farm prices on a down domestic economy. Some 46 percent pointed out that export demand is down worldwide.

Surprisingly, only 33 percent of those surveyed blamed the low prices on overproduction last year.

SUMMING UP: Just how frustrated are folks in agriculture today? Well, you haven't seen tractorcades in Washington like you did five years ago when the wheat folks came to town. But they are concerned.

Several respondents thanked me — and thanked you — for being concerned enough to want to hear all this. And I would say the response has been very reasonable, as I think our farm readers are very reasonable.

The 22 letters I received with the survey reflected points of view ranging from advocating no government in agriculture at all to one farm manager who was concerned that a bill introduced by Sen. Robert Dole, R-Kan., is discouraging interest in the Safe Harbor Leasing provisions of the Economic Recovery Act.

One indication of how concerned farmers are seems to be the number of folks in agriculture who want to fire the U.S. Secretary of Agriculture. We asked that question, and seven of the 118 surveys tabulated favored firing Block.

One Block supporter wrote in "no, no" beside the question. Another wrote in that Block should be allowed to run the USDA the way he sees fit, without interference from Budget Chief David Stockman and Secretary of State Alexander Haig.

So this would indicate to me that Block's job is safe.

FINALLY, I'm happy to report that the neighborhood spirit is alive out there in Rural America. We ran across one Waterloo dairy couple who was forced to quit by their creditors, but they are able to get their rented ground planted this year, thanks to a good neighbor and some understanding creditors.

The neighbor is loaning him the machinery for planting and harvesting at no charge. And his suppliers — the seed corn and fertilizer dealers — are waiting for there money until after harvest next fall.

That's a heart warming story, and it shows that there are good neighbors out there, even in tough times.

Thank you, Mr. chairman.

[FROM THE CEDAR RAPIDS GAZETTE, SUNDAY, APRIL 18, 1982]

Gazette farm reader survey

Dear farm page reader:

The Gazette would like you to answer the following questions about your feelings as the planting season

See story on page 18A

begins. If you'd like to explain the reasoning behind your answers, please feel free to tell us your thoughts by enclosing a note with the questionnaire.

Please mail this by Saturday, April 24.

Send to:

Farm Survey
Attn: Al Swegle, farm editor
Cedar Rapids Gazette
P.O. Box 511
Cedar Rapids, Iowa 52406

1. BACKGROUND — First of all, we'd like to know who you are:

I'm a:
( ) livestock producer
( ) grain farmer
( ) general operator
( ) dairyman
( ) implement dealer
( ) agribusiness salesman
( ) main street businessman
( ) agribusiness executive
( ) farm lender
( ) commodity broker
( ) consumer
( ) agri-educator
( ) federal farm worker
( ) landowner who rents to others.

WHAT IS your political affiliation?
( ) Republican
( ) Democratic
( ) Independent
( ) don't vote

2. OUTLOOK — Basically, how do you feel about the farm economy?

( ) I'm optimistic ( ) I'm pessimistic.

TELL US how pessimistic or optimistic you are by forecasting farm commodity prices during the coming year:

	High	Low
Corn		
Soybeans		
Hogs		
Cattle		

WILL those prices cover your production costs? ( ) yes ( ) no.

IF those projected prices are below your production costs, how are you coping?
( ) cutting fertilizer and pesticide rates
( ) forward contracting or hedging
( ) going into the federal reduced acreage program
( ) trying no-till
( ) praying
( ) other

HOW OPTIMISTIC are you about farmland prices?
( ) They'll go up this year.
( ) They'll go down.
( ) They'll remain about the same.

ARE YOU postponing machinery purchases because of the current economic conditions? ( ) yes ( ) no.

3. TURNAROUND — When is the domestic economy going to turn around?
( ) this summer
( ) this fall
( ) this winter
( ) 1983
( ) 1984

4. REAGANOMICS — How do you feel about the Reagan administration's economic program? ( ) It's working ( ) It isn't working.

IF YOU don't think it's working, why not?
( ) The budget deficit is too high.
( ) Interest rates are too high.
( ) Tax cuts are wrongly targeted.

IF YOU think Reaganomics is working, what should the public do?
( ) Be patient, give the president more time for his policies to work.
( ) Tell Congress to cooperate more in passing legislation.
( ) Tell Congress to enact more tax breaks to help my situation.

5. FARM SITUATION — Do you think the farm economy is in the doldrums? ( ) yes ( ) no.

IF YOU think it is, why? (Check up to three.)
( ) Farmers produced too much corn, wheat and other grain products last season.
( ) The federal government didn't have a reduced acreage program last year, as it should have.
( ) Farmers are still feeling the effects of President Carter's Soviet grain embargo.
( ) The federal government interferes through its price support, loan and grain reserve mechanisms.
( ) Export demand is down worldwide.
( ) A down domestic economy has affected consumer's buying power.
( ) High taxes are burdening the public and the federal budget should be cut even more.
( ) The inflation rate is stifling consumer demand.

ARE THINGS as bad on the farm as during the Great Depression? ( ) yes ( ) no.

ARE THINGS worse than during the mid-1950s, when drought and low hog prices dimmed farm profit hopes? ( ) yes ( ) no.

6. FARM SOLUTIONS — How do think these problems could be solved? (Check your top three solutions.)
( ) Raise incentives, such as price supports and diversion payments, to encourage more farmers to participate in Agriculture Secretary John Block's reduced acreage program.
( ) Export demand would pick up if the administration would allocate more funds for export expansion.
( ) Farm costs would be lower if interest rates were lowered.
( ) Consumer demand would pick up if the government lowered taxes further and cut government spending.
( ) The grain reserve program depresses the market and should be abolished.
( ) Reduce trade barriers in the European Economic Community and Japan, particularly on corn and meat exports.
( ) Hungry nations need food and the U.S. grain surplus could be reduced by free shipments to those countries.
( ) Fire the U.S. secretary of agriculture.

HOW DO you feel about dairymen's proposals to help share the cost of the federal dairy price support program? ( ) it's a good idea ( ) it isn't.

7. STRESS — From a personal standpoint, how are you bearing up under the current financial strain?
( ) Sometimes I'm tense and grouchy.
( ) I'm still pretty easygoing.

HOW ABOUT your neighbors?
( ) Neighbors are being more neighborly, helping troubled farmers get through tough times.
( ) I notice some are becoming grouchy and withdrawn.

HOW ABOUT your landlord?
( ) My landlord has been understanding.
( ) My landlord is concerned about poor returns on his investment.
( ) My landlord lowered his cash rent.

8. CREDIT — Have you had trouble obtaining credit the past 12 months?
( ) No problem.
( ) I got credit, but the lender gave me more advice this time.
( ) I got credit, but I had to put up more collateral.
( ) I had to sell some assets before I could get credit.
( ) Overall my lender has been understanding.
( ) I didn't get credit.
( ) I don't borrow money.

IF YOU didn't get credit, what did you do?
( ) quit farming
( ) sold some assets
( ) continued to farm but on a reduced scale
( ) creditors have agreed to wait until next fall for payment.

DO WE need more farm credit to get through these tough times? ( ) yes ( ) no.

CONGRESS has considered adopting a one year moratorium on farm foreclosures by the Farmers Home Administration. Is that a good idea? ( ) yes ( ) no.

IS THE federal price support program of loans helpful in troubled times? ( ) yes ( ) no.

9. MAIN STREET — Have main street businesses in your area been hurt by lack of farm buying power? ( ) yes ( ) no.

10. INDUSTRY — If you're an agribusiness executive, how has the current farm situation affected your industry?
( ) Inventories are up.
( ) Sales are slow.
( ) Profits are down.
( ) Things actually look pretty good despite problems on the farm.
( ) Things will look better when consumer demand picks up with a pickup in the general economy.

ARE THERE any federal programs which could be adopted to help the unemployed?
( ) More employees could be added to my firm's payroll through the adoption of a series of job credits.
( ) More federal jobs programs are needed to hire unemployed workers.
( ) We need more education and retraining programs to help the unemployed find jobs.

TABULATION OF THE CEDAR RAPIDS GAZETTE FARM READERSHIP SURVEY

1. **BACKGROUND** — The survey was completed by 118 individuals who returned a clip out questionnaire in the farm section (page 29A) of Sunday, April 18, Gazette. Farm page readers had until Saturday, April 24, to respond. Seven other responses came in the Monday, April 26, mail, too late to be tabulated.

The first day's mail on Tuesday contained 37 responses, and an article to stimulate interest in the survey ran in the Wednesday, April 21, Gazette, indicating that Reaganomics supporters and critics were running neck and neck in the survey.

The Gazette considers the response good, considering that the survey was of a clip out type and the fact that The Gazette is a regional newspaper. The Gazette circulates in 16 of the state's 99 counties. Wallaces Farmer, a Des Moines based biweekly farm magazine which circulates throughout the state, has a highly respected interviewer-type farm poll that surveyed 214 farmers in its current issue. So The Gazette actually received more response proportionally than the Wallaces Farmer survey.

Those responding can be categorized as:

- 11 livestock producers, including 5 Republicans, 4 Independents, and 2 Democrats. Five of the livestock producers were dairymen.
- 13 grain farmers, including 5 Independents, 2 Democrats, 3 Republicans, and 3 who indicated no political preferences.
- 64 diversified farmers, who checked either general operator or both grain and livestock farming on the survey form. Analyzed further, the diversified farmers included: 23 Independents, 15 Democrats, 20 Republicans, 5 who indicated no political preference, and one who didn't vote.
- Five senior students enrolled in vocational agriculture at Mid-Prairie High School in Wellman responded, including 1 Republican, 1 who indicated no political party preference, 2 Democrats, and 1 who didn't vote.
- 25 nonfarmers or part-time farmers, including 2 agri-business executives, 4 agri-business salesmen, 3 implement dealers, 10 landlords who rent land to others to farm, 2 farm lenders, 2 main street businessmen, and 2 commodity brokers. One landowner was also engaged in the agri-education field as a high school vocational agriculture instructor. Analyzed further, this category consisted of 14 Republicans, 8 Independents, one who indicated no political preference, and two Democrats.
- No non-farm consumers or federal farm workers responded to the survey.

The respondents checked the following boxes, indicating political party preference:

- 43 Republican
- 23 Democratic
- 40 Independent
- 2 don't votes
- 10 who checked no political preference

2. **OUTLOOK** — Basically, how do you feel about the farm economy?

(46%) I'm optimistic

Total of 54 votes, including votes by 24 diversified farmers, 6 grain farmers, 4 livestock farmers, 4 high school ag students, and 19 nonfarmers.

(54%) I'm pessimistic.

Total of 63 votes, including votes by 36 diversified farmers, 8 grain farmers, 7 livestock farmers, 1 high school ag student, and 11 nonfarmers.

TELL US how pessimistic or optimistic you are by forecasting farm commodity prices during the coming year:

For this section of the survey, The Gazette analyzed the responses of the diversified farmers who classified themselves as independents.

	High	Low
Corn	$3.30	$1.50
Soybeans	$7.40	$4.50
Hogs	$45	$32
Cattle	$75	$50

WILL those prices cover your production costs?

(40%) yes

Yes total includes votes by 18 diversified farmers, 4 grain farmers, 1 livestock farmer, 5 high school ag students, and 12 nonfarmers.

(60%) no.

No total includes votes by 32 diversified farmers, 6 grain farmers, 7 livestock farmers, 1 high school ag student, and 14 nonfarmers.

IF those projected prices are below your production costs, how are you coping?

(14%) cutting fertilizer and pesticide rates

Some 20 respondents voted this way, including 14 diversified farmers, 3 grain farmers, and 3 livestock farmers.

(18%) forward contracting or hedging

Some 26 respondents voted this way, including 19 diversified farmers, 4 grain farmers, 2 livestock farmers, and 1 high school ag student.

(19%) going into the federal reduced acreage program

Some 27 respondents voted this way, including 22 diversified farmers, 3 grain farmers, 1 livestock farmer, and 1 high school ag student.

(16%) trying no-till

Some 24 respondents voted this way, including 21 diversified farmers, 2 grain farmers, and 1 high school ag student.

(27%) praying

Some 39 respondents voted this way, including 28 diversified farmers, 3 grain farmers, 5 livestock farmers, and 3 high school ag students.

(6%) other

Some 9 respondents voted this way, including 8 diversified farmers and 1 grain farmer.

HOW OPTIMISTIC are you about farmland prices?

(9%) They'll go up this year.

Some 9 respondents checked this answer, including 4 diversified farmers, 1 livestock farmer, 1 high school ag student, and 3 nonfarmers.

(35%) They'll go down.

Some 37 respondents voted this way, including 20 diversified farmers, 4 grain farmers, 5 livestock farmers, and 8 nonfarmers.

(56%) They'll remain about the same.

Some 59 respondents voted this way, including 31 diversified farmers, 7 grain farmers, 2 livestock farmers, 5 high school ag students, and 14 nonfarmers.

ARE YOU postponing machinery purchases because of the current economic conditions?

(81%) yes

Some 61 respondents checked this answer, including 43 diversified farmers, 6 grain farmers, 7 livestock farmers, and 5 high school ag students.

(19%) no.

Some 15 respondents checked this answer, including 8 diversified farmers, 5 grain farmers, 1 livestock farmer, and 1 high school ag student.

3. **TURNAROUND** — When is the domestic economy going to turn around?

(5%) this summer

Some 5 respondents checked this answer, including 3 diversified farmers, 1 grain farmer, and 1 high school ag student.

(19%) this fall

Some 20 respondents checked this answer, including 7 diversified farmers, 1 grain farmer, 1 livestock farmer, 2 high school ag students, and 9 nonfarmers.

(5%) this winter

Some 5 respondents checked this answer, including 4 diversified farmers and 1 nonfarmer.

(34%) 1983

Some 34 respondents checked this answer, including 16 diversified farmers, 7 grain farmers, 1 high school ag student, and 11 nonfarmers.

(35%) 1984

Some 36 respondents checked this answer, including 24 diversified farmers, 1 grain farmer, 1 livestock farmer, 2 high school ag students and 8 nonfarmers.

(2%) Beyond 1984

Two respondents checked this answer, including 1 grain farmer and 1 livestock farmer.

4. **REAGANOMICS** — How do you feel about the Reagan administration's economic program?
(34%) It's working
Some 38 respondents checked this answer, including 22 diversified farmers, 6 grain farmers, 2 livestock farmers, and 10 nonfarmers.
(66%) It isn't working.
Some 73 respondents voted this way, including 37 diversified farmers, 7 grain farmers, 9 livestock farmers, 5 high school ag students, and 15 nonfarmers
IF YOU don't think it's working, why not?
(33%) The budget deficit is too high.
Some 45 respondents checked this answer, including 21 diversified farmers, 5 grain farmers, 3 livestock farmers, 3 high school ag students, and 13 nonfarmers.
(45%) Interest rates are too high.
Some 62 respondents voted this way, including 34 diversified farmers, 4 grain farmers, 5 livestock farmers, 2 high school ag students, and 17 nonfarmers.
(22%) Tax cuts are wrongly targeted.
Some 30 respondents voted this way, including 17 diversified farmers, 2 grain farmers, 3 livestock farmers, 2 high school ag students, and 6 nonfarmers.
IF YOU think Reaganomics is working, what should the public do?
(55%) Be patient, give the president more time for his policies to work.
Some 30 respondents voted this way, including 13 diversified farmers, 6 grain farmers, 2 livestock farmers, 1 high school ag student, and 8 nonfarmers
(41%) Tell Congress to cooperate more in passing legislation.
Some 22 respondents voted this way, including 13 diversified farmers, 2 grain farmers, 1 livestock farmer, and 6 nonfarmers.
(4%) Tell Congress to enact more tax breaks to help my situation.
Two respondents voted this way, including 1 diversified farmer and 1 grain farmer.
5. **FARM SITUATION** — Do you think the farm economy is in the doldrums?
(98%) yes
Some 99 respondents checked this answer, including 50 diversified farmers, 10 grain farmers, 8 livestock farmers, 6 high school ag students, and 25 nonfarmers.
(2%) no.
Two voted this way, including 1 diversified farmer and 1 grain farmer.
IF YOU think it is, why? (Check up to three.)
(13%) Farmers produced too much corn, wheat and other grain products last season.
Forty respondents voted this way, including 17 diversified farmers, 4 grain farmers, 4 livestock farmers, 2 high school ag students, and 13 nonfarmers.
(3%) The federal government didn't have a reduced acreage program last year, as it should have.
Some 11 respondents voted this way, including 5 diversified farmers, 1 grain farmer, 2 high school ag students, and 3 nonfarmers.
(23%) Farmers are still feeling the effects of President Carter's Soviet grain embargo.
Some 70 respondents checked this answer, including 37 diversified farmers, 9 grain farmers, 3 livestock farmers, 4 high school ag students, and 17 nonfarmers.
(7%) The federal government interferes through its price support, loan and grain reserve mechanisms.
Some 22 respondents voted this way, including 9 diversified farmers, 5 grain farmers, 1 livestock farmer, and 6 nonfarmers.
(18%) Export demand is down worldwide.
Some 55 respondents voted this way, including 29 diversified farmers, 7 grain farmers, 2 livestock farmers, 3 high school ag students, and 14 nonfarmers.
(20%) A down domestic economy has affected consumer's buying power.
Some 60 respondents voted this way, including 30 diversified farmers, 3 grain farmers, 7 livestock farmers, 4 high school ag students, and 16 nonfarmers.
(7%) High taxes are burdening the public and the federal budget should be cut even more.
Some 21 respondents voted this way, including 8 diversified farmers, 4 grain farmers, 1 livestock farmer, 1 high school ag student, and 7 nonfarmers.
(9%) The inflation rate is stifling consumer demand.
Some 28 respondents marked this answer, including 20 diversified farmers, 3 grain farmers, 1 high school ag student, and 4 nonfarmers.
ARE THINGS as bad on the farm as during the Great Depression?
(36%) yes
Some 37 respondents voted this way, including 20 diversified farmers, 2 grain farmers, 6 livestock farmers, 1 high school ag student, and 8 nonfarmers.
(64%) no.
Some 65 respondents marked this answer, including 31 diversified farmers, 8 grain farmers, 2 livestock farmers, 5 high school ag students, and 19 nonfarmers.
ARE THINGS worse than during the mid-1950s, when drought and low hog prices dimmed farm profit hopes?
(67%) yes
Some 66 respondents voted this way, including 40 diversified farmers, 5 grain farmers, 8 livestock farmers, 2 high school ag students, and 11 nonfarmers.
(33%) no.

Some 33 respondents voted this way, including 13 diversified farmers, 4 grain farmers, 4 high school ag students, and 12 nonfarmers.

6. **FARM SOLUTIONS** — How do think these problems could be solved? (Check your top three solutions.)

(8%) Raise incentives, such as price supports and diversion payments, to encourage more farmers to participate in Agriculture Secretary John Block's reduced acreage program.

Some 23 respondents checked this response, including 17 diversified farmers, 1 grain farmer, 1 high school ag student, and 4 nonfarmers.

(13%) Export demand would pick up if the administration would allocate more funds for export expansion.

Some 38 respondents checked this answer, including 17 diversified farmers, 7 grain farmers, 4 high school ag students, and 10 nonfarmers.

(25%) Farm costs would be lower if interest rates were lowered.

Some 76 respondents voted this way, including 43 diversified farmers, 3 grain farmers, 7 livestock farmers, 3 high school ag students, and 20 nonfarmers.

(11%) Consumer demand would pick up if the government lowered taxes further and cut government spending.

Some 32 respondents marked this answer, including 16 diversified farmers, 4 grain farmers, 2 livestock farmers, 1 high school ag student, and 9 nonfarmers.

(7%) The grain reserve program depresses the market and should be abolished.

Some 22 respondents voted this way, including 9 diversified farmers, 3 grain farmers, 3 livestock farmers, and 7 nonfarmers.

(25%) Reduce trade barriers in the European Economic Community and Japan, particularly on corn and meat exports.

Some 75 respondents marked this answer including 37 diversified farmers, 10 grain farmers, 6 livestock farmers, 5 high school ag students, and 17 nonfarmers.

(9%) Hungry nations need food and the U.S. grain surplus could be reduced by free shipments to those countries.

Some 26 respondents voted this way, including 13 diversified farmers, 3 grain farmers, 1 livestock farmer, 4 high school ag students, and 5 nonfarmers.

(2%) Fire the U.S. secretary of agriculture.

Seven respondents marked this response, including 3 diversified farmers, 1 livestock farmer, and 3 nonfarmers.

( ) Other.

One farmer said the U.S. Secretary of Agriculture should be allowed to run the USDA without interference from others in the administration, particularly Secretary of State Alexander Haig.

HOW DO you feel about dairymen's proposals to help share the cost of the federal dairy price support program?

(83%) it's a good idea

Some 68 respondents marked this answer, including 34 diversified farmers, 6 grain farmers, 6 livestock farmers (including four dairymen), 5 high school ag students, and 17 nonfarmers.

(17%) it isn't.

Fourteen respondents voted this way, including 7 diversified farmers, 2 livestock farmers (including one dairyman), 1 high school ag student, and 4 nonfarmers.

7. **STRESS** — From a personal standpoint, how are you bearing up under the current financial strain?

(57%) Sometimes I'm tense and grouchy.

Some 59 checked this response, including 36 diversified farmers, 3 grain farmers, 6 livestock farmers, 2 high school ag students, and 12 nonfarmers.

(43%) I'm still pretty easygoing.

Some 44 voted this way, including 20 diversified farmers, 7 grain farmers, 1 livestock farmer, 4 high school ag students, and 12 nonfarmers.

HOW ABOUT your neighbors?

(40%) Neighbors are being more neighborly, helping troubled farmers get through tough times.

Some 36 respondents marked this response, including 19 diversified farmers, 5 grain farmers, 1 livestock farmer, 4 high school ag students, and 7 nonfarmers.

(60%) I notice some are becoming grouchy and withdrawn.

Some 53 respondents checked this response, including 29 diversified farmers, 7 livestock farmers, 2 high school ag students, and 14 nonfarmers.

HOW ABOUT your landlord?

(33%) My landlord has been understanding.

Some 19 checked this response, including 11 diversified farmers, 3 grain farmers, 1 livestock farmer, 2 high school ag students, and 2 nonfarmers.

(67%) My landlord is concerned about poor returns on his investment.

Some 39 checked this response, including 24 diversified farmers, 3 grain farmers, 4 livestock farmers, 2 high school ag students, and 6 nonfarmers.

(0%) My landlord lowered his cash rent.

No individual checked this response.

8. **CREDIT** — Have you had trouble obtaining credit the past 12 months?
(36%) No problem.
Some 44 checked this response, including 23 diversified farmers, 8 grain farmers, 3 livestock farmers, 2 high school ag students, and 8 nonfarmers.
(15%) I got credit, but the lender gave me more advice this time.
Some 18 checked this response, including 14 diversified farmers, 2 livestock farmers, and 2 nonfarmers.
(9%) I got credit, but I had to put up more collateral.
Eleven checked this response, including 7 diversified farmers, 2 livestock farmers, and 2 nonfarmers.
(6%) I had to sell some assets before I could get credit.
Seven voted this response, including 3 diversified farmers and 4 nonfarmers.
(18%) Overall my lender has been understanding.
Twenty-two checked this response, including 13 diversified farmers, 1 grain farmer, 1 livestock farmer, 2 high school ag students, and 5 nonfarmers.
(2%) I didn't get credit.
Three voted this response, including 2 diversified farmers and 1 livestock farmer.
(14%) I don't borrow money.
Seventeen marked this answer, including 7 diversified farmers, 2 grain farmers, 1 livestock farmer, 2 high school ag students, and 5 nonfarmers.
IF YOU didn't get credit, what did you do?
(14%) quit farming
Two voted this response. Both were diversified farmers.
(50%) sold some assets
Seven voted this response, including 3 diversified farmers, 1 livestock farmer, and 3 nonfarmers.
(36%) continued to farm but on a reduced scale
Five marked this response, including 2 diversified farmers, 1 grain farmer, 1 high school ag student, and 1 parttime farmer.
(0%) creditors have agreed to wait until next fall for payment.
No respondents voted for this answer.
DO WE need more farm credit to get through these tough times?
(59%) yes
Sixty-six respondents voted for this answer, including 35 diversified farmers, 5 grain farmers, 10 livestock farmers, 5 high school ag students, and 11 nonfarmers.
(41%) no.
Forty-six marked this response, including 19 diversified farmers, 7 grain farmers, 3 livestock farmers, 1 high school ag student, and 16 nonfarmers.
CONGRESS has considered adopting a one year moratorium on farm foreclosures by the Farmers Home Administration. Is that a good idea?
(63%) yes
Sixty-nine respondents voted this choice, including 42 diversified farmers, 7 grain farmers, 6 livestock farmers, one high school ag students, and 13 nonfarmers.
(37%) no.
Forty-one marked this response, including 17 diversified farmers, 7 grain farmers, 4 livestock farmers, 3 high school ag students, and 10 nonfarmers
IS THE federal price support program of loans helpful in troubled times?
(73%) yes
Some 82 cast this vote, including 43 diversified farmers, 9 grain farmers, 4 livestock farmers, 3 high school ag students, and 23 nonfarmers.
(27%) no.
Thirty voted this way, including 13 diversified farmers, 4 grain farmers, 6 livestock farmers, 2 high school ag students, and 5 nonfarmers. Two wrote explanatory material on the ballot to explain their positions. One "yes" respondent said they help in the "short run" only. A "no" respondent objected to price supports on grounds that the levels are set "too low."

9. **MAIN STREET** — Have main street businesses in your area been hurt by lack of farm buying power?

(93%) yes

Some 95 respondents voted this way, including 48 diversified farmers, 10 grain farmers, 8 livestock farmers, 5 high school ag students, and 24 nonfarmers.

(7%) no.

Seven marked this response, including 2 diversified farmers, 1 high school ag student, and 4 nonfarmers.

10. **INDUSTRY** — If you're an agribusiness executive, how has the current farm situation affected your industry?

(4%) Inventories are up.

Only one voted this way, a grain farmer.

(46%) Sales are slow.

Thirteen marked this response, including 3 grain farmers and 10 nonfarmers.

(25%) Profits are down.

Seven voted this way, including a grain farmer and 6 nonfarmers.

(11%) Things actually look pretty good despite problems on the farm.

Three nonfarmers voted this response.

(14%) Things will look better when consumer demand picks up with a pickup in the general economy.

Four voted this response, including 1 diversified farmer and 3 nonfarmers.

ARE THERE any federal programs which could be adopted to help the unemployed?

( ) More employees could be added to my firm's payroll through the adoption of a series of job credits.

Six voted this response, including 1 diversified farmer, 1 livestock farmer, and 4 nonfarmers.

( ) More federal jobs programs are needed to hire unemployed workers.

Ten voted this response, including 5 diversified farmers, 1 livestock farmer, 1 high school ag student, and 3 nonfarmers.

( ) We need more education and retraining programs to help the unemployed find jobs.

Thirty-eight voted this response, including 7 diversified farmers, 5 grain farmers, 4 high school ag students, and 12 nonfarmers.

[From the Cedar Rapids Gazette, Sunday, Apr. 18, 1982]

How Do You View the Farm Economy?

Are things on the farm really as bad as they were during the Great Depression? We hope not, but the statistics sound bad.

The farm income ratio—what economists call parity—is the lowest since the early 1930s. This is the first time since the Depression that farmers have experienced three bad farm income years in a row. Net farm income this year is projected to be half of what it was three years ago.

Even the farm magazines that usually tell how to succeed in farming are now writing an occasional article, on farmers who are quitting. Both Successful Farming and Wallaces Farmer, two Des Moines-based magazines, had such articles in their latest issues.

Because of all this bad news, the Joint Senate-House Economic Committee wants to know how farmers feel during these troubled times.

The committee is holding five hearings on the troubled agricultural economy, and testimony will be presented during one of those hearings—the next to the last one—on farmers' thoughts as summarized on the accompanying questionnaire.

The Gazette was selected from newspapers across the nation to give the committee an update on the "gut" feelings of farm folks, primarily because readers have a close relationship with this newspaper.

The Gazette has carried a wide range of stories about how various individuals are faring during this period of low farm prices.

Some of the stories have been about farmers' troubles getting loans, others have been about the plight of elevator operators, and, of course, The Gazette has carried a number of stories about layoffs and slow sales in the agribusiness sector, particularly the farm implement trade.

In addition, The Gazette has asked farm managers what advice they're giving farmers these days. And there have been reports on a wide range of solutions offered by folks ranging from farm leaders, exporters and agribusiness officials.

So The Gazette has kept you posted on how a wide variety of individuals are coping with the current economic climate.

Now The Gazette would like to hear from you. I have prepared a 10-question survey on the farm economy for everyone from farmers themselves and their sales representatives to agribusiness executives and union workers laid off due to slow demand.

You are being asked these questions because Iowa's senior senator, Roger Jepsen, has asked me to testify before a subcommittee of the Joint House-Senate Economic Committee on the plight of Gazette farm readers during these uncertain times. Jepsen is vice chairman of the full committee.

Perhaps a little background about the Joint Economic Committee investigation is in order. The hearing April 29 is one of five.

Earlier, four former secretaries of agriculture testified. U.S. Agriculture Secretary John Block will testify next, followed by four economists, then comes the testimony of four farm reporters, and finally presentations by farm exporters.

The farm reporters testifying include one farm broadcaster, two newspaper farm editors, and one farm organization specialist.

One of those testifying will be Orion Samuelson, a farm broadcaster with WGN in Chicago and host of the television show "U.S. Farm Report." Samuelson and I will try to reflect the opinions of agricultural leaders in the Midwest.

My counterpart, Carlisle Besuden from Lexington, Ky., will report on what his sources are thinking in the South. Carlisle is president of the Newspaper Farm Editors of America.

Mike Henry, editor of Agriculture Alert, a California Farm Bureau newspaper, will reflect the concerns of fruit, vegetable and livestock farmers in the West.

[From the Cedar Rapids Gazette, Wednesday, Apr. 21, 1982]

Reagan Policy Supporters, Critics Neck and Neck in Gazette Survey

Reaganomics supporters and critics are running neck and neck as responses poured in the first day to a Gazette farm survey.

The survey was in Sunday's Gazette and will be used as a basis for testimony April 29 before the Joint Economic Committee in Washington on the current farm economic situation.

Nearly all of those surveyed thus far agree that the farm economy is in the doldrums, although some don't think it's as bad as the Great Depression of the 1930's.

Others maintain that it's worse, because interest rates are higher now than they were back then.

In addition to filling out the survey, several readers have enclosed notes amplifying their reasons for voting as they did in the survey. Others have enclosed brief case histories about their economic plight, and several have enclosed news tips.

One or two even complimented The Gazette farm department for trying to print both sides of various farm policy debates.

An early analysis of the returns would indicate that farm leaders in the Gazette area are tending to be pessimistic about current economic conditions, but several optimists have also responded.

The survey was designed to reflect this difference of opinion, of course, as different views are what make horse races—and farm politics.

A good cross section of farm leaders have contributed to the survey, including those of both parties and most farm occupational groups. Most of the respondents thus far have been Independents.

But the Gazette is still looking for its first responses from consumers, lenders, federal farm workers, and agri-educators.

If you haven't contributed to the survey, there's still time. The deadline is Saturday. Clip out the survey sheet in Sunday's farm section and mail it to the farm department.

If you've lost your survey sheet, just jot us a note or give us a phone call.

Senator JEPSEN [presiding]. Thank you very much, Mr. Swegle. For the rest of the panel, I think we'll just move from my left to right. You're on the far right today, Mr. Samuelson. [Laughter.] And Mr. Besuden, of the Lexington, Ky., Herald, welcome, and you may proceed.

STATEMENT OF H. CARLISLE BESUDEN III, FARM EDITOR, THE LEXINGTON HERALD, LEXINGTON, KY., AND PRESIDENT, NEWSPAPER FARM EDITORS OF AMERICA

Mr. BESUDEN. Thank you, Senator Jepsen.

I may have a unique position among most farm writers in that I'm a farm editor and also a farmer. So I have not only written about farming but I've been there also.

I appreciate the opportunity today of appearing before your subcommittee to present a number of farmers' views from the Southeastern area of the United States.

I'm not going to try to bore you today with a lot of figures and totals and percentages and other numerical statistics, but you all have heard these and will hear more of them I'm sure. I'm just going to try to tell you what the farmers have told me in the way they have told me of what's going on in their particular farms.

I might just go over my background briefly. I have been farm editor of the Lexington Herald for the past 13 years. The newspaper covers 57 of the State's total 120 counties—mostly in central, south-central, and eastern Kentucky. I've been farming two 120-acre farms in southern Kentucky for the past 23 years. For that first 5 years, things were real good. I was a full-time farmer, raising sheep, beef cattle, burley tobacco, corn, and hay. Things were good. That was from about 1959 until 1963. It provided a living for my family.

Since then, financially, farming has gone downhill. The second 5 years I was a full-time farmer and also held a part-time job off the farm as a soil conservation service aide to help provide money for my family. For the past 13 years, I have been a part-time farmer with a full-time job off the farm to make a living. I guess I use my salary off the farm to subsidize my farming ventures.

As you can imagine, I love the land and will hold on to it until there is no other alternative, but if there isn't a substantial—and I emphasize a substantial—turnaround in prices received by farmers in the near future, eventually this land that I and others hold so dear may have to go the way of so many other farms near me—sold with about 50 percent of the land being turned into subdivisions and some going to factories and businesses and what not.

At the present time, there's a subdivision on three sides of one of my farm. The reason that there isn't a subdivision on the fourth side is because it's my father's farm and he doesn't want to sell either.

If it had not been for burley tobacco in my area, many more neighbors and farmers down the road would have had to sell their property and move into subdivisions. They would be working in town or, worse yet, out of a job and on Government welfare. But, of course, burley tobacco is only grown in eight States with about two-thirds of it being produced solely in Kentucky. There are, however, other kinds of tobacco being grown in 10 to 12 other States. But keep in mind, the average tobacco quota is only about 1½ acres in the burley tobacco section and the maximum profit that we can squeeze out of 1 acre of tobacco amounts to about $1,000. So we're talking about $1,500 average net profit on the average farm, which I'm sure you know doesn't go very far.

To my knowledge, tobacco has been the only continuous farm commodity over the years that has a price support program that covers the full cost of production. This program does guarantee a farmer to a certain extent a small profit after his barns, land, and machinery are paid for. No other farm program does this and at so little cost to the taxpayer. The Government has lost only $57 million during the past four decades on the entire tobacco program.

Now the program is being revised to make it a guaranteed, no net cost program to the taxpayer.

But what about the farmers that do not have a quota to produce tobacco or have a relatively small allotment? What about the farmers that have to depend on corn, wheat, cattle, and hogs to make a profit and a living for their families? What is their present financial condition?

There have been corn cribs and grain storage bins full of assurances coming from Washington and State levels of government on the amount of money there is available for farmers to borrow to produce the food that each grows for himself and 78 nonfarmers. More promises of more money available have been made. So many, that if stair-stepped on top of each other, they would provide a walking path to the Moon instead of getting there by the rockets that we now use.

On top of this, the money already available for them to borrow—the more money that's available for them to borrow has gotten them deeper in debt. They say the reduced interest on the Farmers Home and PCA loans are good, but they actually come too late for most farmers.

Senator JEPSEN. Excuse me a minute, Mr. Besuden. I apologize. We have a vote coming up on the floor. I'm going to miss it if I don't leave immediately. So if we could just take about a 1-minute break, and by then Senator Abdnor should be back to chair the hearing. You see, we know a vote is up because of all the buzzing and all the lights on that clock on the backwall there. Those five lights that went on about 6 minutes ago indicate at that time I had 7½ minutes to get to the Senate to vote, so please excuse me.

[A short recess was taken.]

Senator ABDNOR [presiding]. I'm sorry, gentlemen, for this unfortunate interruption. Mr. Besuden, I'm sorry I was out when you started your testimony and I missed the previous witnesses final conclusions. You may proceed, if you will.

Mr. BESUDEN. Thank you, sir.

The farmers have already had to borrow all they can borrow at the prevailing high rates before they can qualify for the lower Government loan rates. Without a substantial increase in the 57 percent of parity prices they have to sell their products for now, most of the farmers will never be able to pay back the discounted interest loans, much less the primary loans at the higher rates.

Gentlemen, farmers all have told me they do not want money and more money to borrow to throw down a hole. They want to make a little or decent profit for a change. They don't want to borrow at the bank or produce and then not get back the cost of production, much less not enough to make a living wage with the products that are sold at the market.

Now when farmers take their products to market, they have to ask, "What will you give me?" I have no base to begin an asking price. If the farmers are not offered enough for their sweat and risk of losing one crop out of seven, they still have to accept what they are offered because they have a perishable commodity and every buyer knows it.

As I said before, farmers tell me they only want a chance to make a decent profit. They can't keep going deeper in debt and survive. Five years interest at the present rate will cost the farmer one crop in seven. The weather takes another one. That leaves him only five crops out of seven to come out. There's not enough left after this kind of losses for any business to keep going.

If it had not been for the increases in land prices over the years, farmers would not have lasted as long as they have and, of course, I'm sure you have seen figures in the past year where land prices are going down, some substantially, as much as 25 percent.

There are those who urge farmers to hold on just a little longer; things are going to get better. What these people don't realize is that not only farm prices have to get better and fast, but they have to stay that way for a number of consecutive years before farmers can ever catch up from the past 10 to 12 bad years.

One or two so-called good years will not get them over the hump. For example, the first good year they have to pay off their used short-term loans. The second good year they have to pay of their long-term loans. The third good year they have to pay for capital farm improvements. The fourth good year they have to purchase new equipment. The fifth good year they have to pay for land improvements and soil conservation measures. The sixth good year they have to catch up with inflation again. The seventh good year they have to pay for their home improvements. The eighth good year they hope to make money to expand or to put in savings accounts.

All of the above are not necessarily in that order, nor, as you well know, these individual items and projects cannot be paid for 1 actual year.

Another thought to keep in mind is that farmers not making a profit pay no State or Federal income taxes, further contributing to this country's deficit.

Farmers tell me they want big government out of farming as far as the petty rules and regulations are concerned, but they need government-set standards and controls for production and sales in farm commodities.

They say farmers are too numerous, scattered, of different size and individually produce multicollection of food products to ever be organized within their own ranks. Government has to help them do it. They cannot keep producing more and taking less for their product and remain in business much longer. They have to know and plan 6 months to 2 years ahead how many seeds to plant and how many livestock to breed for sale.

Once production has begun, they cannot turn it off by a red or black button. If the market falls midway through the growing cycle, farmers cannot lay off every other seed, cow, sheep or hog. They cannot shut their doors and say, "Take a vacation for 90 days." They cannot look for a taxpayer handout to keep operating at full steam with no favors returned.

Farmers tell me not only production has to be controlled, but so do imports. Nearly every farmer I have talked to in my area has told me that within the past decade every time he has something that is ready to sell and has to be sold because it is a perishable commodity, it seems a recordbreaking import of that particular commodity has just entered this country, driving down prices for that product. A most recent example of that—admittedly on a small scale as far as total farm income is concerned—is the wool market. Just as this year's crop of wool was beginning to be shorn for market, a record volume of that same commodity was imported here from South America. The U.S. price for native wool dropped 50 percent—60 cents to 30 cents a pound—almost immediately. Even though there is a Government-support price on wool, it is only 22 percent of the support price and only 14 percent of the $2.10 parity determined for wool.

The price farmers received from wool used to pay to get the wool off the back of the sheep and pay the winter feed grain bill. Now the price of 7 pounds of wool per ewe at 30 cents a pound will hardly pay for the $2 per head shearing bill.

Most farmers tell me they agree mostly with free world trade, but it cannot be a one-way street. It has to be monitored in some way to control it on a volume-time basis. Farmers say, "What's wrong with telling other countries when they have an export to send us that we can only accept part of it, but we can't handle all of it right now because we have more of that product than our market can withstand? We understand our monetary system is in better shape and stronger than a lot of other countries you can export to, but we will try to take some more of your products at a later date after our own volume of it is reduced."

Farmers also tell me we should not import any commodity from a country that levies duties on our exports to them. They cite our beef and melons being exported at the present time to Japan as one instance, where their duties are imposed to protect their farmers. These products cost the Japanese consumers $15 per pound and $20 a piece respectively.

Could U.S. consumers afford this and can this country afford very much longer not to protect its own farmers to some extent?

Farmers say some means must be found also to protect our bountiful soil. You have all heard the figues repeatedly expounded on the millions of tons of soil being eroded and going "under blacktop" in this country each year. What hasn't been emphasized and is little thought about in this country is that we continue to deplete our existing soil fertility through exports without any compensation whatsoever to the farmer. Every time another country receives something we export from our land, they end up with a certain amount of our soil's wealth.

To add to this problem, fertilizer usage in the United States, which has never been enough to maintain soil fertility levels according to agronomists, was down last year. It could well be down again this year if farmers again have to cut production costs to try to make a profit.

Within the next few decades, this country could well become one of those impoverished nations that we are feeding today.

To put it more bluntly, one farmer told me, "Gold, silver, and dollars are not the wealth of this nation; food, soil, and water are."

Other farmers, farm writers, and agricultural officials do not need to take up more of your time expounding on the trials and tribulations of the farm economy today. All you need to do is to drive out into the country, get off the main highways where the horse-rich, white plank fences and lush green padocks are, and drive down the county lanes where the majority of our food is produced. There you will see the gaping holes in the weathered sides of barns, fences so rotten they are held together by baling twine to keep the cattle from straying, fields beginning to erode and farm machinery so old that it should be in museums.

Farmers are a proud lot, make no mistake about that, probably the proudest of all businessmen in this great United States. They do not like having to sit there and watch their capital stock being depleted. They would much rather take you to see a new shed on the barn, a new corn storage bin or a renovated pasture sprinkled with fresh clover plants. But they would also like to tell you that this was paid for—or at least partly paid for—out of profits they received from last year's crop or cow.

Newspaper Farm Editors of America just held their 29th annual spring meeting here in Washington this past weekend. We heard a Senator who has a high-ranking position on the Senate Agriculture Committee tell us the news media was playing up too much the ills of farming, and I quote, "the doom and gloom of farming."

I inquired among the NFEA members representing some 20 to 25 States throughout the country just how bad the situation really was. They said it was just like they had told it.

I thought that maybe we had been out of touch with reality for the 4 days we had been in Washington and maybe things had taken on an immediate turnaround for the better back home. So when I returned to Kentucky Tuesday evening I went down to the country store where farmers come in every morning about sunup for a cup of coffee before going to the fields and return about dusk for a soft drink to wash the dust from their throats after being in the fields all day long. There, I picked out what I considered to be an average farmer, or maybe a little below average because he only has a farm with a few acres more than mine. I asked him how things were. He reached back in his left hip pocket and withdrew an old brown, sweaty, and worn wallet. Upon opening it, some particles of hay fell out and floated down to the floor, mixing with the mud tracks that had been left by farmers' dirty shoes. The farmer separated the first portion in the wallet reserved for small bills. It was empty. The second portion of the wallet that was reserved for big denominations of currency held one old dollar bill. He said he had not cashed a check for more than 150 days since he sold his tobacco back in November.

He did say, however, that he did expect to sell a few calves in the next few weeks, but that it would probably be below the cost of production.

Yes, the doom and gloom is still out there. The farmer's pocketbook and bank account prove it.

Farmers tell me they don't need loans and more loans. They need to make a decent profit. When that envelope comes in the mail and says, "Payment due immediately and no further credit can be extended," what choice, what alternative does a farmer have except to turn to persons like yourselves in responsible agriculture positions for your help and guidance to do something, and quick, to help them?

I could list farmers' troubles for another 2 hours or on another 20 pages from facts I received after being requested by you to find out their present thoughts and economic conditions—such things as the increased losses they expect from having brucellosis and other disease-control funds cut and other budget decreases; soil conservation program practices being tossed about here and there; high interest costs; inflation; debt; and the decline of the farmer's share of the consumer's food dollar, and many others.

It has been said that if a farmer gave his food to the market, the customer would still have to pay 64 cents for an empty sack because the farmer only gets 36 cents of the food dollar, and I'm sure you've heard most of these facts.

I wish to thank you for the privilege of appearing before this subcommittee today to present many farmers' views of their industry. I will be pleased to try to answer any questions you may wish to ask at this time.

Thank you, Senator.

Senator ABDNOR. Thank you, Mr. Besuden, for that very excellent statement and we will get back to questions in a minute. I certainly know you speak with expertise and a good reputation, being president of the Newspaper Farm Editors of America. You have to have the greatest respect of your cohorts and we appreciate that you're hearing from the people back home.

Our next witness is Mike Henry, and, Mr. Henry, Congressman Rousselot went on and on about you the last time and he certainly wanted to be here and he thinks very highly of you, and I guess your record certainly shows that and we're anxious to hear about the situation on the west coast and I'm sure we could go to no better source than you. So you may proceed, Mr. Henry.

STATEMENT OF MIKE HENRY, EDITOR, AG ALERT, SACRAMENTO, CALIF.

Mr. HENRY. Thank you, Mr. Chairman.

For the record, my name is Mike Henry. I'm editor of Ag Alert, which is a weekly publication of the California Farm Bureau Federation and we reached 50,000 farmers and ranchers each week.

When I was first contacted I was requested to direct my remarks to cattle, fruits, and vegetables. That's a narrowing down of the California agriculture, but still there's a lot there. I submitted my complete text to you previously and I will now speak from a summary.

In speaking with the California farmer and those involved in our industry, they are almost unanimous in regards to economics. They held a concern that at the end of the year that their checkbook could be in the black. Oftentimes it's not. They're most concerned about the economic policies that float out to them from here at the nation's capital. They're concerned for a balanced budget and they realize that cuts in the budget are necessary and they indicate that they're willing to take their fair share. They are very much in support of reductions where necessary across the board.

Anticipation of the growing season ahead on the part of many California farmers has been drenched with the abnormal weather that hit the State during the early spring. It was bad enough that some farmers were anxiously looking at their calendars to try to figure out their growing season for their crops yet to be planted, but the other growers were still trying to get into the fields to harvest crops previously planted.

Farmers often call for rain to supplement their growndwater storage and aid in crop irrigation, but this spring was like no other spring in some farmers' memories. In parts of California it will go down on record as the wettest winter in this century.

But one producer's curse is another's blessing, and that was the picture for the California cattlemen. While farmers were busy trying to drain their land of the water, the cattlemen were content to sit back and watch the rains sink in their grazing land with a strong stand of feed.

I discovered in talking with both cow-calf and feedlot operators that listing of beef cattle on the futures market has caused some concern for many of the beef producers in California. They claim that the futures listing does nothing but create a false influence on the market that can cause the price to jump either up or down. The only guaranteed winner in the futures market is the broker who is involved in the buying and selling of cattle.

The cattle producers of California are calling for a return to a true supply and demand market at the time of sale. They've been price-takers for all too long and now they would like to be on the other end of the stick. They claim that elimination of the futures listing would have no detrimental effect on the industry.

Turning to transportation: transportation routes from California to east coast markets represent the lifelines for many of the State's fruits and veegtables. Shippers have turned away from the refrigerated rail car and are moving toward further use of the trucking industry. In addition, they use the piggyback trailers hauled on railroad flat cars is on the increase. But even the questioning availability of an adequate supply of trucks has not caused growers to turn away from that mode of transportation.

Shippers contend that truck shipments are more secure in their transportation and have earlier arrival dates in the east coast markets. They are quick to point out that the cost of doing business in the trucking industry often means that the inefficient trucker goes out of business, something that's not unfamiliar in the world of agriculture for California.

When this happens, the supply of trucks goes down and naturally the price for hauling goes up. California shippers prefer this situation to one of added regulation that would only serve to prop up the inefficient trucker.

A lot of catsups and other products are derived from the California processing tomato crop but that supply is in jeopardy this year due to spring rains that have forced replanting of some early acreage and delayed plantings for the later harvest. California accounts for 85 to 90 percent of the processing tomatoes in the United States and supply is expected to be down about 1 million tons because of the rains.

Farmers are now caught in a delicate position where they must decide if they wish to chance the late harvest weather in October and plant additional acreage which is currently being sought by the State's canneries. Farmers stand to lose not only their crop but also the potential revenue of other crops had they decided not to plant the added tomato acreage.

Premium payments are being sought by the farmer to offset this risk but weather has already played havoc with the first part of the season and may repeat during harvest. The situation of the processing tomato farmer is one weakness in dealing with the canneries. The big stick is being carried by the canner and the farmer is being forced to battle for every penny he can make on a signed contract.

The situation points out the need for strong bargaining legislation on the national level that puts the producer on the same level as the processor.

In looking at pesticide registrations, farmers may complain about enforcement measures relating to pesticide use on their farms and ranches, but there are some in California who fear enforcement procedures may become extinct unless changes are made in the registration process for new pesticides. The effort to register new pesticides in California has become an expensive and complex entanglement. Chemical companies have found the process very hard to get through with their new products. California regulations often require chemical companies to provide duplicate information that has been previously submitted to the Environmental Protection Agency. Some changes have been made to the State's regulations, but more need to be made.

A recent proposal in Congress could have gone a long way toward solving this problem, but it failed to achieve passage. It would have granted authority to the Environmental Protection Agency to arbitrate conflicts between the States and various chemical companies. Hopefully, another version of that proposal will be forthcoming and this time receive congressional and Presidential approval.

Budget cutbacks in the National Weather Service have threatened the security of some farmers of fruits and vegetables in frost-sensitive areas. These cutbacks have filtered down to the fruit frost-warning program which farmers heavily relied upon. Unless urgency supplemental appropriations are approved soon, then the demise of the fruit frost-warning program will trigger losses to those farmers in frost-sensitive areas. But this urgency supplemental appropriation would only assist the fiscal 1982 budget. Help is also needed in restoring drastic cuts for the 1983 fiscal budget.

California farmers recognize the importance of the fruit frost-warning program and have even exhibited during the past months a willingness to underwrite and maintain such a program, but there is no chance of such an operation being assumed by agriculture in so short of a time as dictated by the budget activity here in Washington, D.C.

California agriculture is calling on the Federal Government to provide more time for the rescue of this important program.

If we're going to speak about California agriculture, we cannot leave out the Mediterranean fruit fly. One very important lesson was learned by the California farmer as a result of the Medfly infestation in the past 2 years and it pays to be prepared. But dividends can only be derived from that preparedness by acting decisively when an infestation does occur. Efforts to eradicate the Medfly in California have already cost California taxpayers and farmers $170 million. Much of that expenditure comes from a lack of adequate leadership. Much confusion was evident in the early days of the Medfly mattle and that confusion created economic destruction in trade between the United States and Japan.

To protect and safeguard California's fruits and vegetables as well as the Nation's, it is imperative that port inspections be strengthened to prevent this and other dangerous pests from not only entering California but the rest of the United States.

A look at the European Economic Community reveals a current EEC policy calling for a 7-percent tariff on all U.S. agricultural products into that market, but that 7-percent tariff has not stopped the California almond industry from establishing a strong market there.

But the expected entry of Spain into the EEC is certain to create some hardships. The United States must act now in all haste to remove trade barriers raised by the EEC before Spain's entry.

One last look at a last item dealing with labor, as you are aware I'm sure, California has its own farm labor law in the Agriculture Labor Relations Act. The law itself was designed to settle farm labor issue in our State but the implementation of this law into the current State administration has failed to achieve that goal.

Therefore, the need for a fair and unbiased implementation of our own farm labor law is very necessary. At the same time, be careful what you do here in Congress in regard to any new immigration policy. The California farmer does not welcome the role of being a policeman in determining the legal status of their workers, as would be required from previous and current proposals before you now.

There is a shortage of domestic workers willing to work in agriculture on a statewide basis and it seems as if many people in decision-making places refuse to accept this concept. Believe me, it is true. Work, instead, for positive legislation that could result in correcting this problem that affects California agriculture.

Let me emphasize, Senator Abdnor, that these comments came from California producers throughout the State who I talked with personally during the past few days and let me also emphasize that despite the often erroneous claim that California agriculture is Government subsidized, not one of these commodities listed entails the Government price support programs.

Thank you for the opportunity of being here today and I would welcome any questions.

[The prepared statement of Mr. Henry follows:]

Prepared Statement of Mike Henry

Mr. Chairman. Members of the committee.

My name is Mike Henry and I am editor of AG ALERT, a weekly agricultural newspaper published by the California Farm Bureau Federation and circulated to 50,000 farmers and ranchers in our state.

I extend to you my appreciation in being invited to participate in the current proceedings and join with you in hopes that these hearings will serve to benefit agriculture.

Weather-caused delays in farming practices have claimed the headlines of the agricultural story in California, moving the Mediterranean fruit fly off the front page.

Farmers have had to just sit and watch out their windows as the rains continued to come down. They had a lot of time to ponder whether they would be able to get into their fields to plant. Some farmers tried to get a jump on their planting, but only succeeded in getting their tractors stuck in axle-deep mud. Other farmers were not worried about planting and instead were more concerned with getting into the fields to harvest their crop from previous plantings.

In some areas of the state farmers in canoes were actually spotted floating through their orchards. This is an extreme example but it serves to point out the amount of rain that came down on the state's agriculture. In parts of California it will go on record as the wettest winter in this century. Farmers today are still contemplating their planting schedules even with the arrival

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of good weather.

While some farmers are expressing concern over their wet fields, some cattlemen are looking to their pastures and breathing a heavy sigh of relief in seeing a good stand of grass for rangeland feeding. But trouble in the marketplace has unsettled the California cattlemen in recent years and that unsettleness continues.

CATTLE

Many of California's cow-calf operators are forced to borrow money on a yearly basis to continue their operations. This practice is not unusual but the beef producer has some additional requirements that are particular to his industry.

When he first walks into the banker's office he knows how many head of cattle he will be running on his range and what the cost factor is going to be on each head. By working through this formula he is able to determine the market price needed to break even. By putting his head together with the banker the producer is able to arrive at a workable financial plan.

But what happens to the producer who is locked into his financial plan when a disease hits? Or when vandalism on his ranch results in substantial numbers of his animals being butchered by modern day rustlers? The money has already been issued and now he has less resources from which to arrive at his pay-back.

These are only a few of the setbacks that can occur and merely serves to explain the impact of the cost to borrowing money in order to survive. High interest rates have played havoc with the beef producer. Rises in the market place did not occur in a parallel with rises in interest rates in recent years. Beef producers are definitely pleased to see a possible leveling-off and even drop in current interest rates. But they still have a long way to go to recover from losses experienced in the last four to six years. California cattlemen have done a lot of belt tightening and relief is needed soon.

Futures Listing

The majority of the beef producers in California, both cow-calf and feedlot, would not be opposed to see the elimination of beef cattle from the futures exchange. Most claim that the listing creates a false influence on the market and can throw the price both up and down. The only guaranteed winner in the futures market is the broker, who is involved in the buying and selling of cattle.

The producers in California are calling for a return to "true" supply and demand market at the time of sale. They claim that elimination of the listing would have no detrimental effect to the industry. They further claim that there is no true way to hedge cattle except with a packer, and that is not going to happen because no packer is going to be willing to guarantee a price from his end.

Subsequently, the cow-calf operator takes his animals to the local auction for disposal into the market. Members of the cattle industry have traditionally been "price takers" and the auction is a clear example. One individual cow-calf operator recently took a load of animals to the auction and was sharply disappointed with his return. The setback stemmed from a lack of true competition for his animals by the buyers.

That operator encountered a situation in which only two buyers were present at the auction. Furthermore, only one buyer was purchasing or bidding on the cattle. Bids were being submitted according to the numbers issued to both buyers but in reality, only one buyer was in the bidding process and was using both buyers' numbers.

Beef Research

Beef research toward improved production has lagged in the past 10-15 years. One major obstacle is the absence of a controlled environment for the large number of cattle in the state. Controlled environments have been utilized both in the poultry and hog industries in the state, but the size difference is too great for beef cattle. As a result, the beef being produced in California is not that much different from the beef produced 15 years ago.

Cutbacks in the 1983 federal budget have created alarm among many beef producers. Recent reports indicate that a cutback of $31 million originally targeted for work in domestic diseases, such as brucellosis, have been eliminated. Talk with any producer in the state and he will tell you that he is willing to "bite the bullet." However, eventually that bullet will be bitten through and teeth will met teeth. When that happens, damage will occur in the beef industry in the form of potential disease outbreaks.

Exotic disease goes side by side with the producers alarm over domestic disease control. The U.S. has been very fortunate in holding back the flood of diseases from other countries. This would include such crippling diseases as "hoof and mouth" disease. The inspections are adequate at this time period but this is one area where the beef producer does not want to be caught napping. A call for constant vigilance and adequate safeguards at all points of entry are urged.

TRANSPORTATION

The shipper of California vegetables and fruits has a primary concern in the availability of transportation for his product from the west coast to the east. Past decades saw the heavy use of the rail car in transportation. But that usage has dropped considerably for several reasons. First of all, it takes 10 days to place the product into the east coast terminals. Second, there is no guarantee that the refrigeration reefers will work during those 10 days and oftentimes the shelf life of the product is slashed, which does no good for anyone. Third, there is too much handling of the product both at loading and unloading. Fourth, deliveries can only be accomplished to established rail spurs and additional transportation is required to the market place. I should add, the greatest problems are encountered on rails east of the Mississippi River.

Even though rail transportation is probably the cheapest mode of moving the product, it causes the most hassles and as a result refrigerated rail cars will slowly be phased out.

Fresh fruit and vegetable shippers are increasingly turning to the use of the piggy back trailers. These trailers are spotted, or positioned, at the point of packout and are then trucked to the rail ramp following loading. These trailers have refrigeration systems that are much more reliable than the reefer rail car.

The piggy back trailer achieves a quicker transportation time to the east coast from California. The pigs travel aboard the rail flatcar in a more direct route than the reefer that may be placed on a siding for a complete day or two. Flexible loading is an attraction to piggy backs with the shipper being able to utilize pallets to a greater degree than with the rail car. The rates that shippers have experienced have also been reasonable.

But just like any other kind of transportation there is a hitch to the system. That hitch is represented in backhauls. Once the pig gets to the east coast the shipper in California may have to await its return for a considerable length of time, which can be as short as only a few days, but a day is very important in the perishable commodities. That wait is dependent on the pig being loaded for its return to the west.

The individual shipper cannot handle or arrange for the backhauls from the east. The only ones who have been able to maintain a backhaul system are the larger companies who have turned to piggy backs as the mode of transportation in the future. These few companies have contracted for the manufacture of pigs in large numbers. At the same time, these companies are large and diversified, which gives them the edge on backhaul. As a result, the individual shipper is forced to contract with the larger companies for access to the pigs. Thus far the system has worked.

Shipment by truck remains as the best transportation method for the California shipper. Only four days are required to place a carton of lettuce from Salinas into New York. That carton will cost $5 - $5.50 to grow, cut, pack and haul to the local cooler. Add another 65¢ for a cooling charge and then you have the carton ready for shipment. Transportation costs average $3 per carton via truck, which brings the cost of placing that carton of lettuce on the New York market at $10.

Prior to the recent year lettuce growers were barely able to recover their growing costs. Often in recent years the cost to transport exceeded the price received at the farm gate. Fortunately, that market has strengthened during the past year. But much still depends on the availability of trucks for haul.

One thing is for certain, you will find no shipper in California that will call for governmental regulations that will result in a dependable supply of trucks. The current scenario portrays the trucker who is operating his business on a marginal basis being forced to change his livelihood. As the numbers of available truckers drop, the demand increases for their services and the prices go up. The shipping industry is aware of this picture and is agreeable to work with it. It would be a much preferred arrangement than one of regulation which only props up the inefficient businessman.

California is clearly the most efficient producer of fruits and vegetables in the world, but we're deeply concerned that unless we develop and maintain an efficient transportation system we will lose our rightful place in the market place.

PROCESSING TOMATOES

Unusual spring rains brought much of California agriculture to a complete halt in recent weeks. Only now are farmers able to travel their fields without the fear of leaving their trucks and tractors stuck in the mud. One of the hardest hit commodities is processing tomatoes. California accounts for 85-90 percent of the U.S. production in processing tomatoes.

But the rains hit hard in the northern part of the state which has the greatest acreage for processing tomatoes. The result has been twofold -- 1) many of the acres that were planted prior to the arrival of the wet weather have had to be replanted with the previous seed being washed away; 2) a tremendous delay in the planting of the state's $330 million crop.

It is expected that the state will now be short by as much as 1 million tons of tomatoes.

Farmers are now being asked by the canneries to plant more acreage that was previously planned for the late harvest in October. Consider the growing and harvesting seasons as three different time periods. The first time period entails harvest from areas that were not hit as hard by the rains as in the north. Therefore, this harvest should continue pretty much on schedule.

But the rains, for the most part, have all but eliminated the second time period because tomatoes for that period came from the central and northern parts of the state. Farmers usually plant in the late weeks of April and into May for that third time period. But now the canners are attempting to entice the farmers to plant more acreages for the late harvest to partially offset the projected shortfall.

The farmer must weigh carefully the factors affecting his farming operation before committing his acreage to this excess planting. First of all, will the weather hold fair during October to allow him to get into his fields to harvest that excess acreage? Second, with an expected glut of tomatoes in the field awaiting the haul to the canneries, pro rates are expected to be issued by the canneries.

It doesn't take much for the farmer to become disillusioned when, at first, he is asked by the canner to plant more acreage and then when the time comes for harvest he is told by the same canner to only harvest just so many truckloads because cannery capacity is being reached due to the heavy harvest.

Farmers entering into this type of contract must be very careful. If indeed they do agree to plant late acreage, a premium for that acreage should be agreed upon with the cannery. It comes to a point in time when the farmer needs a stronger position in dealing with the cannery.

Yet the farmer needs the canner more so than the canner truly needs the farmer. It places the farmer at a very weak bargaining position and illustrates the need for strong bargaining legislation that will guarantee a fairness to those involved.

PESTICIDE REGISTRATIONS

California farmers are expressing a growing concern that enforcement of pesticide regulations may soon become obsolete due to the cumbersome requirements of registering new pesticides. This is an extreme example and one that is not likely to happen. Nonetheless, farmers are very serious about this issue.

The effort to register new pesticides in California has become an expensive and complex entanglement. Chemical companies have found the process very hard to get through with their new products. As an example, not one herbicide is cleared for use on the cruicifer crops (broccoli, cabgage, bakchoy, etc.). This leaves the farmer with only two options. One, to let the thistles grow in the fields and have the harvesting crews fight with the thistles as they move through the rows; and second, go to transplants, which is a much more costlier practice.

Recent legislation would have established the Environmental Protection Agency as the lead agency for pesticide registrations. This would have given more strength to the existing rules governing EPA. In essence, it would have allowed the EPA to have the final say in certain areas in which the states are currently able to block registrations. Current state regulations require a duplication of material in many areas of pesticide registrations. This issue has been eased somewhat by recent procedural changes in the California Department of Food and Agriculture, but much remains to be done.

Farmers are worried that unless they are growing a major crop such as cotton, wheat or rice, they will soon loose all availability to necessary pesticides. It's been estimated that chemical companies are hesitant to enter into research for non-major crops unless they are guaranteed an adequate return on their investment.

To illustrate this point, Salinas produces 43 million cartons of lettuce each year. Yet, lettuce is considered a minor crop.

If farmers are expected to continue in their efforts to control weeds and other pests in their fields, they must have the accessibility to pesticides. In the same vein, chemical companies must be assured that reasonable efforts to register new pesticides will be met with fairness.

AG WEATHER

One night of low temperatures can wipe out an entire crop for many of California's tree fruit farmers. That danger is very real in numerous locations throughout the state. That danger has been emphasized due to recent activity in the nation's capital. Efforts to reduce the budget for the National Weather Service under the Department of Commerce has filtered down to the ag weather service. It is the ag weather service that provides the monitoring and advisory programs for the tree fruit and vine farmers.

The cutbacks were not felt too severely when implemented during the 1981 budget. However, alarm began to rise as the 1982 budget year saw a further reduction. Part of that reduction was restored, or so was the interpretation received by the farmers. As it turns out, recent action in Congress have served to place even the remainder of that program for the current fiscal year in jeopardy.

Prior to cutting back on the '82 program, farmers were hurriedly meeting to discuss how to handle the '83 program that was going to be eliminated from the program. Response from the farmers indicated a willingness to tackle the responsibility of underwriting and even maintaining the program. But each farmer knew that there was no way possible for the machinery to be put in motion in so short of a time. Therefore, California agriculture was calling for a reprieve for the 1983 program year.

"Give us time to put our house in order before cutting the program loose," was the call being issued by agriculture. The ag weather service helps farmers to be sure, but the real beneficiary is still the American consumer.

If an urgency supplemental appropriation is not approved soon for the remainder of the current year, then the farmers may have nothing to worry about for the '83 program since their crops success would already be in question. That supplemental appropriation is urgently needed.

Weather can play some nasty tricks on the farmer and any aid that can be used in combating these tricks more than pay for itself. The severity with which weather strikes is not foreign to any of us. As an example, a late spring storm swept through the central part of the San Joaquin Valley with severe losses resulting from a freak hail storm. The results were:

-- $122 million in losses in Fresno County alone.

-- 35,000 acres of raisin grapes suffering damages totalling $68 million.

-- One-half of the state's plum crop being destroyed.

Weather is not a joking matter for the California growers, as is evident from this illustration. Any possibility of that damage extending to frost-sensitive areas as a result of no frost warning program will be met with equal lack of laughter.

MEDITERRANEAN FRUIT FLY

No report on California agriculture can be complete without the inclusion of the Mediterranean fruit fly. The pest has taught agriculture and the general public a lesson in being prepared for the unexpected and being willing to act decisively in dealing with the problem.

Efforts to eradicate the Medfly from California have already cost California taxpayers and farmers $170 million. Much of that expenditure comes from a lack of adequate leadership. Much confusion was evident in the early days of the Medfly battle and that confusion created economic disruption in the United States and Japan.

To protect and safeguard California's fruits and vegetables, it is imperative that port inspections be strengthened to prevent this and other dangerous pests from not only entering the state but also the rest of the United States.

The battle to eradicate the Medfly from California also included the efforts of the U.S. Department of Agriculture and, in essence, impacted the entire U.S. economy, further aggravating the current trade imbalance with Japan. With questionable reasoning, the Japanese placed embargos on California fruits and vegetables that were not even primary hosts to the Medfly. Part of this action has been rescinded, but much remains that needs to be done.

EUROPEAN ECONOMIC COMMUNITY

U.S. agricultural products entering the European Economic Community today pay a 7 percent tariff. Despite this tariff that has been placed on our products, some California products, such as almonds, have been able to build a strong market. Still, the tariff, when combined with subsidies issued from the individual member countries of the EEC to their growers, creates an area of deep concern for our exporters. California agriculture has called for an elimination of this 7 percent tariff and is currently working through both the GATT and the U.S. Ag Secretary's office.

But the EEC poses an even more serious danger to our products with the inevitable entry of Spain into the EEC. There is no doubt that Spain will gain entry and become a member country. This comes about due to the political pressures such as defense and membership into the North Atlantic Treaty Organization. But with Spain being on the verge of entry within the next three to five years or even sooner, that country is already clamoring for changes in the EEC's agricultural policy that will result in unfavorable changes for the U.S. product.

The change in EEC agricultural policy may not come in the form of a tariff but California exporters are keeping their eye on this development. It may result in action taken during the licensing process. License to trade may be authorized but the possibility that none or a reduced number of licenses will be issued. To the California almond industry this could be a devastating blow.

Spain is in a position to place this almond market in jeopardy. Even minimum restrictions would be devastating. This year, for the very first time, California almond producers have topped the 400 million meat pound production figure. Look for that total to reach 500 million in just a few years. Perhaps, this is an area where the efficiency of the California producer is coming back to haunt him.

But the European market is one that has been carefully developed and nurtured by our almond industry. With Spain's admission to the EEC in accompaniment of increased tariffs or other detrimental action, dark times could be ahead. Spain represents only a part of the world production for almonds. But with special treaty favor and perhaps an increase in tariffs, more money will flow into that country which in turn can be used to develop that nation's almond industry. This is of primary concern to California's almond industry.

Today, the U.S. must act in all haste to remedy this possible double jeopardy that may result from Spain's entry into the EEC. The U.S. must work now to eliminate tariff barriers that have been placed on U.S. agricultural products flowing into the EEC.

California's almond industry registers a value in excess of $475 million with over 150,000 bearing acres. The impact of Spain's entry into the EEC along with these special treaty favors would be a negative force on California almonds.

The case of almonds is just one example. We currently face serious problems due to subsidized sales of raisins, sugar beets, wheat and dairy products, to name a few.

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We know that as producers we can be competitive with the best of producers in the European Economic Community, but we can't compete against the bankrolls of the EEC. It's a foolhardy policy for the Community and potentially devastating for our agricultural community. In some of our specialty crops this important foreign market represents 10, 20 and even 30 percent of our total output. It's obvious what happens to the prevailing market price when you lose that big a share of your buyers.

LABOR

During recent years several proposals have been introduced in Congress that would establish a revised immigration policy. In those proposals have been sections dealing with agricultural labor. Farmers in California have been dealing with this issue for a number of years and are ever mindful of Congressional action.

Unfortunately, the issue is so controversial no proposal has moved through Congress. As a result, the labor picture in California remains clouded.

There is a shortage of domestic workers willing to work in agriculture on a statewide basis and it seems as if many people in decision making places refuse to accept this concept. Raids in recent weeks by the Border Patrol of the Immigration and Naturalization Service brought the harvest of southern California strawberries to a halt. It was widely publicized in the media that replacement workers were being sought by the farmers. Those individuals came forward to assume the harvest work due to the attraction of average wages of $6-7 per hour. Ironically, the media carried even more coverage on the fact that few of the workers lasted one day in the strawberry fields.

This example only proves that there is a shortage of American citizens willing to assume agricultural jobs.

Authors of recent and current proposals that place the farmer in the role of policeman fail to understand the undocumented alien issue. These people are struggling for a livelihood. They are resourceful and aware of the "system" as it operates in our country. Jokes have been made in the past about the Border Patrol escorting undocumented aliens across the border into Mexico. The punchline comes in with the aliens returning to the point of work faster than the immigration officials. This is not speculation.

Some people are advocating a form of the H-2 temporary work force. But one serious flaw stops the H-2 program from working in California. The Immigration and Naturalization Service has a clause in its policy that results in the removal of any H-2 workers from a job site if a labor disturbance arises. In California it only takes one side to create a labor disturbance and the organization to do so is there. Therefore, the H-2 temporary worker program is doomed to failure unless changes take place in the INS policy.

At the same time, California farmers are strapped with their own farm labor law in the Agricultural Labor Relations Act. This law had the potential of settling the farm labor issue in our state. But the implementation of this law under the current state administration has failed to achieve that goal. Therefore, the need for a fair implementation of our own farm labor law is so necessary. The California farmer does not need nor does he want the additional headache of policing his own work force as required by current proposals in Congress.

Senator ABDNOR. Thank you. That was a very interesting observation you just made. I really appreciate that information on those particular areas because sometimes they get neglected in talking about farm policies. So we appreciate that.

Our last witness is Mr. Samuelson who's known to one and all. He's vice president and agriculture service director of WGN Continental Broadcasting Co., and his name is a household name in many States in the Midwest. We appreciate your being here and you go right ahead as if you were giving us a broadcast.

STATEMENT OF ORION SAMUELSON, VICE PRESIDENT/AGRICULTURE SERVICE DIRECTOR, WGN CONTINENTAL BROADCASTING CO., CHICAGO, ILL.

Mr. SAMUELSON. Thank you very much, Senator Abdnor, and I appreciate, too, the opportunity to join my distinguished colleagues in the media area in presenting some of our thoughts and concerns today. They are writers. I do all of my writing with my mouth. That's why you find very little in the way of a prepared text on the statement that I'd like to make today.

Probably the best job description that I could offer to give you an idea of what I do is a job description given me by my father who is now 82 years old and who was a dairy farmer all his life in Wisconsin. And after watching me present my hour-long radio broadcast in the studio one day, when it was all finished and we had walked out, I finally said: "Well, what do you think?" My father said: "It must be nice to be able to look at all that hard work and then just talk about it." And that basically is what I do through radio and television programs from our broadcast center in Chicago and also on syndicated programs across the country.

Since the invitation to appear, I did what my colleagues did. I invited comments and opinions from those who watch and listen. I have the feeling there are several farmers who would like to be sitting at this table today and have the opportunity that you afforded us at this subcommittee.

The statistics I think have been pretty well pointed out and they do paint with a broad brush the fact that things in the agriculture economy are not good. However, I think we must often temper that by realizing that human nature says that when given the opportunity to talk about problems we will go on at great length. I don't think agriculture is unique in that area. And sometimes perhaps overlook some of the positive factors that are developing or that we can pull from the current economic situation.

Because of the diversity of agriculture and the diversity of farm people from the standpoint of size of operation, size of indebtedness, lengths of time that they've been involved, you can run a broad gamut, all the way from one young man who sent me a sale bill saying that this is the end result of 6 years of trying to make a living as a farmer; I'm now forced to sell out; it's a disaster out here; and then on the other end of the gamut, a letter from a farmer saying things are not as good as they should be, but I've seen them far worse and I know that our ability will bring us through and agriculture isn't as bad off as a lot of people would paint the picture.

And you can, as Mr. Swegle, said, get 118 different responses if you ask that question of the community. It goes back to the old definition of a recession and a depression. A recession is when you're out of work and a depression is when I'm out of work, and that may be time-worn but I think it applies also to the economic condition that many farmers find themselves in today.

So just going over several points that I would like to make, I think one of the areas that we can measure the degree of impact on the economy on agriculture is how it affects the suppliers of agriculture, and all you have to do is look at the headlines in the financial pages and note that International Harvester, for example, continues to restructure an unbelievable debt load to make it; Deere & Co. continuing to cut back its production. And those are just two of the big names. And that says farmers aren't buying.

Farmers aren't buying for several reasons—low commodity prices, difficulty in finding a world market for what they produce, and the interest rate situation that has just been devastating over the last several years.

But the effects of the agricultural economy—and I guess may be I'm a realistic optimist or an optimistic realist—but one of the positive points we're getting here is that urban America I think is realizing the impact that 3 percent of the population in the country has on the lives of all of us. And the people who work at those suppliers' plants are finding out that if there is not a sound agricultural economy, they don't have a paycheck on Friday night. They don't have a job. And perhaps we're gaining better understanding. I'm finding that in letters and comments that I get from city people in Chicago and the suburbs who listen to the farm programs who tell me that, yes, they do understand the difficult times because it's impacting on their own pocketbooks, those who work for these people.

If I ask farmers today which is the biggest concern, low prices or high interest rates, the majority will say high interest rates. The interest rate situation has been and continues to be devastating because farmers need a great deal of credit and where other people can put off purchasing a piece of furniture or an automobile or whatever other expenditure they plan to make, when it's planting time the farmer can't put off that expenditure. He must make it, and that involves a great deal of credit. And it's already been pointed out what the exorbitant interest rates mean to the cost of production to the farmers today.

The inflation rate coming down has also turned the increase in farmland values around and that, too, cuts into the borrowing power of farmers at a time when they're trying to overcome 2 to 3 years of bad prices.

I think many farmers also realize they're victims of the world economy, other nations that have the same economic difficulties that we are experiencing, which makes it more difficult for them to buy our products, particularly those reliable customers who over the years would buy 6 to 8 to 10 months in advance; they now tend to be buying hand to mouth, and that affects the ability to move products into foreign markets.

Then, as has been mentioned, the curtailment of the access to world markets—farmers are, and I think deservedly so, still angry about political and diplomatic decisions being made without any input from them dealing with their product. I'm talking about the embargoes of the seventies and the embargo of 1980, the possible embargo during the Polish-Soviet situation of a few months ago, and all of this does several things. It undermines the credibility of America as a reliable supplier in the world market. It also gives other countries an opportunity to become active in production. If we look back to the soybean embargo of the midseventies and see the result of that, it put Brazil into the market and it made it possible for Brazil to become a competitor for the American soybean farmer in the world market.

Then we take a look at the immediate impact of the 1980 embargo because of the Afghanistan situation and we see Argentina tripling its agricultural production to fulfill the needs of the Soviet Union that we no longer had access to. Farmers deeply resent the diplomatic and political intervention into the world market and their access to the market.

One farmer, I think, probably put it very well to me shortly after the Soviet-Afghanistan situation, when he wrote me an impassioned letter and said: "I can understand the concern of the Olympic athletes who have spent a lifetime training to go to the Olympics and now that is being denied to them," and he said, "I can fully understand, but I wish the people of America could understand that I've put my lifetime, and I'm 36 years old, into fulfilling my lifelong dream to own and operate a farm." He said, "I now see that dream crashing down because of depressed prices because I can't go to the trade olympics," as he put it.

On the positive side, one farmer said, "Well, things are looking better these days because we're back out of the coffee shop and out in the fields working and that way we can't sit and commiserate with each other over how difficult things are and maybe that makes it look a little bit better." But we're at that time of new life and new growth on the farms and ranches of America and the fact that farmers are able to again be out doing what they do better than anybody else in the world, they are at the moment looking at cattle prices that are improved. They're looking at hog prices that have improved. I think they're looking with a great deal of hope for a world market that will improve and an economy that will improve so that the producers of other commodities will see better prices for what they produce.

If I may relate, again personally, I grew up on a dairy farm in Wisconsin and my parents spent all of their working life on that dairy farm. I currently have a younger sister who with her family of 4 children and husband are involved in the dairy operation of 36 milk cows, with a Farmers Home Administration loan that is hanging over them and hanging over them heavily. And I can fully understand the difficult time that people, like my sister and other young farmers, are having, and they are the ones who are the future of our agriculture production in this country. Unfortunately, they are the ones who feel the impact of the current situation more than the more mature, established farmer, because many of the younger farmers perhaps in looking back were undercapitalized and overextended in the time of good commodity prices and are now faced with low prices, high interest rates, and loans that need to be paid.

I don't have an answer for solving that economic problem. I'm not sure that Washington is the place where the solutions will be found, because as one farmer, a dairy farmer who was very concerned about the current dairy situation told me, the problem with Government programs is that Government doesn't drink milk and Government doesn't eat bread and Government doesn't eat cornflakes, and when we are encouraged to produce for a Government market, it is a false market that ultimately will come crashing down on our heads. And yet, because of the economic condition, many farmers feel there is no other way.

We have seen the 80-percent signup in the acreage reduction program and I feel if there's not a recovery in grain prices between now and the time that most of the planting is done, that compliance and participation will be very heavy.

One of the most successful farmers I know who operates 1,800 acres west of Chicago and pays income taxes every year and all he does is farm, said that he ran the program through his computer, four different models that he put through the computer, and he said, "There's only one answer for me, and that's to participate fully in the feed grain program, the acreage reduction program." And he said, "I intend to fully participate." Now he said, "I'm concerned about 3 years down the road when the farmer-owned grain reserve comes back onto the market, but for me at the moment, it's a matter of survival." And he said, "I do what I can now and hope that market conditions will improve by the time this grain comes out of the reserves and that hopefully there will be a market, particularly a world market, for it."

So again, to paint a broad brush—and I do this based on the travels that I make and the people that I visit with—there is no question that, like the rest of our economy, agriculture has its serious economic problems. But with the fortitude of the American farmer and the understanding, hopefully, of credit people, and access to a market, I think that American agriculture can and will survive.

One farmer who I think is a Will Rogers student sent me something that he suggested I include and so I will close with what he had to say. He included a couple of Will Rogers observations in his letter. He says, and I quote Will Rogers in this farmer's letter:

> I can't figure whether we've made any progress in the last 100 years or not. There was no unemployment in those days. If a man wasn't working, he sat in front of the grocery store and whittled. Also, if a man was idle in one part of the country you didn't hear about it in the other parts of the country. This thing called statistics was the worst thing that was invented. It's the curse of the world. You wouldn't know how bad the others were doing if we didn't have statistics.

Well, times have changed since the late Will Rogers said those words, but there still might be some truth in them. Thank you very much for the opportunity to be here.

[The prepared statement of Mr. Samuelson follows:]

Prepared Statement of Orion Samuelson

I appreciate very much this opportunity to share with you some of my thoughts, impressions and opinions of the current state of the agricultural economy and its future direction.

In my work, I travel a great deal to attend agricultural meetings across the country, and I have an opportunity to listen to farmers as they discuss their major concerns and their hopes for the future. Since mentioning the fact that I had been invited to testify before this Sub-Committee on my radio and television programs a couple of weeks ago, I have heard from many farmers who asked me to express some special feelings that they had concerning the agricultural economy. As a matter of fact, I know that several of them would very much like the opportunity to sit where I'm sitting this moment.

I also appreciate your indulgence in allowing me to present only an outline instead of a written statement. As I told a member of your staff on the telephone, I do all of my writing with my mouth and as a result, find it very difficult to sit at a typewriter and compose a written statement. Working on that premise, I will share with you some of the areas of concern.

A. The impact of the farm economy on manufacturers and rural community dealerships.

B. The credit crunch brought about by exorbitant interest rates and lower farm prices and now with a lessening of the inflation rate that has slowed the increase in value of farm land. This, in turn, cuts into collateral and borrowing power.

C. A slow down in world demand for U.S. agricultural products and that, combined with record crop production, weighs heavily on farm prices.

D. Curtailment of access to world markets. The embargoes of the 1970's and 1980 and the talk of possible embargo in 1981 and 1982 have dealt a severe blow to America's credibility as a reliable supplier in the world market. Farmers resent having access to that world market curtailed because of political or diplomatic actions.

E. The brigher side of the picture shows a turn around in livestock prices and some healthy increases in cattle and hog prices over the past two months. Corn and Soybean exports have been holding well above year ago levels, bringing hope that world demand will continue to take more of our products. The turn around in the inflationary move is helping to keep production prices at steady levels.

In closing, I would simply say that with spring time comes the prospect of new life on the farms and ranches in America. Just the fact that farmers are able to be active once again in doing what they do best, tends to bring hope and a feeling of optimism. One farmer told me at a meeting recently, the more we talk about how bad off we are, the more we'll believe it, and the worse off we'll really be. And I feel there is some truth in the fact that we can talk ourselves into a lot more trouble than we really have. I go back to the late Will Rogers who, among his many observations, said, "I can't figure whether we made any progress in the last hundred years or not. There was no unemployment in those days. If a man wasn't working, he sat in front of the grocery store and whittled. Also, if a man was idle in one part of the country, you didn't hear about it in the other parts of the country. This thing called statistics was the worst thing that was invented; it's the curse of the world. We wouldn't know how bad the others were doing if we didn't have statistics." The late Will Rogers.

Thank you very much.

Senator JEPSEN [presiding]. Thank you, Mr. Samuelson, and thank all of you.

I have a question that I would like to have addressed to each of you, starting with you, Mr. Samuelson. You have access, all of you do, to hundreds of thousands of farmers on a daily basis. In your judgment, what are the critical information needs of agriculture today and what role can government play—or should it play and can it play—in assisting in meeting these needs?

Mr. SAMUELSON. As far as information for operating their daily business, I think from the standpoint of information dealing with production, we have pretty well covered it up to this point until new research provides new thresholds of production in our various commodities.

The area of information that I think farmers need most help today is in the area of marketing. They need to know the conditions of the economy, conditions of crops in countries around the world, and they need to better understand the marketing tools that are available to them. Because all you need do is—and hindsight is 20–20, but if you look back to April a year ago, corn futures were $3.96 a bushel. Soybeans a year ago May were over $9 a bushel, a far cry from what they are now. And yet, there are many, many farmers who, because of being optimists and feeling prices would go higher or because they didn't fully understand the workings of the market or how they might use these marketing tools to their advantage, didn't take advantage of them and they're looking at today's prices saying those prices a year ago looked very good. Thart's the 20–20 hindsight.

But I think much more in the way of information on marketing tools that are available, how to be a better marketer, are absolute necessities.

And then the basics—weather. There is concern about cutbacks in weather information for farmers. Some farmers feel the USDA puts out too many reports and too many statistics and it's only to the benefit of the trade and other people. And yet my feeling is that if there is not one source that hopefully is objective and not partial, that the Department of Agriculture can do that becausce if USDA doesn't, you can bet that the private companies will have their own surveys and at least will have a better knowledge than the producer will.

Senator JEPSEN. Do you have any comments, Mr. Henry?

Mr. HENRY. I would only reiterate that marketing definitely would be the number one area of needed information for the farmer. I think if you look at the individual commodity organizations and associations that are formed in California and throughout the rest of the States, I know in California perhaps their lead role is in marketing. They send people to other countries to meet with producers there and their counterparts to find out what the crop is like, what the prospects are going to be. They come back and then they disseminate that information to their own members and their own industries.

The producer takes that into account and then he can decide whether or not to plant full acreage or partial acreage.

I think marketing has to be the number one area. Information that the Government can provide would be the marketing circumstances and the situations in the various countries overseas, whether or not we're going to be able to get into those markets, with how much, and when we can expect to.

Senator JEPSEN. Mr. Besuden.

Mr. BESUDEN. I also agree that daily marketing prices and opportunities should be available to farmers, also agriculture weather forecasts. A lot of farmers depend on the weather to know when to put their hay up, when to get ready to irrigate. Those things cannot be done just at a last moment's notice. They need to know something in advance on what the weather outlook is going to be to help them in their daily production.

Senator JEPSEN. Mr. Swegle.

Mr. SWEGLE. I'd just like to second the motions made by my three brethren that markets are very important. I listen to one analysis that says that 70 percent of the farmers' profit can come from a good marketing decision. A lot of time in the farm press we're interested in new technology, but actually production efficiency only accounts for 30 percent of the income if you hit the high market. So I would agree with that.

One other point I'd like to make is that a lot of times we in the news media give bad news, and nobody likes to do that, but I'm glad our civilization has advanced over the last 300 or 400 years because I remember in the old days the messenger who brought bad news was killed, and I'm glad that doesn't happen to the guys here today who are reporting on our farm economy.

Senator JEPSEN. Thank you, Mr. Swegle. I would like to pinpoint the marketing aspect a little bit more. In the economic part of marketing and the role that the commodities futures trading commission, the role hedging and planning can economically have—you mentioned the fact that the futures looked pretty good a year ago, and that's correct.

Why didn't more farmers do a little bit of hedging, let's say, commit what would have been absolutely safe to do, say, a third or a half even, on that basis, on the basis that without question in even recent years with prices, 1 in the hand would have been about 20 in the bush. It's just that lopsided. Why didn't more people do that? Has anybody got any comment on that?

Mr. SAMUELSON. Yes; I would have some comment. Having been in Chicago now for 22 years and watched on a daily basis and reported on a daily basis on the futures markets and then traveling the country and visiting with farmers, I think probably the biggest problem is lack of understanding of how the futures market works and the role it can play in a farmer's marketing plan.

I think that the exchanges—and I had the opportunity to serve as a public member of the board of directors of the Chicago Board of Trade for 5 years. I don't own a membership, but they do have public members on the board. And for that 5 years, I kept saying, you've got to get more information out to the producer side of the market so they can make use of the market because it's there for them to use.

I feel the two segments of the market that can use those futures markets better than anybody else are the producers and the users, and they use it, of course, by hedging.

Why don't they hedge? Because a lot of people in the credit industry don't understand margin calls and I think if you're going to have a farmer as a successful hedger you have to have a good broker who has the farmer's interest at heart, you have to have a good credit person who understands margin calls, and you have to have an understanding wife who understands margin calls, perhaps taking some money out of the checking account.

The other side of it is the fact that this independent streak that we talk about in farmers has them bothered that if they do hedge at $3 a bushel and it goes to $4 ultimately that they have lost money, but they didn't have the $4 when they placed the hedge and generally the cash market tends to follow along.

The other problem I have found is that farmers who start as hedgers—and the market moves their direction—become speculators, and I don't know many speculators who make money in the market, whether they're farmers or nonproducers. And I'm not here to defend or put down the speculator, but I think the speculator does play a role in the farmer's market through futures in that the speculator puts up risk money that if he didn't put up the user or the producer would have to put up and would add to the cost, and the speculator—when he's in the market—I think you tend to see the markets move up more than they do down because speculators would rather be buyers than sellers.

But I'm hopeful, and I do see signs that the industry is making an attempt to do more in the way of education and information on a marketing tool that is available. But before a farmer can be a good hedger, he has to know exactly what it's costing him to produce so that he can determine what he feels is a fair return and set that hedge, if it's available, and there are times it's not. There are times when he can't hedge.

Senator JEPSEN. Farming is big business; a lot bigger than many people appreciate who are not in the actual production of farming. Money management is extremely important and there is a possible lack of sophistication and understanding among many people involved in the farm operation, including banking, and possibly those in the areas of extension or farm management that the farmer may need to look to for advice. I think there is a lot of room for expansion and improvement on the part of the "boards" in the education area that should be promoted. The advent of new computers that are now capable of doing a lot of these things, including some figuring and the operation of these programs—as your friend did—is something that needs to be promoted and pressed through farm organizations. Something for farmers to believe in that has credibility is the key.

I was born and raised on a farm—my family farms—that my brother and his sons now farm. I understand they are as independent, as they say in Iowa, as a hog on ice. They are not paranoid, but they are, with some reason, suspect of things that are new and different and of those city slickers who come in with big ideas on how to make money and say, "Just trust me and give me your money."

By the same token, in today's economy and money management world, it's really a necessity to use every tool possible to have balanced projected planning because it's big business that they're involved in. I would like, frankly, to see the financial institutions reach out and provide the trained person on the spot so that the farmers and producers would take better advantage of it. As it is now in Iowa—I can point to some cases—there are several elevator managers who do know and are knowledgeable in this hedging. In fact, they use part of it in the money management of their elevators. There are very few in the banking industry—this isn't meant to be criticism but I'll probably get some feedback on this—that have taken the time to become informed enough to be expert in the agricultural field.

Anyone else have any further comment on that?

[No response.]

Senator JEPSEN. Let's go to another subject then.

I know your answers will be speculative, but I want to take advantage of the four of you and your creativity here. What do you perceive will be the tenor of your farm stories a year from today?

Mr. SWEGLE. I'm an optimist. I think all farmers are optimists who go out and plant their crop this spring. You'll note from the survey that the farmers were more optimistic on prices than what USDA economists had been projecting. So I think if we have a short crop this year we'll have good prices about a year from now.

Senator JEPSEN. Mr. Besuden, what do you perceive will be the tenor of your farm stories a year from today?

Mr. BESUDEN. I also am an optimist. I'm also a realist. I've been in the business too long. Some market prices will go up for certain products, I'm sure, and others won't. So I'm sure some farmers will make money this year, possibly on hogs if the prices keep going up, hopefully on cattle. But knowing the American farmer, I think he's out there to produce all the grain and wheat that he can produce, hoping to make a profit, and the record supplies that I expect to be harvested this fall will tend to keep the prices down.

Senator JEPSEN. Mr. Henry, from California, what do you perceive will be the tenor of your farm stories a year from today?

Mr. HENRY. I think probably in California the farm story is going to be an increase in production that continues to climb year after year in selected commodities, and now what are we going to do with this added increase in production which is going to make the producer, and not just the marketing arm of the industry, turn both eyes to the market abroad and also looking domestically as to how they can increase consumption of their respective commodities.

So they're going to be looking at more supplies and what are they going to do with them.

Senator JEPSEN. Mr. Samuelson, 1 year from today, what will you be saying about farming?

Mr. SAMUELSON. One year from today, I'll probably be saying that things aren't as good as they should be but they're better than they were a year ago. I think that we are going to see—unless we have an outstanding crop year—if we come in with an 8-billion-bushel corn crop again this year, then there's going to be trouble. But I think we're going to see the market move up. I think the activity of the market in the last 6 to 8 weeks says it wants to go up. Soybeans have come 60 or 70 cents off the lows. Corn has come 20 cents or so off the lows—even more than that. And just watching the action of the market, when there's a threat of military conflict in the South Atlantic, the market reacts immediately. It goes up. And when it didn't rain in Brazil for 3 weeks, the market reacted upward.

And all of these signs tell me that the market wants to move higher and I think that a year from now we'll be looking at an economy for agriculture that will be in better shape than it is today, and part of the reason, in addition to I think stronger markets—part of the reason will be the inflation rate that hopefully will keep production costs at a stable level instead of the continuing spiral that we have seen.

Senator JEPSEN. I want, again for the record, to hear from each one of you what you understand to be the characteristics of the farmer who is presently experiencing the greatest financial difficulty. Can you describe that farmer? That's now on the basis, if you want to accept this as a given, that there are some farmers who are doing all right. I know of a great number.

Mr. SAMUELSON. My description of that majority of farmers who are experiencing the greatest economic difficulty at the moment would be the younger farmer who probably is mid to upper thirties and below who purchased equipment and buildings and made investments in land and other production items in the late seventies when prices were relatively good for most agricultural commodities and looked like they would continue to be good.

We came into the decade of the eighties saying the eighties will be the decade for agriculture; we'll really continue to get stronger; and we know what's happened since the eighties. We know what happened to the economy, to the interest rates, to the market, to the commodities prices and that type of thing. And it's this farmer who perhaps was undercapitalized, at the time didn't feel he was, who is overextended in some areas, maybe he bought new where he could have bought used or could have cut back in his investment, but because times looked good he didn't; and now those debts are coming due and the interest rates have continued to mount, and I think it's this farmer that is in the biggest trouble.

Senator JEPSEN. Is a young dairy farmer today in as big a trouble as a young grain farmer?

Mr. SAMUELSON. I don't think so, and I say that with a sister who is in the business.

Senator JEPSEN. I remember that.

Mr. SAMUELSON. I don't think so because the dairy segment of agriculture has been a relatively stable segment from a financial standpoint because of the Government program and because of what had been a pretty good demand for products.

So at this point, if they have managed money fairly well, I think the young dairy farmer is better off than the young grain farmer.

Senator JEPSEN. Is the livestock farmer better off than the grain farmer? I know they are as of this minute, but year in and year out, what's your view?

Mr. SAMUELSON. I would say the cattle feeder is not. I would say the hog producer, though, is about on a par year in and year out with the grain producer. But the cattle people have had difficulty for many, many years.

Senator JEPSEN. Thank you. Mike Henry, would you please describe for the subcommittee the characteristics of the farmer who is presently experiencing the greatest financial difficulty?

Mr. HENRY. I would have to agree that it is the young farmer, but I would not say young in age. I think in our State we're seeing many new faces coming into production agriculture. Some of these are in the form of speculators and maybe they decided to take on a second job in addition to their number one job, maybe they work in the city and maybe going out for the weekend, maybe going out for a little bit more than just a weekend on the farm. It's these people who don't have the strong both financial and practical experience in agriculture, and many of these individuals are not understanding the factors that probably influence them the most, that being the market and those areas that impact the market. Finances they think may be the answer to all their ills and they may believe they held adequate financing, but in truth, they find out that agriculture costs more to participate in than they originally thought.

I think probably the farmer that we see in the biggest trouble is one who's been in agriculture for 8 to 10 years and not necessarily just in age.

Senator JEPSEN. Thank you. Mr. Besuden.

Mr. BESUDEN. Senator Jepsen, I agree with my colleagues that the young farmer and the new to farming are probably in the worst shape financially today, but I would also point out that you show me 10 farmers that are doing well in farming and I'll show you 9 of those farmers that have outside income, either family backing, an oil well on the back 40, or something to that extent.

In the livestock sector, the sheep farmer is actually doing better than the hog and cattle farmer. Lamb prices have held up relatively steady the past 4, 5, 6, or 7 years. I think it's because possibly of a shortage of supply, although we have been deluged with lamb from Australia and New Zealand, it seems like right at market time, right at the height of our lamb market which is in May and June, but still the lamb producers have made money I'm told.

Senator JEPSEN. Mr. Swegle.

Mr. SWEGLE. I think Mr. Samuelson summed up the Midwest situation quite well when he said that people who expanded in the last 3 or 4 years and they have a variable rate loan and the interest rates shot up on their investment, they're in trouble and that's why they're so concerned about interest rates on our survey.

Cattlemen and hog farmers have had trouble the last 2 years—cattlemen for a longer period of time than that. I talked to one hog farmer who said that he didn't mind feeding out his hogs for a loss, he says he's done that for years for consumers, but what he objects to is having farmers bring extra hogs and putting them into his lot and he has to get out those extra ones too. Of course, that's a joke.

Another area of our State that is in trouble is western Iowa where they've experienced dry weather 3 of the last 4 years and so they're in trouble.

One of the heroes in agriculture that nobody talks about are the guys who quit raising hogs or quit raising cattle because that means there's less supply and so the prices rise for the other guys. And one of the problems that we face in the farm press is what to do with the guys who leave the business. There's no unemployment insurance program for them. They don't have the financial backing to be trained for another occupation and perhaps some way, some day, we could come up with a fund to let them borrow money to get reestablished in another occupation.

I noticed by the survey we only had two that were going out of business in the Gazette area, which I think is really good, that the lenders are sticking by them and the survey shows that farmers were real happy with their lenders. I think 47 percent said that they had been understanding in this time period. It's an interesting concept, the unemployment insurance for farmers.

Senator JEPSEN. What changes have taken place in the last 10 years in the production end of agriculture that have contributed to the present depressed price area that we've been in and we still are in for grain, given cattle and hog prices are pretty decent property right now? Do you have any particular thing to offer that happened in the last 10 years that has contributed to this depressed state we're in now in the agriculture production area?

Mr. SWEGLE. I think the big factor from my perspective would be the high interest rates that we are facing in the economy right now. Those are adding to the production costs and a lot of people are concerned about that. They aren't too concerned about the prices per se, but the interest rates are just an added cost that are putting them on the edge, I would say.

Senator JEPSEN. Does anybody on the panel have anything to add to that?

Mr. BESUDEN. Farmers love to produce. They're trained that way and they do that all their life. I think several years ago, within that timeframe of 10 years, they were even encouraged by the Government to plant fence row to fence row, and they didn't need much encouragement, but when they were, they really went to town on it. And once they got used to doing that, no matter what the economy or what the world trade market looked like, it was hard for them to cut back and most haven't cut back. They are still producing fence row to fence row.

Senator JEPSEN. Government programs contributed to that primarily?

Mr. BESUDEN. Not Government programs. The Secretary of Agriculture encouraged farmers to plant fence row to fence row. I'm not naming any particular Secretary of Agriculture.

Senator JEPSEN. Have our farmers become more efficient food producers as the years have gone by?

Mr. BESUDEN. Oh, definitely.

Senator JEPSEN. Chemicals, fertilizers, and other modern-day things that we have, have increased the yield per acre, will that continue?

Mr. BESUDEN. Yes. I think they will continue to do so, with new varieties of seeds being produced, disease-resistant types, double cropping—that, of course, added a tremendous amount of food supply on the market that has become popular in the last 10 years.

Senator JEPSEN. And, as all of you have indicated, farmers like to produce for stomachs, not for storage. They pride themselves—certainly our most efficient producers in this country—in being able to grow quality food in abundance, very successfully, very well, very efficiently, and yet there are millions, as we know, that are on starvation diets around the world.

What might be done by way of getting the food that we can produce here into the stomachs of those who are in need of a better diet

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around the world? Have you got any specific recommendations on that?

Mr. BESUDEN. Of course, as you well know, the exports that we send out now only go to the countries that can pay for them to a large extent. The countries that you're talking about that have this starving populations cannot pay for their food supplies. The only way I could see that food could get to them would be at the expense of the taxpayer, the Government. There's no way they will ever be able to afford to pay for them unless their country's economy is improved to a great extent. Of course, then if it is, there's the possibility that those countries could begin producing enough food to satisfy their needs which would cancel out our exports eventually.

Senator JEPSEN. Mr. Henry, do you have a comment on that?

Mr. HENRY. Yes; in discussing with some of the almond producers during the past week about new markets, surprisingly, I discovered that in Africa, in a country that is producing oil, and the almond industry wanted to go into that country to test market for some almonds to see if they would be accepted and would be used, and that country said, "You don't bring your nuts here unless you buy our oil." And the United States is currently not purchasing oil from that country.

So it's not just finding a country that can afford to pay for it because this country very well could have, but now we're finding a country that said, "No, we don't want it unless you take something from us."

It seems like that we're finding that with a lot of different countries. They say, "We'll take just so much." I think the quotas and the tariff barriers that we're seeing around the world that are placed on our products are probably the most prohibitive factors that are facing our commodities abroad.

Mr. SAMUELSON. I have some rather strong feelings on these developing countries. I get a little tired of their standing up in the world forums and saying that we have all the resources and use all the resources in this country, and I think they conveniently overlook that the majority of the free food aid on this planet for the last 20 years has come from American farmers, and very often America's farmers have paid the major part of the cost of that.

I have yet to meet a farmer in any country in the world who likes agricultural imports, and in Japan a couple years ago, the Japanese farmers told me that if their government spent less for buying wheat from America and allowed them to have better seed varieties that they could do a better job. And yet, if everybody refuses to buy anything and only wants to sell, then the whole trade structure falls down. So, trade is vital.

When it comes, though, to feeding the hungry people of the world and it sounds like a simple question—I addressed a class of high school seniors in a suburb in Chicago last week, and a young man stood up and said, "With all we have in this country, why can't we feed the world?" You run into political reasons. You run into local cultural reasons. And I think what we ought to be doing more of is to export our technology and I know that a lot of farmers are concerned that if we give them the technology to become self-sufficient then we lose the market. I don't feel that. I think if you look at many of the countries that we have aided with our technology to improve their standard of living, we find today that they are among our better customers because as they improve their standard of living they want to eat more than wheat and rice. They want to eat the protein that comes from our corn and soybeans and comes from livestock.

So, I think if we can provide them with the technology at a level that they can use and understand and improve their standard of living, that ultimately they can become better customers for American farm products.

Senator JEPSEN. Does anyone have any further comments on that particular subject?

Mr. SWEGLE. I attended a media information seminar at Cargill in Minneapolis at the end of February and they talked about this problem. A lot of times they criticize exporting firms like Cargill for raising prices and that hurts the hungry nations and their argument is, that if a country is looking for a way to develop its industry and they can get some money to buy our grain, in the long run it helps the country. And what they're advocating is long-term agreements with these countries—Bangladesh and West Africa—where there's a hunger problem, so they would buy export grain over a period of time and use the money to go into industry rather than into these small farming operations that aren't really efficient, and in the long run it would help both U.S. farmers who need to sell grain and it would help the developing country to develop another income base to pay for the food.

Senator JEPSEN. Is there any closing comment, statement or anything that any of you would like to say for the record in closing?

Mr. SWEGLE. Our readers were very appreciative of the chance to air their concerns. One thing I've noticed about farmers this year, even though the times are tough, they aren't as vocal as they have been in previous times of trouble. And I received several appreciative notes saying that it was great that somebody cared about agriculture and that this subcommittee was concerned about the situation.

Senator JEPSEN. Thank you. Do you have anything else?

Mr. SAMUELSON. I would simply say that the challenge to speak up on behalf of agriculture is not an easy one because, again, because of the diversity that is experience, and it is impossible to reflect the feelings of the individual farmers and I think what we've tried to do, is to do it on a collective basis which is really the only way that we can.

And I think the thing that I appreciate most about farmers is that, despite the difficult times, they never lose their sense of humor and I would leave you with a note from one of your constituents out in Iowa who a couple years ago gave me a new definition of a streaker, when he told me that in Iowa a streaker is an Iowa cattle feeder trying to get out of the State with all of his worldly possessions. And I would close on that.

Senator JEPSEN. I thank you and, on that note, I would like to thank the members of this very distinguished panel today for your contribution, your remarks, and observations. I think if I would summarize what has been said and expand just slightly, I might say that the story—the beautiful, romantic story of our food production and our agriculture economy in this country—has not really adequately been communicated and told. Subsequently, it hasn't been appreciated and is not by that other 96 percent of the populace in the country who are just automatically called consumers. The quality of life, which is a result of the quality and abundance of food, is taken so much for granted here. People just hop in the car or run across the street to a store that has a display of food in quantities that is something to behold. Such as that has just never before been seen or experienced even in storybooks in many countries and by many people around the world. Here, we take it for granted.

So, it grieves me when I hear talk about cheap food prices and talk about the consumer versus the producer in an adversary relationship. As representatives of agriculture, as I am and really as you all are, I would thank you for what you've done to date. Further, I would urge you to continue to communicate to the public the story that really needs to be told, and that is that we've got quality food. We have much to be thankful for and in our economy today, the best buy, by all comparisons, all statistics, all years past, all records, whatever graphs, charts or whatever, is the quality and quantity of food that we have available. That's not appreciated enough.

I think there ought to be lots of love and gratitude go out to the food producers in this country by the other 96 percent of the people. And they are more likely to extend that gratitude if they properly understand and subsequently appreciate what we've really got going.

I thank you for the role you play in that. Thank you.

The subcommittee is recessed.

[Whereupon, at 12:15 p.m., the subcommittee recessed, to reconvene at 2 p.m., on Thursday, May 20, 1982.]

THE CHANGING ECONOMICS OF AGRICULTURE: REVIEW, EVALUATION, AND FUTURE DIRECTIONS

THURSDAY, MAY 20, 1982

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON AGRICULTURE AND TRANSPORTATION
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 2:10 p.m., in room 5110, Dirksen Senate Office Building, Hon. James Abdnor (chairman of the subcommittee) presiding.

Present: Senators Abdnor and Hawkins.

Also present: Bob Tosterud, legislative fellow; and Betty Maddox, assistant director for administration.

OPENING STATEMENT OF SENATOR ABDNOR, CHAIRMAN

Senator ABDNOR. The Subcommittee on Agriculture and Transportation of the Joint Economic Committee will come to order. We want to welcome the gentlemen to this fifth in a series of this subcommittee's hearings dealing with the current economic condition of agriculture and its future prospects.

This is a very important hearing to us today and I apologize for not having enough foresight to know that this is also the day that we start out at 9 a.m. talking about the budget. I have been trying for a long time to tell Members of the Senate that agriculture is very related to that budget. I wish I had the whole body down here or that I could take this hearing up before the Senate.

But we do appreciate your being here and I am particularly pleased to have the opportunity to listen to you folks this morning and the panelists this afternoon as we hear eight different success stories, examples of U.S. food producers, processors, and merchandisers literally taking on the world to promote the sale of U.S. agricultural products.

Your organizations represent in my opinion this country's best examples of Yankee initiative, ingenuity, and competitiveness.

I know I don't need to tell you gentlemen how dependent U.S. agriculture has become on exports. During the decade of the 1970's while domestic consumption remained relatively stable, agricultural exports exploded from 60 million tons to 162 million tons, and the value of those exports from $7 billion to $40 billion.

One-fourth of gross farm income now comes from foreign sales. It is difficult to believe that less than 20 years ago the United States was a net importer of agricultural commodities.

That contrasts somewhat strongly with projections showing that 15 percent of all the food consumed in the world outside the United States will originate on U.S. farms by 1985.

The internationalization of U.S. agriculture has, however, not been without its costs. Two changes in the early 1970's had a tremendous impact on the farm sector: First, the United States devalued its currency and then shifted to a system of floating exchange rates. Second, several governments—most notably, the Soviet Union—began panic buying to insure their own food supplies.

Soviet agriculture is one of the most unstable in the world, and in 1972 and 1973 it managed to pass a great deal of instability on to open international markets, and particularly, the United States.

One authority suggests that up to 85 percent of the fluctuation and trade of cereals and soybeans during the 1960's and 1970's was due solely to fluctuations in Soviet trade.

Clearly the challenge to future farm policy is to effectively address this inevitable instability. Being the world's horn of plenty places a tremendous financial risk on U.S. farmers.

In addition, the U.S. food production base has expanded up to provide for the international market. A significant portion of agriculture's current assets and debts can be directly attributed to the growth in foreign demand and sales.

Loss of these sales would present a tremendous adjustment problem for U.S. farmers, for one could expect to see resources exit and real asset values plummet.

Food processors, merchandisers, and transportation companies have also made substantial investment commitments in response to our success in foreign markets. They too have a stake in maintaining our competitive position overseas.

Private sector initiatives to expand agricultural exports have been tremendously successful. Truly, with due credit to Winston Churchill, never have so many owed so much to so few.

As a farmer and a legislator, I commend your past accomplishments. I am fearful, however, that the future holds much greater challenges to your organizations. We are very anxious to hear your perceptions of what the future holds for U.S. exports and how your foreign market development activities may address these new challenges.

So again, I certainly say we appreciate your willingness to come here today and let us hear from you. And if you don't mind, gentlemen, I wish you would please come forward, those of you who intend to testify.

I certainly want to welcome Darwin Stolte. We come from the same State, South Dakota; Winston Wilson, who is with the U.S. Wheat Associates; Harold Weeth, of the Cotton Council International; and Jeff Gain, of the American Soybean Association.

Let me say Darwin Stolte is with the U.S. Feed Grains Council.

Gentlemen, again we appreciate your attendance. I have no particular order. Do you want to start from the left and go right, or right and go left? Either way.

Why don't you start out, Mr. Stolte.

STATEMENT OF DARWIN E. STOLTE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, U.S. FEED GRAINS COUNCIL, WASHINGTON, D.C.

Mr. STOLTE. Permit me, as president and chief executive officer of the U.S. Feed Grains Council to express our appreciation to you in the subcommittee for the series of hearings that you have been conducting in the interest of the agricultural economy.

This certainly is a subject that is of concern to all of us. Further, I appreciate the opportunity to participate in these hearings which focus specifically on what the private sector is doing to expand export initiatives to support promotion.

We have submitted a prepared statement for the record, knowing that there is much commonality in the distinguished representation that is here, in addition to feed grains.

This morning I would choose to be brief in my comments and focus on a few select areas.

Senator ABDNOR. Mr. Stolte, I can assure you that your entire prepared statement will be made a part of the record. I am here to spend all morning with you gentlemen, so you can focus on the matter any way you care.

Mr. STOLTE. Thank you, Senator. I think in part I would like to address the question that has been raised by the subcommittee and what the private sector is doing and sees as opportunities and problems by talking a bit about our organization, because it's somewhat indicative of what has happened.

We were formed under the unique auspices that were established by the action of the U.S. Congress in 1954 with the passage of Public Law 480 that provided a unique opportunity for the public and the private sectors to work hand in hand to what has commonly become recognized as the cooperator program, an overseas market promotion.

Had it not been for that public initiative, I doubt that our organization would be in existence today, so I simply give credit that there is a two-way street of participation here in overseas markets.

In the early conception of our organization, it was established for the singular purpose of developing overseas demand for feed grains—predominantly corn and sorghum.

Senator ABDNOR. How long ago was it organized again? What year did it start?

Mr. STOLTE. In 1960, and it was initiated by the National Corn Growers' Association and the Grain Sorghum Producers' Association.

Both of those organizations, however, did not have the base—or the financial base to carry out the participatory role financially.

They enticed the agricultural business community to come in: The feed industry, the cooperatives, transportation, farm machinery equipment industries, to help support this effort, and for the first 17 years of this organization's history, the agriculture business community carried the bulk of the financial commitment.

It was a unique opportunity for their participation because it was a way in which they could help farmers build markets for their products, and in so doing create a better domestic market for their own products.

In the last 5 years we have enjoyed what my fellow participants this morning have enjoyed for a much longer period, and that is the role participation of the producers themselves through self-help initiatives—either legislative or voluntary checkoffs on a State-by-State basis.

So today we have a situation where the producers are financing two-thirds of our program, and agribusiness one-third.

We continue to maintain the unique relationship with those two sectors and working through 11 overseas offices and through some 63 countries in programs and activities keyed to promoting the products and their increased utilization.

I would like to say that the bulk of our effort in recent years has been toward new market initiatives. We foresaw through 1975 a dramatic increase, particularly the period 1970 to 1975, in peak grain exports, some 1-billion-bushel increase in demand.

We feel positive that could be doubled within the next 5 years, which in fact did happen. We began moving into the new market for the Middle East, Africa, Eastern Europe, the Soviet Union and began to make initial probes into Latin and South America.

Today the focus of our program is moving heavily toward the Latin-South American and Canadian market. We continue to hold out hope that there will be an opportunity to restore the East Europe money market where we have had a very progressive program, particularly in Poland over the last 4½ years.

We are hopeful that there will be reestablishment of trade relationships with the Soviet Union. The point that I would like to make is that in effect what we have witnessed in the last 5 years is the emergence of a whole series of new economies, which like we witnessed when we went into Japan and Western Europe in the late 1950's and the early 1960's, economies that need the same type of infrastructural development—highways, port facilities, grain handling and terminal facilities, milling facilities—to bring you the utilization of our bulk products to their maximum advantage and to our maximum marketing opportunity.

I point this out because one of the concerns that I think you will notice with unanimity through this group this morning is the concern about the lack of commitment to help in these economies with developmental efforts.

Now I recognize, Mr. Chairman, that the primary concern of this administration is bringing into balance the budget. Your comments about your distinguished colleagues being involved this morning—believe me, that is equally important, because what is happening with our economy is having a direct impact on virtually every economy around the world.

The interest rates in this economy have a substantial impact on the degree that our traditional and our new customers can buy U.S. products. Because in many cases they are paying threefold for the increase for the cost of money over what they paid a decade ago.

The stronger dollar, because of the situation in our economy, has created a situation where many economies are paying two to three times as much for the same volume of commodity that they did 5 years ago.

Last week I was in the country of Greece, which is one of the newest members of the European Economic Community and going through the very frustrating transition of adjustment into the common agricultural policy and into the world market economy at the same time.

Up until 3 years ago and traditionally, the Greek drachma had been 30 to the dollar. Today the Greek drachma is 60 to the dollar, which means in effect that they have to pay twice as much to buy the same amount of commodity that they did 3 years ago, and their utilization has doubled. So in effect that explains why we have seen dampening in the demand here in the last 18 to 24 months.

Virtually every economy has gone through inflationary pressures. Many of the economies are strongly keyed to the U.S. dollar and the impact of a stronger dollar against their local currency is reducing their purchasing capacity.

These factors, I believe, unfortunately, are creating a general attitude in the United States that the run in export potential has come to its limit.

I wish to make it clear to this subcommittee, as I am sure my colleagues will, that yes, we have not yet really tapped the full potential of the international market for U.S. agricultural products.

The question is the time limits. There are no short-term solutions. We are not going to find solutions for the burdensome surpluses that we have today in cotton, soybean, feed grains, and a host of other products.

But in the long term it is imperative that we continue to maintain the same commitment that we had through the 1960's and the 1970's of bringing these economies onstream to strengthen their infrastructure potential to utilize our products, at the same time increasing their animal protein—their dietary expansion capabilities and their participation in world trade.

And I think for this reason we are concerned about the type of credit policies that we have today, as compared to what we had a decade ago.

We were very instrumental in bringing new markets onstream. The infrastructural initiatives that we had under Public Law 480 and also the most concerning one now that we find today on the part of the farmer in the Corn Belt—sorghum sectors of our economy—and I think this will be addressed by my cohorts, as well as the concern about the inconsistency or Government policy.

Permit me a personal example: In 1980 the State of Illinois was on the threshold of passing a referendum which would have been able to put some $2 million toward promotional efforts.

In January of that year an embargo was imposed by a previous administration on trade with the Soviet Union and literally wiped out 25 percent of U.S. agricultural markets.

I don't think I need to tell you what happened to the referendum. It was defeated, but it is a good example of the farmer's concerns today.

He wants to participate in the marketplace and I think foreign policies have concerned him through farmer reserve, through farmer participation, to move in that direction, but in making the horrendous commitment he makes today in the cost of production of equipment, investment capital, incentive agriculture, the uncertainty of whether he will have access to that market—whether you will be able to participate in the growth of that market—raises a real concern in terms of what his initiatives from a private sector's point of view are going to be in the future.

One of our colleagues recently in a presentation to the President's Export Council, Subcommittee on Agriculture, chaired by Governor Thone from the State of Nebraska, calls for the need to establish a national agricultural export policy.

And he may very well have an important point to be considered by this subcommittee, because we are lacking a consistency as to what do we want to do with this tremendous resource we have in the economy called agriculture.

To what degree do we want to recognize the contribution, not only to farming but the income of the economy as a whole when we look at the tremendous number of jobs that are created by export promotions, by export activity: The rail industry expansion, the elevator industry expansion, the milling expansion—many of the areas that you mentioned, Mr. Chairman. And it may be time to recognize that we need an all-out export policy to clearly define the parameters in which the private sector can participate with the assurance that that participation will be uninterrupted.

I think this is probably the most concerning factor today. I don't think there is any limit to the potential of the private sector addressing its own promotional capabilities and taking advantage of the tremendous growth potential that still exists in the marketplace.

I would again emphasize that the market is there. In our case, for example, 2 years ago, we had projected that we would like to see 4 billion bushels or 100 million metric tons of grains moving into the international market by 1985.

We felt at the level we saw production increasing in the United States it was going to be essential to achieve the kind of export level to maintain profitability in the feed grains sectors.

We believe that level could have been achieved had it not been, one, for the export embargo from the Soviet Union; two, the cutback in our credit policies; and three, the inconsistency of assurances as to whether we were committed to an export policy on a global basis on a continuing commitment; not only did the Soviet Union as a market become a loss to us, but we seriously jeopardized the consistency of many of our traditional customers as to whether they could depend on us in the future with that one single action.

I don't think it is necessary to elaborate further on the embargo. I know that many of your other committees have addressed this subject and are well aware of the implication that it has in the agricultural community, but my point still is: The market potential for 4 billion bushels of feed grain export for the next 3 to 5 years is still there.

The demands of emerging economies for better diets; their increasing purchasing capacity and the fact that the world gets bigger by 38,000 people every day in itself is a commitment that the potential to find prosperity and increased profitability through agriculture promotion can exist, if we have the commitment to both the public and the private sector.

Than you, Mr. Chairman.

[The prepared statement of Mr. Stolte follows:]

Prepared Statement of Darwin E. Stolte

Mr. Chairman, and members of this subcommittee, my name is Darwin Stolte, and I am president of the U.S. Feed Grains Council. Because the Council's single purpose is to develop overseas markets for U.S. feedgrains, I especially appreciate the opportunity to come before you today and testify on a subject of great importance to us all: how to increase U.S. agricultural exports.

The importance of agriculture exports to this nation's economy has become increasingly apparent in recent years. Studies show that for every $1 billion of U.S. agricultural commodities exported, some 30,000 jobs--both on-farm and off-farm--are created, and some $1.05 billion of additional activity is generated throughout the national economy. Clearly, these overseas shipments play a vital positive role in the country's economic future.

This is a change from the way policymakers thought about exports 20 years ago, when overseas shipments were considered to be simply a means of disposing of burdensome agricultural surpluses. Today, exports are viewed as a key solution to the economic crisis that faces American farmers, rather than a peripheral remedy or an interim means of solving agricultural problems.

Today, the primary problem facing American agriculture is one of oversupply, and that oversupply is exerting substantial downward pressure on crop prices. And, as is the case with the national economy as a whole, there are no quick solutions to the problems American agriculture faces.

Probably in the short-term a supply management strategy is needed to begin to move our crop surpluses into better balance with demand. Nevertheless, there still is considerable potential foreign demand for American agricultural products--and American farmers know that demand development will be a key to boosting the depressed commodity prices with which they now are trying to cope.

It is that conviction, in fact, which is one of the driving forces behind the U.S. Feed Grains Council. The members of our organization are a unique mix of producers--represented by groups such as the National Corn Growers Association and the Grain Sorghum Producers Association--and agribusinesses, including grain companies, equipment companies and other businesses who depend on the prosperity of farmers to stay in business themselves. This diverse membership is united in the belief that export growth is agriculture's ticket to long-term prosperity--and that such growth will not come about unless farmers themselves are willing to invest in the stimulation of export demand.

The Council has a proven record of success in stimulating that demand. For example, in Korea, our programs have been operating for ten years, and in that time, U.S. feedgrain exports have gone from 300,000 metric tons to nearly 3 million tons. The reasons for that 10-fold jump in demand become immediately clear when one realizes how much meat production in Korea has increased. From 1971 to 1980, total output of beef, pork and poultry meat grew from 170,400 metric tons to 422,100 tons. Moreover, in that same period the actual livestock population in Korea climbed from 28,000 head to almost 43,000.

We have worked closely with the Korean government, the Korean livestock industry, Korean feed importers and Korean consumers in an effort to help the country realize its own goal of increasing meat production, to show how imported U.S. feedgrains can help the Koreans attain that goal, and to help the Koreans develop the infrastructure needed to maximize their feedgrain import capacity.

We hope to be able to repeat that kind of success in today's newly emerging economies. One of the biggest of these economies, of course, is the People's Republic of China. The Chinese have made a policy decision to increase their livestock output in order to improve the diets of the population, and also have expressed a keen interest in finding other ways of using corn, such as corn sweeteners that could substitute for the costly sugar the Chinese currently import.

We see such vast growth potential in the Chinese market that we opened a new office in Beijing at the beginning of this year--and we believe that if we can work with the Chinese to find new ways to use feedgrains and help develop their import capacity, Chinese imports of U.S. feedgrains could shoot as high as 4.5 million tons by 1985. That would be a considerable jump from the 1.7 million tons the Chinese imported from all sources at the beginning of the decade.

It is prospects like these that spurred the Council early last year to set a goal of moving 100 million metric tons of U.S. feedgrains into export channels by 1985. At the time that goal was set, we had every reason to believe it was achievable. An unprecedented set of circumstances had combined to ensure maximum export growth--and maximum effectiveness of Council programs designed to facilitate that growth.

World population in the 1970's increased at a rate of 1.86 percent per year, compared to the current 1.79 percent rate. Moreover, per capita income was rising more rapidly than it is at present. In addition, the U.S. government was continuing to implement initiatives designed to support private sector efforts to create global demand for U.S. farm products--and to insure the reliability of the United States in meeting that demand. Among these initiatives were the Public Law 480 program, which includes self-help measures that help the recipient country improve its agricultural infrastructure and import capacity, and the Commodity Credit Corporation export credit programs, which have helped developing countries make the transition from aid recipients to cash customers for U.S. farm products.

But in the year and a half since the Council set that 100 million metric ton export goal, the economic and political climate has changed. The entire global eocnomy is caught in the grip of a demand-dampening recession. In addition, political factors have created a climate of uncertainty in which demand is less likely to translate into export business for the United States.

Some of these factors are beyond the capacity of one government--even the U.S. government--to alleviate. But other aspects of this change in the political and economic environment can be re-shaped by the government, if the government is willing to take the vital step of reassessing its current agricultural export effort.

The government plays a crucial role in this country's international relations posture --and that role can be a two-edged sword. On the other hand, an action such as the 1980 U.S. grain embargo against the Soviet Union can upset carefully cultivated U.S. trade relationships--not only with the embargoed country, but also with other countries with whom we have tried to build a solid reputation as a reliable supplier. American farmers still feel the effects of this shock to their markets, in the form of decreased trade with the Soviet Union, as well as in the form of some new reluctance to depend on the United States on the part of our other trading partners, such as Mexico.

However, government also has a very positive role to play in facilitating new trade relationships, as is the case with President Reagan's new Caribbean Basin initiative. The positive initiative to the nations in this region will reap rich rewards for all concerned in terms of economic growth.

A number of new, developing economies such as those in the Caribbean are coming on stream around the world, as was the case in the late 1950's when a large number of nations became independent. If we are to boost our agricultural exports worldwide, U.S. government policy must take into account the emergence of these new, developing economies, and fashion initiatives designed to meet the special needs of such nations.

There is no question that one of the greatest obstacles faced by these countries in their effort to expand imports is their difficulty in obtaining adequate credit to finance purchases of foreign products. A number of mechanisms have been proposed in order to make more U.S. credit assistance available to such nations. The most prominent of these proposals has been the Commodity Credit Corporation revolving export credit fund, mandated in the Food and Agriculture Act of 1981.

The U.S. Feed Grains Council has long supported the revolving fund concept, and that support will continue. We strongly urge the appropriation of money to activate the revolving fund, on the grounds that this one-time investment will have a substantial positive impact on export volume, commodity prices, and farm income.

However, increased credit for existing programs may not be enough to generate substantial demand from these countries, or to provide the needed boost to agricultural exports. The reason, of course, is that interest costs of USDA's single commercial credit program are so high. Authority for increased credit under the existing program will do little to hasten the movement of exports to a country if that country cannot afford to make use of that program.

The high interest rates that are putting U.S. export credit beyond the reach of the country's who could most benefit from them also are preventing more affluent countries from forward-buying U.S. grain as they have in the past. These U.S. interest rates also are a major factor in the cost-price squeeze that has brought the economic problems besetting farmers to crisis proporations. And of course, high interest rates are also wreaking havoc in the U.S. auto and housing industries.

Certainly, the only long-term solution to the problem of high interest rates is for the United States to put its own economic house in order. However, that will be a long-term proposition, in which both government and the private sector will have to work for some time to bring about. Meanwhile, American agriculture cannot wait. Help is needed now to provide the demand stimulus which will help boost exports, farm prices and net farm income.

I submit that one step to providing that stimulus is to implement the same kind of "creative financing" that the housing industry and auto industry are using to boost their sales. One form of such financing would be to "buy down" the interest rates charged to participants in U.S. export financing programs. Under such a plan, an importing country would pay a certain rate of interest. The difference between that rate and the prevailing market rate would be paid for--"bought down"--by the U.S. government.

A number of countries are using similar mechanisms to make their export commodities more attractive to foreign buyers. However this is, in effect, subsidizing exports. Perhaps the interest "buy-down" concept could be considered a variation on that theme--but that consideration poses a problem for those of us who have spent many years working to liberalize trade and to remove barriers to the free flow of commerce. Certainly the United States should continue to work for liberalized trade--and any steps this country takes to promote its exports should be consistent with the rules and principles specified in the General Agreement on Tariffs and Trade.

Nevertheless, the fact remains that the world's exporting countries have not been able to agree on any kind of code that would govern the use--or non-use--of export subsidies in the world trade arena. That failure is costing U.S. farmers valuable markets.

It is for that reason that I--and I suspect many of my colleagues both inside and outside the government--believe that we should consider taking whatever steps are needed to retain our rightful share of the markets we have worked for. I might add that such steps already have a basis in principle in the form of the stand-by export subsidy which was approved as part of the Food and Agriculture Act of 1981.

One way of alleviating interest costs without reverting to subsidization is reinstatement of the CCC direct credit program, which provided financing to foreign buyers to obtain additional sales of farm commodities. Interest rates changed under this program are at the cost of money to the CCC--which is considerably less than the U.S. prime rate. Establishment of the Export Credit Revolving Fund--already authorized by the Congress--would make such reinstatement possible.

Activating of the revolving fund would also make possible reinstatement of the intermediate credit program, which would meet the need of purchasing countries to create and improve the importing infrastructure so that they can become viable markets for U.S. farm products.

This program, mandated by the Agricultural Trade Act of 1978, was implemented, but funded so briefly that only one project was financed. This was the Ashdod project which provided sufficient storage and handling facilities at the port of Ashdod, Israel to greatly increase the import potential of that country.

Discontinuance of that program has resulted in lost opportunities to expand dozens of U.S. markets--and lost opportunities run directly counter to the principles that have made the American eocnomy successful. It is the use of opportunity--the chance for the private sector to participate and profit through a free market system--that has made the American economy the envy of the world, and has made American agriculture the most productive on the globe.

However, American agriculture is now in the throes of a well-documented crisis. It is productive, but it has lost its profitability--and the question facing us all is how to restore it. It is a vital question, because if American agriculture goes without profit for too long, it cannot continue to be productive.

Mr. Chairman, it is my belief that the answer to this question lies in the creation of new incentives to stimulate demand for the products American farmers work so hard to produce. We at the U.S. Feed Grains Council stand ready to work to help implement such incentives.

Mr. Chairman, that concludes my statement. I will be happy to answer any questions that you or other members of the subcommittee might have.

Senator ABDNOR. Thank you, Mr. Stolte, for that very excellent presentation. You certainly covered some very important and sensitive areas.

I hope we are able to do something through our subcommittee because I wholeheartedly agree with what you are saying here.

We can also hear from Mr. Wilson. I know you have quite a challenge with respect to your commodity, and considerable success. We certainly welcome you here.

STATEMENT OF WINSTON WILSON, PRESIDENT, U.S. WHEAT ASSOCIATES, INC., WASHINGTON, D.C.

Mr. WILSON. Thank you, Mr. Chairman. I am Winston Wilson. I am president of the U.S. Wheat Associates, and I too want to commend you and your subcommittee for holding these hearings today.

I think it's fairly timely and it's something that is very important, and the fact that organizations such as ours do not testify that often before congressional committees, we sometimes wonder if Congress remembers we are out there.

And we certainly welcome this opportunity to acquaint the subcommitee with some of the things we are doing and some of the things that we think need looking at from the standpoint of the U.S. Congress.

I too would like to submit my prepared statement for the rceord and would briefly summarize our views.

Senator ABDNOR. Fine. Your prepared statement will be made a part of the record.

Mr. WILSON. Thank you.

One of the things that impressed me during Mr. Stolte's presentation was that I suspected he may have read my testimony earlier because of the concerns, and in fact most of the concerns that he addressed are also those that we find are very pressing at the moment and need attention, we think, thoroughout the Government.

I will give you a brief background on our organization: U.S. Wheat Associates is the overseas promotion arm of the U.S. wheat industry. Our current organization was born in January of 1980 and was brought about by merger of Great Plains Wheat and Western Wheat Association.

These two groups were formed in the late 1950's. U.S. Western Wheat Association was organized in the Pacific Northwest originally, primarily to promote Western white wheat, whereas Great Plains wheat was formed in Kansas to promote hard winter wheat.

As time went on, the areas of interest expanded as well as the types of wheat that were involved, and ultimately in 1980 the two groups merged. Our primary purpose, as was the purpose of our predecessor organization, was to establish and expand and maintain markets throughout the world for all classes of U.S. wheat.

We, I guess, work in two basic directions: One to build demand in a general sense for wheat and wheat products, but then particularly to try to increase the U.S. market share of these markets, once that demand is established.

We are supported by wheat farmers per bushel checkoff in 13 States, primarily the traditional wheat producing States—the major States.

We also receive funding from the Foreign Agricultural Service of the USDA, as well as third-party cooperators overseas, such as milling and baking associations and other allied industry groups.

Our primary purpose is to increase wheat exports and improve income. I suppose in a business such as ours there is a tendency to look upon success or failure in terms of how many tons of product we move, but we like to look upon it also and measure success in terms of what has happened in the wheat prices.

Fortunately this year we have sort of a dichotomy of success. We have had outstanding export years as far as tonnage is concerned, but unfortunately, prices have not been a record proportion, and consequently we are very concerned that we have got to do a better job.

I think it's useful to keep in mind that even though our primary purpose is to improve the potential for wheat exports and consequently to improve farmer income, we also must look at it from the overall benefit to the entire U.S. economy, but certainly good, strong agricultural exports are really a benefit to those that are not involved in agriculture as well.

The balance of payments, of course, is very important to everyone in the economy. We also, I think, have often forgotten how many additional jobs are created by strong exports as well as when we do get in a situation like we have this year. We have burdensome supplies.

The more wheat we can export, of course, the lower Government outlays. We maintain a central office here in Washington, D.C., a west coast office in Portland, Oreg., and 12 foreign offices which serve our overseas markets.

And I will just run through these 12 to give you an idea where we are located. Our European office is in Rotterdam. We serve both East and Western Europe out of there, as well as the Soviet Union; Casablanca, North and West Africa; Cairo serves the Middle East and East Africa.

Mexico City serving Central America and the Caribbean; Santiago, South America; Singapore serves South Asia; and we also have country offices in India. Manila serves East Asia with a country office in Taiwan, and our office in Tokyo serves North Asia.

We also have an office in Hong Kong which is currently serving the People's Republic of China.

Most of these offices are fairly small. We have one or two Americans in them and the remainder are foreign nationals. Many of these people have been with the organization for many years and have a long history of experience with market development, and particularly with the wheat industry.

When you look at the types of countries and conditions under which we operate, it's sometimes difficult to single out any particular approach or activity which brings about the best result.

As an organization we attempt to tailor our programs to fit a particular country's conditions. Certainly of vital importance is the basic economic strengths of the country: The indigenous wheat production of that country, its consumptive level of wheat products, and increasingly the political relationship with the United States, as well as such things as geographic proximity to the United States and the economic system.

We have been working in Europe for many years. This is certainly a well-developed market. There is not a lot of necessity to teach people how to use wheat in Europe.

That is where it all started, but we do have extensive trade service activity there, and there is some growth in the amount of wheat used, and we are vitally concerned with maintaining and increasing the U.S. market share.

A lot of our European business is primarily in high-quality wheat to improve the quality of the flour that is produced from their indigenous production.

Certainly the Canadians and Australians are very active in this market and we have to work overtime to maintain our share.

In flour markets, like Africa and the Middle East, we place greater emphasis on providing technical assistance to help a country increase its understanding of how wheat is traded and improve the efficiency of its milling and baking industries.

Over the years we have helped to establish and found a number of milling and baking schools around the world, and we have found this to be a very successful program overall.

In areas such as Asia which do not have a long history of high levels of wheat consumption, we get into a little more basic-type program, basically introducing the product and promoting consumption of wheat and wheat products.

Certainly, Japan, which was the first office opened by Western Wheat Association, has been probably an unparalleled success story as far as market development is concerned, because that has become a major market through the years where a market did not exist 30 years ago.

Senator ABDNOR. Do you recall when they got off the ground? Do you remember when you first started to cultivate that market?

Mr. WILSON. 1958 was really the first year that we had an office there and the program was on the ground. There had been some done in Japan prior to that, but that was the year that things really started to move.

Senator ABDNOR. That's a great historical event. I guess what you did to start was to give bread away over there.

Mr. WILSON. Well, there were a number of activities that took place then. That was one of the things that was done. We have had similar-type situations in South Korea over the years. It's now our No. 2, 3, or 4 market—depending on the year. And that's another market where there was not much bread consumption until the program was started.

Asia is a little unique in that it seems that in most Asian markets personal relationships between the U.S. representatives and the people involved in government and in the milling and baking industry are vitally important in these areas, and fortunately, we have been able to maintain people in Asian offices for many years to build these relationships.

We have found that this is invaluable. Two of our most successful activities over the years have been trade teams and crop-quality seminars.

In the case of trade teams, we try to select a few key people in the industry or in government, bring them to the United States for 2 or 3 weeks, show them the wheat-producing areas, the markets, export port facilities and so forth.

We have been, I think, very successful over the years to the extent that we have had a pretty good track record of picking out some individuals who were on their way up and getting them into one of these trade teams early.

And we have found that in most cases we have a friend for many years to come.

Fortunately, they show up in some high places later on. We have found that this certainly has paid big dividends and this is a program which we are continuing this year.

We will have approximately 20 trade teams come to the United States during the next 4 months. We also conduct crop-quality seminars around the world each year after the harvest season is over, and we provide technical information on the current year's wheat crops to traders and millers and bakers and cereal chemists in these areas. And this is something that we found is also very successful from two standpoints.

We provide information to the trade on this year's wheat crop and we also find it's a very valuable source of feedback as far as any problems that they may be having with wheat they are buying from the United States, and we very often find that we are able to provide some assistance in solving some problems. And this has proven to be an invaluable part of our operation because we are the only producer representative in the overseas market as far as the wheat trade is concerned.

And this gives us an opportunity to make sure that people are satisfied with our product and that there is very often no other chance for feedback in some of these areas when we have problems.

As I mentioned, in the Asian market particularly, we have often found ourselves in the situation of introducing new products. Another example of this is we have on various occasions developed some past production in areas around the world, and certainly this improves the possibility for U.S. Durum wheat sales.

As you know, Durum wheat production has been increasing for the past few years, and we have made some real efforts to get increased pasta use around the world. And this will hopefully give us some new market for Durum.

But we look at the record over the years—I mentioned earlier one of our measures of success in our view is what happens to prices, and we look back since 1973—which in my view certainly ushered in the new era of agricultural exports—we see that U.S. exports—wheat exports in particular—have increased 80 percent since 1973.

And certainly this is a record we are very proud of.

However, during that same period, production increased by 80 percent, so we have been running very fast, but we need to run a little faster—and certainly as Mr. Stolte pointed out earlier, this is not time to back off export promotion because we have got an even tougher job ahead of us.

Earlier this year, U.S. wheat exports are projected at 1.9 billion bushels, which certainly is an all-time record. Our harvest this year was 2.8, so you see there is a billion-bushel carryover which we are looking at.

As it turns out, our current projection on exports—and we are going to have some final numbers on this next month—is somewhere in the neighborhood of 1.8 billion.

Certainly, this has affected nations all around the world, and it has had some rather adverse effect on agricultural exports.

The last couple of years we have been focusing a great deal of our attention or efforts on the People's Republic of China, and certainly this is a market that is of vital interest to all the wheat producers in the United States.

Once the relations between the United States and People's Republic of China were normalized, we started to have a major effort to improve in its utilization of wheat.

Some of the things we have been involved in there, with the help of the Foreign Agricultural Service, is a model bakery which was officially inaugurated last October.

This is the first Western-style bakery in China. We have great hopes that once bread catches on in China, that will have tremendous impact on Chinese wheat consumption.

We are also in the process of building an instant noodle plant there in Shanghai. This, we think, is going to be something that is going to have some very important impacts, and we are also currently taking bids for equipment for model flour mills.

The Chinese milling industry is fairly large, but it's very antiquated, and we are attempting to build a new modern type mill in China. And we think this will have a great deal of influence in modernizing their entire milling industry.

But as you know, China is our leading wheat market. They have been running between 8 and 9 million tons a year, and we certainly have a vital interest in maintaining this market and increasing our share, if possible.

One of the problems to be addressed by this hearing in this subcommittee has been what can the private sector do. Considering the situation the U.S. agricultural community finds itself in today, we certainly would be looking for some quick action that would make some big changes in exports.

Unfortunately, we don't see any quick fixes on the horizon.

This kind of business we are in is very painstaking. It's a long-term situation and development is slow, but the payoffs are great.

Senator ABDNOR. Are these things you think the Government could do to help you here?

Mr. WILSON. Well, I am going to list a couple of things that we are concerned about, but none of these are going to have immediate impact.

There just aren't any 5- or 6-million-ton markets sitting around out there that we can suddenly tap this year. It certainly would be nice if we could find a few of those.

We have got some problems and Mr. Stolte, I think, covered some of these pretty well in his presentation. And I won't belabor those, but one of them is certainly an adequate credit system.

We have been very concerned, and as I travel around the world, I find this issue raised pretty regularly. In fact, I had a group of Brazilian Government and milling people in my office yesterday, and they were concerned about credit. But with the demise of the old GSM-5 program, we suddenly find ourselves with no competitive intermediate credit system.

We have title I, Public Law 480, which is, of course, very concessional and a limited number of countries find themselves meeting the eligibility requirement for that.

And then suddenly we make the leap to the GSM-102 program with very extremely high interest rates that we are currently seeing there. And our competitors, primarily the French and Australians, are offering credit terms of 10 percent and fairly large payouts—in some cases, some fairly liberal forgiveness clauses on some interest and other things—and frankly, we are not able to compete with that with our current credit programs.

Then, of course, as you are aware, the 1981 farm bill does contain authorization for revolving credit funds, which unfortunately has not been furnished, but certainly this would have some impact on this problem that we have not been competitive as far as our credit is concerned in the current worldwide economic system.

Situations being what they are, credit is a very important factor. I find, that in talking to a number of Government and milling people around the world, that they had planned to expand imports somewhat this year, but they are in a cash crunch. The fact that they cannot get credit at an attractive rate, they are, if not contracting their imports, at least they are not increasing.

We are going to see cases of that in next year's exports, but we would certainly hope that we can find some alternative to fill the gap between Public Law 480, title I, and GSM-102, because we are missing some sales because of that.

Mr. Stolte mentioned the fact that the stronger dollar had a rather dramatic impact on our farmers' ability to sell wheat. Certainly I would second that.

Another factor which we think as having tremendous impact on U.S. wheat exports is the export subsidy program of the European Community, and certainly this has been a major emphasis of this administration in the past few months.

And it looks as though we are heading for a major confrontation with the European Community. One of the most disturbing things about this subsidy program from our standpoint is that community grain and particularly wheat production is continuing to increase, and this just means that there is going to be more and more subsidized wheat in the export market. And we think that is something that needs to be dealt with.

There are some 301 cases pending, and hopefully those will have some favorable results from our standpoint, but if they don't, I think we need to think very seriously about using the portion of the 1981 farm bill which authorizes export subsidy.

Certainly, these are not something that is very attractive. And considering what happened in 1972 when we actually subsidized some early grain exports to the Soviet Union, export subsidies got a black eye.

But I think we are going to have to consider that we have got to make our point to the European Community one way or the other. And I don't think they are very interested in taking on the U.S. Treasury in a subsidy war. But I think we need to consider that.

But 10 years from now, I think, if something is not done, the problem is going to be much worse.

Another concern that we have is our basic Government study toward agricultural exports. We tend to always be relegated to second place when we look at diplomatic goals, and certainly I think we are one of the few countries in the world that very rarely look at economic interests when we make our foreign policy.

Certainly in some cases you can't quarrel with that situation, but in some cases it seems as though we go out of our way to make enemies out of some of our good trading partners, and certainly this has had a dramatic impact on some of our markets in the past years.

I won't spend a lot of time talking about embargoes. Certainly we have all had unfortunate experiences with this, and they have not been effective from the standpoint of—as far as anyone can tell—accomplishing diplomatic goals.

About the only result we have been able to observe from the 1980 embargo was the fact that the role of Argentina as a major agricultural exporter has certainly improved because of the 1980 embargo.

While this administration did denounce and withdraw the Carter embargo, it is still using at least a threat of embargo action or withholding of sales in our diplomatic problem we are having with the Soviet Union and Eastern Europe.

Certainly the Eastern European market is one of vital importance to us as well as the corn producers, and we are more than a little concerned about the situation there.

I would like to list a few recommendations that our organization would like to make to this subcommittee: First, we certainly depend very heavily on the funding that we do receive from the Foreign Agricultural Service and a commitment to continue use of this funding is of vital importance to our organization and to our programs.

As I mentioned earlier, they are long term payoff programs. They are programs that take many years to accomplish, and an assurance of continuity funding is of vital importance if we are going to maintain these programs and the people overseas.

Second, we would like to see a revolving credit fund or some type of intermediate credit program established, because we think this is vitally important, particularly now in the competitive situation in wheat trade that we find ourselves in today.

Third, we would like a little more emphasis on looking at economic and monetary objectives when a government examines its diplomatic initiatives.

Certainly, exports cannot always be the primary concern when we look at our foreign policy, but certainly it should not be ignored, and we think in too many cases this has been what has happened.

The fourth item in our view: It's essential that we renegotiate or extend the long-term agreement with the Soviet Union. This is particularly important as far as wheat is concerned.

In the case of some other commodities, there weren't that many alternative suppliers, but in the case of wheat we have a number of people—primarily the Canadians, the Australians, and even to some extent the European Community—that can, and Argentina especially, that can and stand ready to supply the Soviet Union with wheat.

A fifth thing is we think we must apply increased pressure to EEC on support subsidies, and certainly if all else fails. I think we must ultimately be prepared to retaliate with subsidies of our own—at least on a limited basis in order to make a point.

I think a little more definite Government policy in regard to embargoes or trade stoppages need to be made. Certainly, the President's announced policy does solve this problem to some extent, but it needs to be a little clearer in our view.

Senator ABDNOR. Do you have any confidence in the provision in the new farm bill which says that the President couldn't unilaterally place an embargo on agricultural products?

Does that give you any comfort?

Mr. WILSON. I will tell you, Senator, I was around in 1977 when that farm bill was written. And we thought we had our ironclad language in the embargo protection clause there and a few words were changed, and we saw what happened in 1980.

The thing was rewritten, of course, in 1981 and tightened up to some extent, but having also served a brief stint in government, I am aware that they have got some good lawyers over there who interpret fairly freely, so I don't really have that much confidence in language in bills.

I guess it makes it a little more difficult for you to draft the papers that provide the justification for the embargo, but there is always a loophole somewhere.

But certainly I think the 1980 embargo probably has been better developed than any other previous trade interruptions as to what the cost was to government, to industry, and to the economy as a whole.

And I hope this lesson is not lost on administrations to come—not necessarily just this one, but it seems as though if we look back since 1972, that each administration is going to try this once and then they learn their lesson.

Well, hopefully, they will read history a little better—future administrations will—but I don't have that much confidence that the language in the 1981 bill is going to prevent that.

But certainly I hope that in future events, that the administrations will think a little harder about this.

I would like to indicate that during the past 2 years the commitment of the USDA in this administration to export market development has certainly been made very clear in our working relationship with USDA and particularly FAS has been very good. And I think they are very committed to continuing our work.

And I think the track record has been very good when you have a combined effort of the Department of Agriculture and private initiative by organizations such as represented here today.

But certainly as Mr. Stolte indicated, the job is not done and the challenge lies ahead. And I hope that commitment will continue both by the administration and by the Congress, because I think it has had an outstanding success record, and I think we have got our most challenging years ahead, but at the same time I think we can look toward even more success in years to come.

Thank you.

[The prepared statement of Mr. Wilson follows:]

Prepared Statement of Winston Wilson

Mr. Chairman, my name is Winston Wilson, and I am President of U.S. Wheat Associates, Inc. I welcome the opportunity to testify before this subcommittee, and I commend you for holding this hearing on a very timely subject.

Our organization does not testify often before Congressional Committees since The National Association of Wheat Growers covers most legislative responsibilities for our producers. We are, however, a member of the Agricultural Export Development Council which represents cooperators and presents testimony each year before Appropriations Committees.

U.S. Wheat Organization And Purpose

U.S. Wheat Associates is the overseas export promotion arm of the U.S. wheat industry. The organization was founded in January 1980 through the merger of Great Plains Wheat and Western Wheat Associates. The purpose of U.S. Wheat is to establish, expand and maintain markets throughout the world for all classes of wheat grown in the United States.

U.S. Wheat is supported by per-bushel check-off funds from wheat producers in Colorado, Idaho, Kansas, Minnesota, Montana, Nebraska, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Washington and Wyoming. Funding is also provided through contracts with the Foreign Agricultural Service of the U.S. Department of Agriculture as well as overseas third party cooperators, such as milling and baking associations, which participate in USW market development projects.

The organization was created by wheat producers to increase the level of U.S. wheat exports and improve producer income. The resources of U.S. Wheat are devoted exclusively to foreign market development activities, stressing the unique role of the United States as a reliable producer and supplier of all classes of quality wheats.

U.S. Wheat's efforts to increase wheat exports not only encourage the growth of world consumption of wheat products, but they also help create additional jobs in the United States, reduce inflation, and help reduce surplus U.S. wheat supplies.

Our organization maintains a central office in Washington, D.C., an office for Asia and the West Coast trade in Portland, Oregon, and twelve foreign offices which serve our overseas wheat markets. These are located in Rotterdam, serving Europe and the Soviet Union; Casablanca, serving North and West Africa; Cairo, serving the Middle East and East Africa; Mexico City, serving Central America; Santiago, serving South America; Singapore, serving South Asia, with a country office in India; Manila, serving East Asia, with a country office in Taiwan; Tokyo, serving North Asia, with a country office in Korea and an office in Hong Kong to serve it and The People's Republic of China. Most of these offices are quite small with one or two Americans and the remainder foreign nationals. These dedicated people, some having served for many years, spend a great deal of their time travelling to stay in touch with the industry of the countries in their region.

Wheat Export Promotion Activities

With the range of countries and conditions in which we operate, it is hard to single out any approach or activity which brings the best results. As an organization, we attempt to develop activities that are appropriate to a particular country's conditions. A country's economic strength, the size of its own wheat production, its consumption level of wheat products, the historic political relationship with the United States, the geographic proximity to the United States and the country's economic system are important factors in determining what can be undertaken in the way of market development activities.

U.S. Wheat and its predecessor organizations have been working in Europe and Asia for many years. We continue to work with these markets primarily by providing market information and trade servicing. In these established markets there may be some growth in the amount of wheat used, or we may be able to increase the U.S. market share. It is likely, however, that we will need to work hard to protect our market share because the Canadians and Australians are trying to expand their share of the same market.

In the newer markets of Africa and the Middle East, we place greater emphasis on providing technical assistance to help a country increase its understanding of how wheat is traded and improve the efficiency of its milling and baking industries. These objectives are addressed primarily by providing technical consultants and training in milling, baking, handling and storage.

Two of our most successful activities are trade teams and crop quality seminars. In the case of the trade teams, we try to select a few key decision makers from industry or government and bring them to the United States for 2-3 weeks. Here they meet producers, traders, millers, bakers, nutritionists and government officials. They see our port and handling facilities, establish industry contacts and are exposed to American hospitality. The program is designed to meet their particular country's needs.

Crop quality seminars are conducted in the key importing countries by technical experts each fall after the new U.S. wheat crop has been harvested. Traders, millers and bakers, particularly in more developed markets, are interested in what to expect by way of the characteristics of the new wheat crop. They are given the supply/demand outlook and crop quality information such as the moisture and protein levels for the various classes and any unusual milling or baking characteristics.

We also work closely with countries that are interested in introducing a new product. An example would be in helping to develop pasta production that would open the possibility for U.S. durum wheat sales. There are also cases where we are asked to provide assistance in helping a country move from a government-controlled market to a freer trading system.

We are called upon to help deal with a wide variety of problems and issues. Our position as a non-government organization gives us a unique opportunity to be responsive and help increase our sales.

We feel that these efforts have been successful, and the increase of nearly 60 percent in U.S. wheat exports during the eight years since 1973 is impressive. However, production has increased by more than 80 percent in the same period which means that we did not keep pace with the expansion in production.

Earlier in the year, U.S. wheat exports were projected at 1.9 billion bushels out of a harvest of nearly 2.8 billion bushels. Because of the world economic slow-down, that projection has now been reduced to 1.8 billion bushels - still an impressive increase of about 19 percent over last year and 60 percent over four years ago. Some doubt that we will reach the 1.8 level, but total inspections by May 6 had already gone over 1.6 billion bushels.

A major focus of U.S. Wheat Associates in the last couple of years has been The People's Republic of China. With the resumption of relations between the United States and that country, we have undertaken a major effort to help it improve and increase its utilization of wheat foods.

This effort has included establishing, with the help of the Foreign Agricultural Service, a model bakery that is to serve as a training facility as well as supply bread for Beijing. We also plan to establish a model flour mill and a noodle factory in the future.

We will be providing technical assistance and training in an effort to make certain that these facilities are operated efficiently. There are a host of other problems that will have to be addressed in order to maintain China as our leading wheat market, now at about 8 million tons per year.

Unfortunately, there do not appear to be any large new markets waiting on the near horizon. We have been making an intensified effort in the Middle East and other newer markets, but expanding our wheat exports further will require a sustained long term commitment.

Problems Faced In Exporting Wheat

In spite of the sharp increase in wheat exports, there are sales opportunities that are not being met. And out competitors, in spite of the current bargain-basement wheat prices, are making every effort to step up their production and exports.

The world's current recession has led many buyers to scramble for ways of cutting their outlays for wheat. They have been buying cheaper wheat, lowering consumption, resorting to bartering and in some cases raising their flour extraction rates. Freight rates have also been very low although they have recently started to firm up.

A totally inadequate credit system has also hampered wheat exports, especially to the middle income level countries. On one hand, we have the PL 480 title I sales program under which we can offer very concessional terms of up to ten years grace on repaying the principal with repayment over the following thirty years. Interest during the ten-year grace period is two percent while the rate is three percent during the thirty-year repayment period.

The trend in recent years has been to make the terms slightly less generous except in the case of the poorest countries or in cases of strong U.S. political interest. The funding for the PL 480 program has also been reduced so that it is significant for only a small number of countries. However, because of its concessional terms and the shortage of other good credit offerings, the PL 480 title I loans are still sought after.

The French and the Australians offer credit terms of around ten percent, and they compete very effectively at that level. The French also sell a large volume of heavily subsidized flour. The United States, after the PL 480 title I program of about $800 million that serves a variety of political and humanitarian purposes, has nothing to offer except GSM 102. (I should also point out the PL 480 title II grant program of about $700 million that is for emergency and humanitarian needs.)

GSM 102 is a government guarantee of private commercial loans. The terms are the going rate which have been 16 to 18 percent. These loans can be for up to three years, thereby helping a country's cash flow situation, but many countries find that they just cannot afford the high interest under GSM 102. Such countries often need more wheat than is available under some form of concessional credit or they have recently "graduated" from concessional credit but cannot afford the current high interest rates.

The 1981 Farm Bill included authorization for a Revolving Credit Fund that has been supported for several years by agricultural and exporting groups. The idea behind such a fund would be to have it be independent of OMB and self-sustaining after initial start-up funding requirements have been met. It has been envisioned that interest terms under a Revolving Credit Fund would be at about the cost of money to the Government. This might mean a rate in the 13 to 14 percent range which would not as good as the French or Australian terms. However, if our interest rates come down, the Fund could offer attractive rates that would serve as a much-needed bridge between PL 480 and GSM 102.

I should also point out that the stronger U.S. dollar has been making it more expensive for foreign customers to buy our wheat. A bushel of wheat may cost a foreign buyer as much as forty percent more today than two years ago just because the dollar is that much stronger in relation to the yen, franc or mark to name a few. This trend will also encourage more imports by the United States.

Another very serious ostacle in the way of expanded wheat exports is the export subsidy program of The European Community or France. With a program of high supports, France has increased production of lower quality wheat, and subsidies are its way of disposing of the surplus.

The EC has talked about gradually bringing its supports into line with world prices, but thus far there is little sign of willingness to go that route. This Administration has made known its strong objections to the community's export subsidies, but thus far neither side has yielded any ground.

There also is a great deal of uncertainty over the effectiveness of the GATT Section 301 complaint proceedures on subsidies. A number of cases have been filed, and we should soon have some indication as to the usefulness of the 301 ~~complaint route through the case filed on EC flour export subsidies.~~

Last year's Farm Bill contained the authorization for the United States to use subsidies to counter their use by competitors. The use of subsidies by the United States is not new, and we, by mistake, subsidized some of the early grain exports to the Soviet Union in 1972. Since then we have wanted to avoid a battle of treasuries, but we may need to face that issue before long.

Another and even more basic issue is what is our government's attitude toward agricultural exports, and how will it be related to our diplomatic goals. The soybean embargo of 1973, the Soviet embargo of 1974 and the Soviet and Polish embargoes of 1975 were essentially carried out because of fears over short supplies. The long term agreement with the Soviet Union, beginning in 1976, laid to rest the fear of that country's destabilizing the U.S. market.

However, the Carter embargo of 1980 opened a new chapter in U.S. agricultural export policy: trying to use our food power for diplomatic ends. That policy did not work, and one of the main results was to greatly expand the role of Argentina as an exporter of grain and other agricultural products.

While this Administration denounced the Carter embargo, it has clearly given priority to its diplomatic objectives with the Soviet Union and Eastern Europe over resuming normal export sales. Many of our producers felt that we had an unofficial embargo after the December declaration of martial law in Poland. Now we have little clear indication of what is ahead in terms of when and whether there will be a new long term agreement with the Soviets and when and whether we will have a resumption of normal trading.

Federal Role In Promoting Market Development

The Federal government has a major role in our market development activities, and they can play a large role in helping develop markets. Several important considerations are as follows:

(1) Continuity in funding is important so that we can send staff overseas and develop activities with some assurance that funds will be available. Many of our staff have served in the same location for a number of years, and this is useful for trade contacts and sound programs.

(2) A Revolving Credit Fund and lower interest rates are needed especially for middle income level countries. The U.S. Agricultural

Export Development Council recommended that the Fund be started with $1 billion in FY1983 which is less than is needed, but that would be a useful start.

(3) Government policy in relation to its fiscal and monetary objectives should not fail to take export promotion into account as now seems to be the case. Some initiatives have arisen from Congress, but there has been little coherent planning in this area in terms of a governmental export strategy. The usual pattern for this government is to ignore agricultural exports except when it comes to making success stories. Perhaps there's a lesson there.

(4) In the view of our organization, a new long term agreement with the Soviets is essential to maximize wheat exports to that country and avoid sharp year to year fluctuations in their purchases.

(5) The government must be prepared to do more than express its anger over EC subsidies. Ultimately, we must be prepared to negotiate and if necessary retaliate with subsidies of our own.

(6) Government policy in relation to embargoes or less formal trade stoppages needs to be clarified. There seems to be little willingness to face the cost of such actions on the part of policy makers.

Our producers are well aware what the embargoes have done to their prices, and the recent Schnittker study has outlined the different costs of the 1980 embargo to the country. Unfortunately, these facts are not well known, and such events can offset years of work by organizations such as U.S. Wheat.

In closing, I would like to make it clear that our working relationship with USDA and particularly FAS has been outstanding.

Thank you, and I will try to answer any questions that you may have.

Senator ABDNOR. Thank you, Mr. Wilson. I will again thank Mr. Stolte and you for excellent testimony for our record. I know that both of your groups have been doing outstanding jobs.

I hate to think what would have happened if private industry had not entered the field of selling grain. We would be a lot farther behind in our economic problems than we are today.

Our next witness is Harold Weeth, president of Cotton Council International, and Mr. Weeth, we really appreciate you coming.

I assume that you come from California and that you had to come all the way from there just to appear before our subcommittee.

I happen to come from South Dakota, and I am not that familiar with how you grow cotton. I hear a lot about it. I have been supportive of cotton producers because I know their existence is important to the Nation and to the world and other parts of agriculture.

And I also know from reading that you have got your share of problems in that area today. So we are very anxious to hear from you.

STATEMENT OF HAROLD WEETH, PRESIDENT, COTTON COUNCIL INTERNATIONAL (CCI), ACCOMPANIED BY DAVID HALL, EXECUTIVE DIRECTOR, WASHINGTON, D.C.

Mr. WEETH. Thank you, Mr. Chairman.

We look on this problem as merely another opportunity. We have lots of opportunities in the cotton business.

My name is Harold Weeth and I am a cotton producer from Coalinga, Calif. I am here to testify today on behalf of the Cotton Council International, and the CCI is the overseas arm of the National Cotton Council of America. I am also chairman of the board of directors of Colcott, Ltd., which is a cooperative marketing service headquartered in Bakersfield, and we represent about 4,000 cotton producers from California, and Arizona, and Nevada, and our members sent to us last year 4.2 million bales of cotton. A good portion of that goes into the export market, which makes us very interested in this program.

I think that the testimony here today may sound a little bit like a broken record, but it's because we have a common cause and I am sure this comes through in what each of these gentlemen have to say, including my own testimony.

As background information, exports account for more than half of the total takeoff of U.S. cotton. We estimate that our exports in the current marketing year will amount to almost 7 million bales of cotton, having a value of around $2.25 to $2.5 billion. Therefore, like other U.S. agricultural commodities, cotton is highly dependent on exports for its continuation as a viable and important segment of American agriculture and as a major contributor to the economic well-being of this Nation.

From offices in Washington, Memphis, Hong Kong, and Brussels, CCI designs and executes market development programs to help maintain and increase U.S. cotton consumption abroad. Specific market development programs are conducted in Japan, Korea, the Philippines, Indonesia, Singapore, Thailand, Hong Kong, France, Italy, Spain, the United Kingdom, and Canada, countries which currently account for over two-thirds of our exports. In these countries we work closely with foreign textile associations, their member mills, apparel manufacturers, retailers, and others, and we develop and supervise promotional activities on behalf of 100 percent cotton products made entirely or principally from our own production. Our primary purpose is to help foreign mills sell more of their products in their respective domestic markets.

However, we recognize fully that cotton today is a fluid subject in that it grows around the world in the form of not only raw cotton in a bale, but in yarn, in grey goods, and in finished textile products. We find cotton even going from the United States today into the Orient, where it is manufactured in a finished textile product and then being transshipped to Europe for marketing to the consumers.

Joint advertising is a major activity in most of these countries with ads aimed at consumers emphasizing the benefits of their using cotton fabrics, apparel, and household products made in their country. The advertising, and although it's aimed at consumers through major magazines, is more directly targeted at mills whose textile products are featured in the ads. What we are really trying to do is to tie the foreign mills to U.S. cotton through joint advertising programs, and as an indication of foreign mill attitude about the effectiveness of CCI's joint promotions, foreign mills and other cooperators have contributed over $10 million during the past 5 years as their share of costs to promote cotton products made almost entirely from U.S. cotton.

In addition to advertising in some of these countries such as Thailand and the Philippines we also initiate trade fairs, exhibits, press bulletins, and educational services, blanketing all major cotton importing countries, including Mainland China—and incidentally, we think if we can tie another 3 inches to the shirttail of every Chinese person, that we could add a few million bales to their need, also—and we are continuing projects and services with positive benefits toward maintaining and expanding cotton exports. We categorize these activities under the heading "bringing buyers and sellers together."

Here are two examples, both of which have been recited by my friends at this table here this morning. First, CCI brings foreign mill decisionmakers to the United States each year on a 2-year orientation program across the Cotton Belt. They are shown how U.S. cotton is bred, grown, harvested, ginned, handled, and merchandised. They, as buyers and potential buyers, meet cotton industry leaders including the merchants and cooperatives who export from the United States. Equally important is the establishment of personal relationships with industry leaders, and I can personally assure you the benefits of this program are positive and long term.

I would only reemphasize that no product sells itself. Somebody has to be out there doing it, and we find this is essential if we are going to be effective in the international market, as well as domestic, or any market, for that matter. As a counterpart to the orientation program, we send trade teams to cotton importing countries. Each team is composed of a cotton producer, three cotton exporters, a USDA foreign agricultural service representative, and a CCI staff man.

This year three teams will go into major export markets which account for almost 90 percent of our exports. In each country the team will update representatives of textile mills, cotton traders, and government officials on the U.S. cotton situation, as to production, prices, availability, and the characteristics of the current crop, by regions across the belt. And this is an important factor, since we all recognize that there is nothing constant as far as production is concerned. The variables are principally what cause differences in the crop quality and all the other factors relating to it.

In turn, the team obtains information regarding customers' likes and dislikes about U.S. cotton, their purchase plans, our competition, and the potential for our cotton in each country. This data is reported to the U.S. cotton industry with recommendations to help hold and/or expand markets in each country, and certainly we find that there are a lot of things that our customers don't understand about our fiber or things that—where we can gain from their knowledge and telling us what they would like to have in the form of their product. We bring that back to our producers in the United States, and hopefully we can produce a better packaged, better quality of fiber or cleaner, in whatever form it would appropriately satisfy the needs of our customers.

In addition, the team activities serve to bring buyers and sellers together and to continue the establishment and expansion of personal relationships. We know from experience there is no substitute for face-to-face discussions with our foreign customers and potential customers. The orientation programs and trade teams afford buyers and sellers the opportunity to effectively participate in meaningful dialog.

A related promotional project is the U.S. "Maid of Cotton," and I'm sure you people have all heard about her program. This young lady is selected each year on the basis of intelligence, communicative ability, and appearance. She serves as the international goodwill and fashion ambassadress for the cotton industry. She is featured by our foreign customers in their promotions and participates in meetings with top-level foreign government officials. This creates a high volume of favorable publicity for U.S. cotton in foreign news media. In short, the "Maid of Cotton" opens many foreign trade doors for U.S. cotton that otherwise would not be open.

As another type of activity, CCI publishes and distributes abroad some 3,000 copies of the U.S. Cotton Handbook. This is an annual compilation about the current crop, including a U.S. cotton varieties map which shows percentage of each variety grown in each region, along with typical qualities of each variety. The handbook also includes a listing of all cotton exporting firms and cooperatives with the principal's name, the firm's address and so on. Through this publication we are again hoping to bring buyers and sellers together.

In a related project, we place generic advertising in foreign trade publications to bolster interest in U.S. cotton. The ads stress the advantages of buying U.S. cotton and U.S. exporters' dependability and strict adherence to contract sanctity.

Where feasible, we are beginning to broaden our foreign market development activities as to products. For example, in cooperation with the U.S. National Cottonseed Products Association, we have initiated a special promotion for U.S. cottonseed oil with approximately 1,100 leading restaurant chefs in 9 major cities in Japan, and I guess if our wheat friends can teach the Japanese how to eat bread, maybe we can introduce them to a little bit more oil here that will help in this area also. The Japanese cottonseed oil refiners are contributing more than one-half of the cost of this cooperative program which we believe will increase our cottonseed oil exports to Japan.

Another expansion in the type of promotional activities is the value-added concept. In this case we are working with an American manufacturer of 100 percent U.S. cotton household textile products in his retail outlets in Hong Kong, the Philippines, and Singapore. The all-cotton products are high quality, high fashion household goods not manufactured locally and are not readily available in each of these countries.

CCI, the American manufacturer and the foreign retailers consider this cooperative project a sound marketing opportunity. Positive results of this promotion in Hong Kong substantiates the validity of the concept. Furthermore, we are convinced there are other opportunities in selected countries for sales of American textile products made from 100 percent U.S. cotton, and we intend to vigorously pursue these opportunities.

One of the most important foreign market development tools is the adequate and stable availability of U.S. cotton credit and credit guarantees for the export of cotton and other agricultural commodities. And here we go again. By extending credit to good customers abroad, we are helping to strengthen the economic viability of U.S. agriculture in this Nation by maintaining and expanding exports.

Through credit to good customers we tie them to our agricultural products, and in many cases credit to a particular country has a ripple effect which tends to also tie the cash purchases of that country to us. Therefore, credit is essential to our exports.

Perhaps the most serious problem we have had in exporting cotton is an inadequate and fluctuating amount of U.S. cotton export credit. The situation improved in fiscal year 1982 with the Commodity Credit Corporation's authorization to guarantee up to $2.5 billion in export credit and the announcement of credit lines early in the year to certain countries.

Another problem is being able to acquire enough foreign market development funds to finance program opportunities abroad. Our overseas competitors who are completely sold on the CCI market development program are willing to increase their matching contributions. At any time we can obtain increased funding through USDA/FAS or other sources.

We request the Federal Government to provide adequate funding for foreign market development. We hope the Congress will act favorable on the administration's fiscal year 1983 proposal for foreign market development, which recommends an increase of $4.2 million. We also urge the Federal Government to fund the congressionally authorized GSM–5 revolving credit fund for agricultural exports at a level of at least $1 billion in fiscal year 1983.

Mr. Chairman, there is no doubt in my mind as a cotton producer from California, that this one factor alone would certainly improve our ability to market cotton around the world, and certainly would satisfy our customers, and to that extent, I want to thank you and this subcommittee for the opportunity to visit here. I would also like to remind you there is no difference in the mileage between California and Washington than it is from Washington to California.

Thank you.

Senator ABDNOR. Thank you, Mr. Weeth. You have made a fine contribution to our witness list today. As you know, we hope to put out some reports on these hearings and maybe we can influence some people here in Congress, as well as elsewhere around the country. Your addition is indeed very valuable.

I suppose you heard the bell. I have to slip down for a vote. At my right is Mr. Robert Tosterud, who has been helping me on this subcommittee. I hope you don't take offense, but I am wondering if you would mind if I would slip away and cast my vote. I have glanced at some of the testimony. Please proceed, and I will return as quickly as I can. Then we can have some time for questions. It will just take a second to cast my vote. Please continue.

Mr. GAIN. That is quite all right, Mr. Chairman. I understand. Would you like me to proceed?

Mr. TOSTERUD. Yes.

STATEMENT OF JEFFREY W. GAIN, EXECUTIVE DIRECTOR, AMERICAN SOYBEAN ASSOCIATION, ST. LOUIS, MO.

Mr. GAIN. First of all, I want to commend the chairman and the subcommittee for conducting these hearings, as have the other groups. I feel privileged to have the opportunity to present some comments for consideration.

My name is Jeff Gain. I am executive director of the American Soybean Association at ASA's world headquarters in St. Louis, Mo. I am pleased to appear here today on behalf of ASA to describe ASA's market development programs and some of the areas we feel improvement can be made in U.S. export policy.

The American Soybean Association is a national, nonprofit, voluntary, nonpartisan, producer-controlled, single commodity association organized to assure the opportunity for a profitable soybean industry. ASA has approximately 20,000 dues-paying soybean-producer members and ASA programs are supported by over 475,000 soybean farmers who voluntarily invest in 23 separate State soybean checkoff programs. ASA seeks to assure soybean profitability through its programs of foreign market development, research, and public and grower education.

Foreign market development for soybeans and soybean products has always been and is today the highest priority of the American Soybean Association. And I wanted to mention to the chairman—perhaps I'll get an opportunity when he returns—that South Dakota is soon to join the ranks of one of our State associations and it emerged during the last 3 or 4 years as one of the larger soybean producing States, and we are pleased to see this increased production in that area.

ASA believes the best long-term approach to providing soybean farmers the opportunity for a profit from their production is by expanding world demand for soybeans and soybean products. Through the soybean checkoff programs, soybean farmers have been willing to back up their belief in foreign market development with their own money. This year soybean farmers will invest over $5 million of their money in foreign market development. In addition to the money invested by soybean farmers, ASA receives over $3.3 million from the Foreign Agricultural Service and over $5 million from third party contributors to finance its foreign market development programs.

ASA's foreign market development effort is centered around the idea that by teaching our foreign customers and potential customers to efficiently use soybeans and soybean products to increase their production and profit, they will expand their purchases. Therefore, ASA's foreign and domestic staff of livestock and poultry nutritionists, economists, human nutritionists, processing technologists and other specialists are constantly providing our foreign buyers with the most up-to-date information available on how to use soybeans and soybean products. This year, ASA will carry out over 200 separate projects in 76 countries. ASA currently has 10 foreign offices located in Madrid, Brussels, Hamburg, Vienna, Seoul, and Beijing, which I might add, is our most recent office, Tokyo, Taipei, Singapore, and Mexico City.

The return of our foreign market development effort has been enormous. Since ASA opened its first office in Tokyo over 26 years ago, soybeans have grown from a relatively insignificant U.S. crop to our largest cash crop and this year our second largest export crop. In 1981 the value of soybeans and soybean product exports exceeded $8.2 billion and represented approximately 55 percent of total U.S. production.

To see for ourselves the return that we are receiving from our market development effort, ASA recently commissioned a study by Chase Econometrics to isolate and quantify the impact of ASA's foreign market development program on exports and farmer income. The preliminary results of that study, which have withstood peer review by some of the Nation's top economists, are truly exciting to us.

Based on an analysis of the soybean sector during the period 1970 through 1980, Chase Econometrics was able to determine that each dollar spent by soybean growers on foreign market development returned $66 in additional exports of soybeans and soybean products. The return on FAS expenditures during the period was $64 in additional exports for each dollar invested. Third party contributors saw an average return on their investment of $64 to $1. When contributions from growers, FAS and third party contributors are all combined, the Chase Econometrics study indicates an overall return in exports from the program of $62 to $1.

Overall, the Chase study indicates that during the decade of the 1970's, the $59.3 million spent by all contributors for foreign market development for soybeans and products generated an additional $3.75 billion in exports. We doubt such a return on investment can be matched by any other program of the Federal Government. In fact, if one assumes that the Federal Government collects in the form of taxes 20 percent of U.S. economic activity, the $7.69 billion in economic activity created by the soybean market development program during the period 1970–80 resulted in an increased Federal revenue of $1.52 billion or $88 for each dollar of Federal investment in the program.

Having described the overall return from market development, it is important, I think, to describe a few examples of market development successes we have had in the past. In Taiwan, ASA discovered that soybean oil was considered of poor quality compared to the traditionally used peanut oil. Yet, with Taiwan's increasing demand for soybean meal, the soybean oil output of Taiwanese crushers was in surplus. To upgrade the image and quality of soybean oil, ASA instituted a program with the Taiwan Vegetable Oil Manufacturers

Association. We sponsored technical seminars for processors; organized trade team visits to the United States; conducted quality control short courses; and ran consumer education programs. Since the program was initiated over 10 years ago, the demand for soybean oil has increased from 7.6 pounds to over 15 pounds per capita. Today, soybean oil accounts for 55 percent of Taiwan vegetable oil use. The increase in soybean oil consumption generated by the program requires an additional 15 million bushels of U.S. soybeans.

Japanese feed manufacturers placed little emphasis on feed quality in 1970 when ASA's Tokyo staff began conducting feeding demonstration trials with individual Japanese swine and poultry producers. As a result of the feeding trials and ASA's dissemination of the results of those trials, Japanese feed manufacturers have increased the level of soybean meal in the swine and poultry rations. Today, Japanese poultry rations contain an average of 11 percent soybean meal versus 6 percent in 1970. The percentage of soybean meal in swine rations has increased from 8.8 percent to 11.2 percent during the same period.

In Germany, ASA discovered in the mid-1970's that only 32 percent of German consumers knew of soybean oil and soybean oil constituted only 25 percent of the German vegetable oil market. Unable to sell greater amounts of vegetable oil in Germany, German processors were hesistant to increase their purchases of soybeans. To counter the lack of awareness of soybean oil in Germany, ASA began a program in the mid-1970's in cooperation with the German fats and oils industry to improve soybean oil quality. ASA also convinced Unilever, a large European food conglomerate, to introduce and market an identified soybean cooking oil. As a result of the ASA soybean oil promotion effort, soybean oil today constitutes over 50 percent of German vegetable oil consumption. Today there are 10 identified soybean cooking oils in Germany, and German consumers will consume over 1.8 billion pounds of soybean oil, the production from 156 million bushels of soybeans.

I believe it is clear that the joint FAS and ASA market development effort for soybeans and soybean products has been an enormous success in the past and must be continued and expanded in the future, if we are to provide for a profitable U.S. soybean industry. However, we believe there are several steps that must be taken to assure maximum success of our efforts in the future.

First of all, ASA believes it is essential for the United States to expand its export financing for agricultural commodities if we are to achieve maximum export growth to the many moderate income nations of the world. To a large degree, ASA successes in the past have come about in the developed economy nations of Europe and in Japan. Today the European Community and Japan collectively purchase about 70 percent of our soybean and product exports. While significant growth is still possible in the more developed markets, the greatest potential growth exists in the moderate-income nations of the world such as Korea, Indonesia, Turkey, Morocco, and those of Eastern Europe. While these moderate income nations desperately need and want our soybeans and products, their lack of foreign exchange makes it impossible for them to import their needs.

ASA believes it makes good sense for the United States to lend these nations the money they need to buy U.S. soybeans and products, so that the commodities are moved out of our market and the United States can gain valuable foreign exchange. For this reason we feel funding the CCC Revolving Fund authorized in the 1981 farm bill should be of the highest priority. The revolving fund should not result in any net outlays to the Federal Government since the rapid growth rates of the moderate income nations makes it relatively certain they will be able to repay the loans and interest on time. Most important is the fact that unlike domestic loans and storage programs, export loans cause the commodities to be exported and consumed with the obvious benefits of increased foreign exchange, enhanced economic activity and increased producer prices and income. It's time the Government recognizes export loans are not just a budget outlay, but an investment in our economy.

Second, ASA believes it is essential that Federal contributions for foreign market development keep pace with inflation and those of producers and third party contributors. Today, the United States spends only about one-tenth of 1 percent of agricultural export value on foreign market development compared to about 0.33 percent in 1970. Several countries spend a much greater share of their export earnings on foreign market development. For example, Australia and Denmark each spend an amount equal to 0.61 percent of their export earnings while New Zealand, Israel, and South Africa spend even greater amounts as a proportion of their exports at 0.78 percent, 1.14 percent and 0.66 respectively.

Aside from not keeping pace with the programs of our competitors, Federal contributions to soybean market development have not kept pace with the contributions of soybean growers. In 1974 the contributions to soybean market developments of FAS and ASA were about equal at $1.132 and $1.115 million, respectively. This year, ASA's contribution will exceed $5 million while that of FAS will only equal about $3.5 million. Of course, we are enormously thankful for the Federal contribution to our overseas program, but we do believe a contribution at least equal to that of the growers is warranted in light of the success of the program and the aggressive competition that we are encountering abroad.

Finally, Mr. Chairman, ASA believes our market development efforts in the developing world could be greatly enhanced if the programs of the Agency for International Development [AID] were better coordinated with ours. Much of the future growth in our exports must occur in the host of poor nations in Africa, Latin America, and Asia. Yet before we can begin to see real increases in demand in those nations they must often develop even the most basic infrastructure with which to offload, store, transport, and utilize our commodities. Such infrastructure is not inexpensive and its operation does require trained personnel.

AID is the agency charged with providing American assistance to the lesser-developed nations. Unfortunately, we have seen too many instances where AID's programs have not only not helped our market development efforts, but have actually interfered with them. For example, in Egypt, AID financed the construction of an offloading elevator to allow the Egyptians to more efficiently import their wheat needs. Unfortunately, the elevator was built in the Red Sea rather than the Mediterranean, with the result that the Australians and South Africans have a competitive advantage over the United States in supplying the wheat to be handled through it. If soybeans and soybean meal are to be offloaded at the elevator, it will be the Argentines and Brazilians that will have a freight advantage in being the suppliers. We believe such a mistake should never have been made by AID.

In the Dominican Republic, the United States spent millions of dollars helping that country depopulate its swine herd to rid the nation of African swine fever. Now that the swine have been depopulated, it is the Canadian Government that is lending the Dominican Republic the money to buy Canadian hogs to repopulate the island. We wonder why didn't the United States require the Dominican Republic to repopulate the island with American hogs as a condition for funding the depopulation program?

There are countless other examples of where AID programs failed to consider America's need to export. We believe the United States can no longer afford such a lack of coordination, especially at this time of high trade deficits and budget deficits. We urge the Congress to establish a policy which requires AID and the other development agencies to construct their programs in such a way so as to maximize U.S. exports. We believe more emphasis should be placed on helping developing countries to develop their economies based on the principle of competitive advantage. Nations should be encouraged and assisted to produce those crops and goods for the world market which they have a competitive advantage to produce, while purchasing commodities and goods on the world market from nations with other competitive advantages. For too long developing nations have been encouraged to adopt a policy of self-sufficiency with the result of inefficiency and scarcity. A policy of self-reliance will result in lower prices and freer trade. It will also mean larger markets for American farmers.

We are encouraged by a new willingness on the part of AID under the Reagan administration to coordinate economic development and market development. We have recently been working with AID and USDA on agricultural assessment missions to Morocco and Turkey, and we believe such missions will lead to a more realistic U.S. aid policy to those nations. However, we urge the Congress to take a close look at ways to foster even greater coordination and cooperation between AID and trade.

In conclusion, Mr. Chairman, the American Soybean Association is convinced that the export market offers the only long-term opportunity for profitability in our industry. Today's low prices are surely disheartening, but one does not want to imagine what prices would be if we had not embarked on aggressive foreign market development programs over a quarter of a century ago. We must not only continue our foreign market development efforts in the future, but we must expand those efforts to new areas of the world. Our industry's profits and the prosperity of America hang in the balance.

Senator ABDNOR. Thank you, Mr. Gain. We appreciate your testimony. I suppose I should apologize for keeping all of you here like this, but maybe it's good that you hear each other talk. You are all in the same business, and we all have many of the same problems, and we have now heard many of those same problems pointed out here today. This is going to be extremely beneficial to us.

This afternoon, I think you might be aware, we are going into discussions concerning value-added commodities. Some of you are already involved in that area, so there certainly should be great future potential there also.

I would like to ask some questions that affect all of your groups and maybe I could get you each to give us your thoughts.

What I want to ask you is, some experts contend that the traditional farm policy which emphasizes price support and commodity programs has been and will continue to be ineffective in dealing with farm problems which largely originate in the international sphere. What should be the focus of farm policy in the 1980's? You have brought out some points, but what of the overall? How do you see agriculture in the 1980's and the policy from the legislative level or from the Government level?

Mr. STOLTE. I am sure we probably have different views, Senator, commodity by commodity, but I think one of the things that has become apparent in recent years that the commodity interests have strengthened in the international arena. We probably, as a result, have lost some of the continuity because of the diversity of interests, the diversity of market. It would also appear, as we have seen in recent years with the dramatic growth and exports, the $43.8 billion of last year, the ripple effect that has on the economy that we may be at the time that we cannot separate farm policy and foreign economic policy, and we have to somehow find a linkage between the two, because the jobs that exports create in the steel industry, the farm machinery industry, the fertilizer, chemical, all interrelate to our economic problems, as well as all of us have addressed this morning the final situation on an international basis, the interrelationship of currencies.

I am not sure what the correct direction is. I believe we are at that point, which as Congress obviously did in the mid-1950's, for collective leadership to sit down and take a good hard look at where do we want to utilize total resources of agriculture, both in terms of our domestic economy goals and our international goals. One of the concerns that we have, and I think it has been strongly addressed, is that on the one hand we recognize some way the trade and the sanctity of contracts must be protected irrespective of international diplomatic relations, possibly short of breaking diplomatic relations. Maybe that is the parameter in which we divide the two, but I think what I am trying to get at here is in recent years we have seen more and more the emphasis on the part of various administrations to utilize food policy as a foreign tool for diplomacy, and it creates serious disruption in terms of where we go with agricultural policy.

I think we have a paramount situation today. I strongly support and commend this administration's initiative to move toward a market-oriented farm policy, and the initiatives in terms of farmer-held reserves and farmer participation in the marketplace.

Yet at the other end we have not laid down consistent opportunities of what are we going to do with the Soviet market. Twenty-five percent of our potential lies in that one market and simply because of the differences we have in ideology and in terms of international policy this has now moved into the arena of Eastern Europe as well, and we have lost a market for 2 million tons of corn and a half billion ton of soybeans, I believe, roughly, Mr. Gain, in Poland.

Now it goes much broader than that, but in my opinion, and in the opinion of our organization, Eastern Europe is a market for 10 to 15 million tons of agricultural products the next 5 years, but somebody is going to have to structure those economies, help them bring themselves into the world market.

They are going to have to be able to support and generate hard currencies to buy the products we can offer.

It's not unlike what we did in Korea and Taiwan and Japan in the postwar years. It's not unlike what we did with the Marshall plan in Europe in the postwar years. The real question is, Do we want to make the financial commitment? What Mr. Gain has pointed out, I think, is part of the solution to that commitment. We already have an enormous amount of developmental funding being allocated by this Congress but not being utilized in the interest of agricultural trade, and I think it needs to be addressed in sense, much as we did with Public Law 480. We tied strings to Public Law 480. When the Koreans wanted Public Law 480 funding, there were conditions that they would build port facilities, that they would build feed mills and poultry processing plants and that created the stimulus for them to utilize corn and soybean and wheat.

It created the growth that we have seen in that market.

Senator, I am not giving you a clear answer here, but I think what I am attempting to say is we need to bring the resources that already exist collectively to bear on bringing the development of new emerging economies on stream so we can enjoy and participate in the profitability of that market as well as the existing market.

Senator ABDNOR. That is a very good answer, Mr. Stolte. You know, this committee isn't an authorizing committee. I think we sometimes lose sight of what our goals should be down the road and not just at the present time. What we are trying to ascertain here today is some direction. I know that no one has the answer. If he did, he would probably be running the Agriculture Department, but we have got to start thinking, and we certainly appreciate that.

Would you care to add to that, Mr. Wilson?

Mr. WILSON. Well, whatever opinions I express are still my own because my organization does not get into domestic foreign policy.

I will make one comment. During the 1950's and 1960's the U.S. agricultural policy was basically a domestic one, and whatever exports took place were sort of incidental to the general scheme of things because, as you mentioned, we had a long period there of exports, strict production control, et cetera.

Then, in 1972–73, when agricultural support suddently took off, the tendency then in foreign policy direction was: "Exports can solve all the problems, let's open things up, and full speed ahead."

Well, I think, as long as there is not a commitment to keep markets open at all costs—we have all discussed that today, the trade interruptions, lack of consideration for the effect on farm exports or any exports—by certain actions that have been taken by the Government in the last 10 years. All of this makes total dependence on export markets, as far as foreign policy is concerned, a somewhat dangerous situation.

We get in the situation that we are currently in, 1980 corrected a lot of things as far as agricultural markets are concerned. And there is a tendency to think we will interrupt the trade 1 year, and then 2 years from now we can come back. But the damage is done. Markets are around that took many years to develop, and it's not a reversible process in 1 year.

So, we get some actions that weren't thought through as well as they might have been. And suddenly, it takes many years to recover from that.

So, I think as far as general foreign policy is concerned, we have still got to look at a mix. You can't totally ignore what's happening as far as domestic supply and everything is concerned.

Certainly we need to proceed as rapidly as possible in total market orientation. But at the same time, we see, when something happens to export, when something happens to trade, or when we get an unusually large crop, if we don't have sufficient backstopping for a domestic producer, we can cause some real problems. And we are currently going through that wringer in this country.

So, somewhere in between is the direction that we have got to end up. You can't certainly, as has been proposed—I have seen it in a couple of publications in the past 6 months—some disenchantments with exports, and let's go back to the old policies of the 1950's and 1960's and strict production controls, and so forth. I don't think American agriculture can afford that anymore. I don't think the U.S. economy can afford that anymore. But, at the same time, we can't just work solely on a support policy, "you grow it and we'll sell it," because markets take time to develop. But somewhere in between those poles, I think, is the direction that is going to be appropriate for the remainder of the 1980's as far as American agriculture is concerned.

Senator ABDNOR. What do we do? What about the grain reserve that is constantly enlarging, I guess, every year? It's something, I suppose, that has to be dealt with.

I think we would also agree probably that there is plenty of need for wheat, for example, around the world; but it's still in our bins. And what kind of effect does that have on your attempt to find sales? Does knowing that we have that kind of a large reserve, knowing that they can be pretty selective in their purchases and demands, is that considered in their terms? Does that grain reserve help bring that on?

Mr. WILSON. Well, foreign buyers certainly are aware of what our carryover stocks are. And most of them have a pretty good understanding of how the reserve program and other things work. And they certainly—this is included in their calculations when they decide when to buy and how hard they bargain, and burdensome carryovers certainly depress the market. There is no question about that.

Senator ABDNOR. The only way to whip it, I guess, is to find more and more sales. I guess the best way is to make sure we find additional sales. Otherwise, you don't look at a controlled agriculture. It's got to be one or the other.

I mean, we can't dig ourselves deeper in a hole, I don't think. We have that potential again this year. I guess the prospect for a good wheat crop has increased over the last few weeks with all the rain up and down the Wheat Belt. We go through another great production year and add some more to the reserve. It makes me wonder sometimes if we are putting too much money in the reserve and not enough in promoting sales overseas and other actions.

Mr. WILSON. Certainly we would all be better off to sell than to keep it in the reserve. But markets are growing, but they are not growing as rapidly.

One of the unfortunate things, of course, last year was a record crop. This year, the predictions, at least at this point, are for a bit smaller wheat crop than we had last year. But as you say, we have had some rather timely rains in the past month, and we could very well find ourselves looking at another record crop, even more than last year.

At the same time, with the world economic situation being what it is, we are really expecting wheat exports to be off a little in the coming marketing year. So, likely, we are looking at an additional buildup in stocks, and it's not a very good situation.

Senator ABDNOR. I sometimes wonder. In the cotton business, Mr. Weeth, you have the equivalent of target prices. I mean, there is some more or less guaranteed price. With respect to grain, because of the situation now, we're simply adding to reserves. I wonder sometimes if we wouldn't be better off to stick with the target price and put the grain out there to be sold?

What would happen to prices if we didn't have the reserve? Would you find a place to sell it even if you had to sell it at a lesser price?

Mr. WILSON. Most of it would move at some price. I think you could get some fairly low price. For example, there is, in the cotton reserve, and traditionally over the past years, the swings in price have been greater than the change in wheat price. But they generally have some carryover. It's not—comparatively, I don't think is as large as our wheat carryover is getting.

Senator ABDNOR. Mr. Weeth, would you care to tell us your thoughts on that?

Mr. WEETH. Yes, Mr. Chairman.

As far as reserves are concerned, I would hope, as a producer, that we don't go back into a reserve program in cotton. There is only one thing you do with cotton, and that is consume it; and to put it in a Government warehouse is not cost effective for either the taxpayer or the farmer. It's not the kind of thing that we want to do; and I would hope that the cotton industry doesn't dig itself back into the hole where we get reserves in the warehouse held by the Government that create a depressing factor on the market.

It's most difficult to resolve these issues sometimes, but my personal opinion is that we ought to take our lumps and go on down the road, because we are in a cyclic business. It's been that way ever since I have been farming—and I have been farming all my life—and we expect it to continue that way in the future.

But certainly, we feel that a Government program should be one which enhances but does not influence a farmer's decision to plant.

We think it's wrong if the Government has a program which encourages farmers to produce simply for the warehouse. Yet, we fully understand that food is a good buy, food and shelter and fiber are a good buy in the United States. We want to keep them that way, but American agriculture can't simply produce the exact quantity that is the need of our domestic markets, and that is where we fall over into the international market. And it's not bad; it's good, because it creates all of the things we have been talking about here this morning, which is good as far as our U.S. Government is concerned.

We do need a relationship between Federal Government and agriculture and its products to ennance that move, and this is where we get off into an area that is sometimes difficult to see, to envision, because of the political influences around the world. But certainly it's one where we need the cooperation of Government in the international area.

But goodness, let's not go back and fill warehouses. We have seen this in the dairy industry, and it doesn't work. And I am sure that the wheat people recognize that it doesn't either.

One thing that I have learned over the years is that a Government floor on a commodity has a way of backing a ceiling. And this is where you will sit until you have emptied the warehouse and the factors of market can begin to play their normal role in production and consumption. That is where we would like to stay.

Senator ABDNOR. OK.

Mr. GAIN. Mr. Chairman, to comment on a couple of issues that I think are related to the question you pose, one comment that I made in your absence is we have very much appreciated the recent prominence we have seen in South Dakota in producing soybeans. In fact, the farmers in South Dakota have been quite active, during the past 6 to 8 months, signing members. And they are going to affiliate and become our new State association.

So, soybeans are continuing to expand in areas of production and, of course, in terms of total acres in the United States.

I guess one of the major concerns we have in relation to the question of focus in the 1980's is a very much intertwined kind of relationship here that was mentioned earlier of agriculture with other sectors. We can't simply talk about imposing foreign automobile import quotas and parts requirements and things of this kind without recognizing, I think, that those do have some impact on agriculture, And I think we need to be very much aware of those implications and possible impacts.

I think to look at soybeans perhaps may be a little bit different than some of the other commodities. So, I want to speak specifically in terms of soybeans on most of those items.

One is the current farm bill. I think you are well aware we have specifically made a serious effort and, in fact, achieved, restricting nine kinds of Government programs that are available for soybeans. There is no targeted set-aside provisions, no reserve program. And I think our philosophy is basically one of perhaps the less government the better in those kinds of areas. I can't help but recall a 1978 effort that was promoted and made to establish a 3-million-acre set-aside for soybeans at that time. And according to our analysts, we weren't sure of costs, what the costs were going to be, or what kind of production we were going to have that year.

And in fact, had we had a 3-million-acre set-aside successful effort made in that regard, we would have probably had a shortage of soybeans that year, and looking, again, at a situation like we had in 1973.

I wouldn't talk a lot about the embargoes except to point out and remind us all, in 1973, when we had the embargo, basically what we did was inform the rest of the world that we were not a reliable supplier, and we forced the Europeans and the Japanese and others, Brazil and Argentina, and really, in effect, set up our own competition as a result of that embargo.

So, these kinds of things do have long-lasting impacts on our producers in this country. I think, as bad as the free market is on occasion, with its ups and downs, and its current levels of unprofitability, our opinion and bottom-line analysis it's probably still better than a mankind-devised system that relies on a computer projection of what our needs are and what our exports should be.

We need to be seriously concerned about reestablished credibility in the area of supplying our customers, as Mr. Stolte and the other members here have mentioned this morning.

Senator ABDNOR. I guess that is a good point. But how do we do that? We'll probably put a section in the law that says we aren't going to embargo any more. Is that going to take time? Is that the one thing it's going to do? Is there anything any more immediate? That is a problem, I am sure. And we have said that all along.

But now, what do we do to get reestablished?

Mr. GAIN. As Mr. Wilson has indicated, there are ways to get around things that people devise and interpretations that are made. We would like to see another effort made in some regard to whether legislatively or policy initiative on the part of the administration to establish some minimum guarantee of a time period of honoring a contract, once it is a commercial, clearly established, viable, economic contract established with a grain exporter and a foreign country, that that contract, according to law and policy, as stated by this administration and future administrations, would be to honor that contract for a definite period of time, whether it is 9 months, a year, 6 months, to say that when we make a commitment in terms of an international contract, it will be honored, unless, as I think Mr. Stolte pointed out, perhaps tied to an operation that if we cease diplomatic relations with a country, perhaps that would be a situation where we would not honor a contract—or, of course, in case of a declared war, for example, with a country.

Senator ABDNOR. That could even be included in the clause, I suppose.

Mr. GAIN. Yes.

Senator ABDNOR. To the degree we had an agreement with Russia, they always had competition.

You think, Mr. Wilson, that we were going to fulfill our agreement with Russia this year involving, I think, 8 million tons of wheat a year?

Mr. WILSON. That concept really didn't come into play until 1980, because that was the first interruption after the long-term agreement had been negotiated.

Now, I would assume, with their experience, that they do have some confidence that the terms of the LTA would be certainly lived up to, short of war, or cessation of diplomatic relations or something.

But, you know, there is only one instance they are really tied to. But certainly, from all indications, looking at what they are doing now with Argentina and the Canadians and what they have done with the Australians, they are not all certainly at least not above the 8 million tons that is in the LTA.

Senator ABDNOR. Do you have any additions to make to that, Mr. Stolte?

Mr. STOLTE. I would, again, just reemphasize what has been said on the sanctity issue. It's important to understand that it has to be looked at from both sides of the trade.

The case of the Soviets' assurance they can look to this market with any consistency—and I think we have seen in the last year, particularly during the period of sanctions being imposed on Poland, the uncertainty of what the administration may do regarding the Soviet policy intervention from the point of view of the exporter, who certainly doesn't want to enter into any form of agreement without some sort of an assurance.

So, we saw, I think, a serious disruption of trade from October and November last year through April of this year. But there could have been opportunities for sales with the Soviets.

The reluctance on the part of the trade to make commitments beyond 30 days, both in terms of what might happen in Poland and in terms of what might happen vis-a-vis the Soviet Union.

Senator ABDNOR. I want to jump to another question.

Several times reference has been made to some international trading practices which are destructive.

Could you gentlemen identify what some of those practices are?

If you could, we would even like to have you name the country and describe the trade practice.

Does something come to mind, Mr. Gain, that you are running into?

Mr. GAIN. Well, there has been a situation that we have been involved in in Europe in terms of what we feel is an unfair subsidy program after soybeans are crushed. They are internally subsidized and dumped at lower prices due to an internal subsidy.

In other areas of the world, competing against our soybean oil, which is not subsidized, just for example, we have filed a complaint unsuccessfully in the GATT in this manner. But that is one specific example.

In a sort of a trade-related regard, there are efforts underway now in areas of the world to create competition to the soybean industry in terms of using our tax dollars to establish palm oil plantations, for example, or to show countries such as Pakistan and other areas of the world how to grow soybeans, who really, realistically, have no opportunity ever to economically produce soybeans. We feel that this is an unwise trade policy in terms of aid in trade.

So, those are a couple of different ways of looking at the answer to your question that we feel need to be addressed.

Senator ABDNOR. Mr. Weeth, do you run into some of this in cotton?

Mr. WEETH. Mr. Chairman, I doubt seriously that there is any finite answer to the problem. I can recall that a few years ago we ran into some difficulty on contracts with one country, and the Federal Government was kind enough to step in and assist us in assuring that country came across and made their contract good. But there are so many variables, politically and economically, which will affect a country's—or a foreign buyer's—decision to honor a contract.

But certainly, we do need the assistance of Government during those times, where they can be very effective in assisting the private industry here to insure that those contracts are upheld. It's a difficult question. I doubt that there is any real formula that would answer all the problems that arise because of variations. But we can take them as we come to them. And I think that is what history has recorded, that we have attempted to answer these problems as they have arisen—but certainly is worthy of considerable study, I believe, to assure a plan that would be in place in the case of a failure of somebody not honoring a contract. I personally don't have an answer.

Senator ABDNOR. Mr. Wilson, do you run into many unfair practices?

Mr. WILSON. As I mentioned earlier, I think our primary concern in the area is the EEC subsidization program, European Community subsidization program, as far as wheat sales are concerned. Of course, this hits us twice because, as in the case of soybeans, there is lots of subsidized flour being sold around the world. And this, of course, is milled—for the most part, at least from Europe, wheat.

So, we are losing markets two ways there in some cases, but that's our primary concern in this particular area.

Senator ABDNOR. I keep talking about wheat. Are we getting a proportionate share of the sales in the Middle East, and even in Africa?

Mr. WILSON. North Africa is probably the primary focus of the French wheat program. They use some rather—very beneficial credit terms. The French coface credit is—currently, I think, the rate on that is about 10½ percent. A few months ago, I think it was 7 percent. And ours is somewhere in the neighborhood of 16 percent.

They also do some subsidization of wheat imports when it appears to be appropriate. And it's very difficult to get any wheat, for example, into Morocco or some of these other areas right now.

Senator ABDNOR. With inflation at 4 percent it's not right for interest rates to be 16½ percent; never has there been that kind of a spread. I'm sure there's a logical reason for it, however. The people who have the means to make the loans over a long period of time are concerned about what this Congress is going to do about Government growth in the years ahead and the way we are taking more and more dollars to run it.

If we did come up with something that gave some assurance that interest rates would drop 5 percent down the road—and I don't know how many months it would take—would that help in your case?

Mr. WILSON. I think it would have a very dramatic impact, because it would obviously give us a better rate as far as our current credit programs.

Senator ABDNOR. Would that just bring their rates down lower, too? I mean, our interest has been higher, hasn't it, than France's, for instance?

Mr. WILSON. Well, their 10½-percent rate, as I mentioned earlier, is a subsidized rate.

Senator ABDNOR. Would they just reduce theirs further?

Mr. WILSON. Yes. Their actual rate is quite a bit higher than that. But they offer this as an incentive for sales. But aside—just from the credit concern, it would also, more than likely, if the U.S. interest rates fell, it would also cause the dollar to quit rising so rapidly against other foreign currencies. And this is no small concern of ours.

Senator ABDNOR. Well, the point that you and Mr. Stolte made about the higher value of the dollar makes it more difficult.

In one way, we are proud to have the dollar go up, and then in another way, it makes it difficult. I don't know. You can't win, I guess.

Mr. WILSON. The benefit we get from that is our money that we spend overseas goes further as far as our office operations. But I would much rather have the wheat sales higher.

Senator ABDNOR. Mr. Stolte.

Mr. STOLTE. I think that is true, Senator.

Two comments. If I may go back to your one about trade restrictions, as has been said by the other gentleman here, EEC, of course, is the area that we have had the greatest concern in market loss, first, with the variable levy that was entered, virtually precluded us enjoying any growth within the European Economic Community market, to the degree that the EEC is becoming a net exporter this year in grains as a whole. We have to recognize as the EEC exports grains it may be Soviet wheat and barley that goes into feed utilization channels and third countries, such as Eastern Europe. But we do lose market potential there.

We are extremely pleased with the strong, unified position that this administration has taken to attempt to achieve the authority and right that we hopefully gained under the Tokyo round of the GATT negotiations, one of those being trying to eliminate subsidies.

Again, the EEC not only has the variable levy protecting the inflow of grain, but the export subsidy program that stimulates exports to that have competitive bases.

A less direct one, but equally import, is what is happening in sugar? The EEC has moved from a net importer of 1½ million tons a year in 1977 to a net export of somewhere between 3 and 4 million tons of sugar subsidized. If we could be affected under the export subsidy code in abolishing those studies. we may very well eliminate a third of the world trade in sugar, which logically would escalate world sugar price. It would entice the opportunities of participants, such as Caribbean-base initiative in a greater participatory role of trade because of their sugar interest. It would raise sugar price for the American sugar producer.

Most important to us, it would open up an increased potentiality of fructose market, which is generated from corn processing. We believe the industry tells us that we could literally double the production of fructose if the EEC purports to abolish the export subsidies in sugar that we have just gone through a very delicate series of discussions.

The conclusions are not final yet on the issue of corn glutin, which is the byproduct of the corn processing industry.

We fought under the Kennedy round and achieved broad access to the EEC for the corn glutin to come in without duty. As a result, it has been our best market. Ninety-five percent of the corn glutin that comes off of our corn processing industry goes into the EEC today, because it's a very lucrative market. It's still a very cheap source of protein for the feed miller, even if he is paying a premium. And this has created concern within the EEC to the degree that they have seriously considered proposing duties. That would not only affect corn glutin, but would also affect the soybean industry. So, there is a lot at stake on that.

Again, I think that the administration has done a superb job in pushing that one off there, but it's still not a dead issue. These are good to be factors that could lose us another 5 to 6 tons of trade, depending on what happens with trade policies within the EEC as affects the corn sector.

Lastly, I would like to comment on our reserves to the African market. As has been stated, we think there is tremendous potential in some of those markets, the Ivory Coast, Morocco, particularly Nigeria, some 60 million people, all revenue potentials. But again, all of us would emphasize it's going to take an infrastructural development effort. It's going to take a lot of the same kind of work that we did in the 1960's and enjoyed the benefits of in the 1970's.

Nigeria, for example, 5 years ago had opportunity to EEC credits, to import a substantial amount of corn from the United States. Unfortunately, it had no port facilities to handle the volume of corn to bring that corn in competitively. And as a result, we never benefited from the market. Those port facilities are still not developed to the level that it's going to take to supply, internally, the needs of that country to just maintain its existing poultry industry. And we have very ambitious plans for expanding a dairy and a livestock and a swine industry, so we think it's one of the real markets that has tremendous growth. That kind of a population could be very comparable to what is happening in Mexico in the last 3 to 5 years.

Senator ABDNOR. The potential for expansion does lie in those areas, in underdeveloped or partially developed countries, don't you think?

I often wonder if they don't have more to offer us sometimes. We are running short of many of the minerals and products we need in this country, and I often wonder if the underdeveloped countries of the world hold more of the answers for us than some of the other things we tried to do?

I see it's 12 noon, but one last thing—I hear grain cartels talked a lot about around here. Since I have been here, there has been, in the last couple of years about four or five trips to Canada to discuss formations of a wheat cartel. I don't know if there has been an attempt with other products. In my opinion, I don't think cartels provide any hope.

Do you think there is a place for cartels in years ahead? I don't know. Does the feed grains council have any thoughts about cartels to your knowledge?

Mr. STOLTE. Yes, we do, Senator. We strongly oppose any consideration for an international commodity agreement or any form of a cartel and for the very simple reason that, as we have seen in the past—and I think the wheat people offer an interesting example to the National Wheat Council.

The minute you move toward any form of any international agreement commoditywise, you get into the slippery slope concept.

The next point is might we control supply demands, pricing areas of production, and allocation? And in our case, where we currently have 63 to 65 percent of the world market in this coarse grain, we do not see that it would be an interest to the feed grain producers of this country to move toward any form of an international commodity agreement that would reallocate that supply potential to other countries.

Senator ABDNOR. You ought to have some experience, Mr. Wilson.

Mr. WILSON. Mr. Stolte mentioned the International Wheat Agreement. A few years ago, it didn't hold together when the pressure got on. And you look at the track record, cooperation between the major wheat exporting countries, and it has not been good.

I suppose the 1980 embargo to the Soviet Union was the most recent example. And our competitors certainly increased their sales very quickly.

So, I am not that hopeful that there would be much chance for close, effective cooperation.

And I also have much the same concerns that Mr. Stolte just mentioned. Our share of the world trade has been increasing as of late, and we feel like we are doing something right, and we are not particularly at the point that we want to give up the opportunity to increase that share in the years ahead. And any sort of an agreement would at least attempt to fix market shares. That is not a concept that appeals to us very much.

Senator ABDNOR. Thank you.

Any one of you gentlemen care to add anything?

Mr. WEETH. Mr. Chairman, I feel a little bit like a mongrel dog in a pack of purebreds here today, being a producer. And I didn't bring my attorney with me, but I did bring a little backup in the form of a Mr. David Hall, who is executive director of the Cotton Council International. And with your permission, I would like him to respond to that question.

Senator ABDNOR. Surely.

Would you state your name again, sir.

Mr. HALL. I am David Hall. I am executive director of the Cotton Council International.

We have run into the same type of philosophy that Mr. Stolte and Mr. Wilson have, Mr. Chairman.

For about 12 or 15 years, I guess, some of the cotton-producing nations in the lesser developed countries have vigorously fought for international agreement to set the price of raw cotton, regulate the trade on a worldwide basis, supplies and so forth. And this is absolutely negative to the American cotton producers. It's absolutely negative to the American cotton exporters. We are against it.

At the same time, Department has participated in some of these meetings, as has the cotton industry representative. And we have vigorously opposed it. We will continue to oppose it. The only reason for participating in these meetings is to be sure that something is not slipped in in our absence, not because of our support of the philosophy of the theory.

Thank you, Mr. Chairman.

Senator ABDNOR. Thank you.

Mr. GAIN. Also, as I think Mr. Stolte indicated, our position would not be a whole lot different. We would be very strongly opposed to any type of agreement.

One of the things that we feel would probably happen in an effort of this kind, where you centralized marketing and control of the market structure, is that at some point there would be those who would not chose to participate. And although there weren't that many countries in the world producing soybeans, there is a lot of other commodities produced around the world that have protein in them, and that at some point we would put ourselves in the position of giving the market away to another competitor.

Senator ABDNOR. Well, gentlemen, I thank you.

I have now kept you till almost 12:15 p.m. I am sure none of you expected to be here that long. But this has been very, very helpful to this subcommittee. This kind of information and testimony, I think, is badly needed for us to make decisions here in Congress. I think it is needed and will be looked at around the country when we make our reports.

So, we are extremely grateful that you would take all this time—and some of you have come from a long ways off. Again, I want to thank you all and tell you how much we appreciate it.

I guess this subcommittee will adjourn because we are going to officially open up another subcommittee meeting this afternoon. As I said, we are going to hear testimony from the processed commodity groups. As we have talked about oil, and all of you are in that business, so we have already, in a sense, started on it.

But, again, we thank you for being here today.

The subcommittee stands recessed until 2 p.m., this afternoon.

[Whereupon, at 12:15 p.m., the subcommittee recessed, to reconvene at 2 p.m., the same day.]

AFTERNOON SESSION

OPENING STATEMENT OF SENATOR ABDNOR, CHAIRMAN

Senator ABDNOR. The subcommittee will come to order.

In all fairness to you gentlemen, I must tell you that we could have a vote any minute and I guess I will have to slip down. We are not far from the floor. But in the event of that, Mr. Tosterud, who is on the staff of this subcommittee, will continue the hearing while I make a fast exit and return.

We have been looking forward for a long time to this day of hearings and to hearing from you gentlemen. We want to welcome you to this subcommittee's sixth hearing in a series addressing the current economic condition of agriculture and its future prospects.

Agriculture's future prospects are to a signifianct extent in your hands and in the hands of organizations similar to yours.

This morning we heard some excellent presentations by the commodity promotional groups concerned with the development of foreign markets for primary agricultural products—wheat, soybeans, feed grains, and cotton. And now we turn to the export potential for value-added or processed agricultural products—meat, poultry and eggs, almonds, and citrus products. Several references were made today even by those earlier groups that we had because to some degree they are starting to get into the processing and value-added area of it.

So in spite of the stellar export performance of agriculture during the 1970's, a nagging question remains: Is the United States taking full advantage of its agricultural capability and potential? That is, agriculture may have an even greater contribution to make to the U.S. economy.

In 1980, processed products accounted for 28 percent of the total value of all U.S. agricultural exports. In contrast, an estimated 75 percent of all agricultural exports from the European Economic Community are in a processed form.

One area which has great promise is the potential to expand the processed or value-added product share of the U.S. agricultural exports. A recent USDA study revealed that a million dollars of wheat exported as wheat generates $5.4 million of direct, indirect and induced business activity in the U.S. economy, jobs for 143 workers and personal income of $1.54 million. If this wheat were, instead, exported as flour an additional $8.84 million of business activity would prevail, 192 jobs and $1.91 million of personal income would be generated.

This study also looked at the economic impacts of exporting dressed poultry rather than feed corn, soybean oilmeal products rather than soybeans, cotton seed mill products rather than cotton seed, and wet corn milling products in lieu of corn.

The economic, employment and personal income impacts are equally impressive for these commodities as was the case for wheat.

Suppose this flour-for-wheat substitution case is an average indicator of the potential additional benefits from processing. If processed agricultural exports were increased 10 percentage points just from 28 to 38 percent of total agricultural exports, the economic impact would yield an additional $34 billion of business activity, 750,000 jobs and $7.5 billion of personal income. The exercise, of course, is simplistic, but does perhaps give a sense of magnitude of the potential economic-wide benefits.

Many other implications can be drawn from the effects of expanding exports of processed products. They include:

One, a possible decrease in domestic food prices should there be economies of scale in the U.S. food processing industry;

Two, a positive impact on U.S. balance of payments;

Three, a stronger demand for the farmers' products by food processors will, of course, expand his market alternatives and improve his competitive position and enhance prices;

Four, transportation company freight revenues may be higher to the extent that transportation freight rates are reflective of the value of the commodity transported; and

Five, more tax collections, tax savings and investment capital.

Clearly the output, employment, and other effects identified must be viewed as potentially available. How they might actually be realized will be conditioned by the cultural, political, and economic realities of international trade. For example, corn-fed poultry may not be acceptable in many foreign markets; political relations between the United States and other countries could easily limit trade opportunities; and various tariff and nontariff barriers are often imposed to protect domestic processing industries.

Canada is a good example. They have got a zero import tariff rate on soybean oilmeal, but they have a 10-percent ad valorem tariff rate on crude soybean oil, and a 17.5-percent ad valorem rate on refined soybean oil. These and many other trade rigidities working against a shift in the product mix of U.S. agricultural exports need to be thoroughly analyzed and appraised.

The often characterized too liberal export policies of the United States, which many contend significantly contribute to the exploitation of U.S. raw agricultural commodities, perhaps also need to be reconsidered. Extreme caution must be exercised here, however, in that a too protectionist policy may be counterproductive to exporting agricultural products, processed or unprocessed. The capability of the domestic processing and transportation industries to adjust to handling more processed goods also needs to be considered.

In summary, there appears to be sizable economy-wide advantages associated with having a greater proportion of processed products in the mix of U.S. agricultural exports. The question is how, if at all, can these advantages be realized?

Possibly this gives you some idea as to where we are trying to come from. We are looking down the road for agriculture. I have said many times that we get hung up in the Agriculture Committee on the problems of the moment, the present-day problems, and we don't look down the road to what is available, which direction we are going to be going and how we may structure ourselves for the future. That is somewhat the purpose of the hearings that we have been holding, and I think they have been excellent.

Another thing that brought this on was that we found some of our greatest economists in this country that come before this committee, the overall committee, don't seem to realize that agriculture plays a very important part in the economy, at least as far as I can ascertain from interacting with them. I just think there is a great potential and that they need to be made aware of it. Hopefully through this committee some way, somehow we can get the attention paid to agriculture and the part it plays in the overall economy.

Of course, we happen to think that the areas you gentlemen are in are going to be an extremely important part as to what happens to agriculture in the years ahead.

Again, your counterparts this morning had some excellent testimony. So we are really looking forward to your appearance.

If you don't mind, I will dash down to vote and come right back.

[A short recess was taken.]

Senator ABDNOR. Again, gentlemen, my apologies for this.

Our first witness is Mr. Campbell of the Poultry and Egg Institute of America.

Mr. Campbell, you may proceed any way you want. I readily assure you that your entire prepared statement will be made a part of the record. You can read it, summarize it, or go into some other areas, whatever you care to do.

STATEMENT OF LEE CAMPBELL, PRESIDENT, POULTRY AND EGG INSTITUTE OF AMERICA, ARLINGTON, VA.

Mr. CAMPBELL. Thank you, Mr. Chairman. I will try to pick out some selected parts of the prepared statement in the interest of time.

I want to thank you for inviting me here today. We are very pleased that you are holding these hearings.

The Poultry and Egg Institute is a nonprofit trade association representing those who produce, process, and distribute chickens, ducks, eggs, turkeys, and poultry and egg products.

The poultry and egg industry does not enjoy the benefits of any Government support program; that is, a price or production control program. And that is the way we like it.

It is true that our industry has been experiencing financial difficulties. There is no secret about that. If there is a bright spot, it has been our export market, and thus these hearings are important to our industry.

In the late 1950's export sales of U.S. poultry and eggs were virtually nonexistent. Through strong market development efforts in cooperation with the U.S. Department of Agriculture's Foreign Agriculture Service and dedicated efforts on the part of U.S. poultry and egg firms, the United States has grown as an exporter. In fact, we were the world's leading exporter of poultry meat in 1981; and eggs and egg products exports have grown too.

This has been done in spite of adverse elements that exist in the international marketing of poultry and eggs. These elements may be limited access to markets or other nontariff barriers. But more importantly, we face subsidies paid by our competitors, especially the European Community and Brazil.

The facts are, Mr. Chairman, that when fair access is accorded U.S. poultry and eggs, it has been demonstrated that we are able to compete anywhere in the world.

The Poultry and Egg Institute, in cooperation with the Department of Agriculture, has been aggressive in foreign market development efforts abroad. Our methods, our focus, have been changed from time to time because of market conditions beyond our control. Our U.S. exporters have reacted to changing markets, have developed products geared to specific markets, and have worked the markets.

Hand in hand, we have had a part in building what amounted to nearly $800 million worth of sales, and we have achieved record exports in the past dozen years.

We have opened and developed markets where there were no markets before.

Currently under our market development project agreement with the Foreign Agricultural Service, we have offices in Caracas, Venezuela; Hamburg, Germany; London, England; Tokyo, Japan; Hong Kong and Singapore; and we have contract representatives in Malaysia and the Middle East, and are in the process of retaining one in West Africa.

Working out of these offices, experienced staff members carry out active promotional programs. These programs include demonstrations, cooperative promotions with importers, retailers, hotels and restaurants, point-of-sale activities, exhibits, advertising, consumer information services, and the like.

In my prepared statement I have cited a few examples in a variety of countries as to how these programs have been effective in increasing the import and sale of U.S. poultry and egg products. I would like to just touch on a couple of them. I think it is particularly important to show what market development can do in Japan.

For example, when we first started working the market in Japan the Japanese had not eaten any poultry with the bone in. It was always deboned poultry, and still a lot of it is today. But our largest seller today after the market promotion efforts is chicken legs with the bone in, and as a result there has been an influx of things like Kentucky Fried

Chicken and McDonald's and some of the others that have sold chicken in variety forms. Turkeys and ducks are moving.

About 3 or 4 years ago we didn't think it would be possible to sell ducks, or at least we weren't sure it would be possible to sell ducks in Japan. China was the big competitor. But we worked very closely with two U.S. duckling brands, and as a result, our market share rose to almost 43 percent. In fact, we shipped more ducks in there than we did turkey.

So it shows that market development efforts can be important.

They also are buying egg products, dried and frozen. These go into the mayonnaises, baked goods, things of that kind, and we've had a very active program with those people.

The Middle East has been a market where we've had problems on whole poultry, whole chickens, for example, with subsidization, but we have been making an effort to move in further processed products. So we have developed a whole series of recipe promotions that go into the publications that are read by the Arab women, and we have been emphasizing a whole range of products that are nonpork, and, of course, find a receptive market in the Arab world.

I'm talking about turkey sausage, hams, poultry rolls, poultry franks, turkey pastrami. It takes quite a selling effort to convince them that these are nonpork items.

We found this very receptive, and the importers are reacting to it very favorably.

I do want to emphasize that it is not enough to develop markets; there is a need to fight to maintain them. We have competition and we are getting more all the time. But if we can continue to promote as we are doing, even on a limited scale as we are doing, and our products are afforded fair access, we think there is an opportunity for steady, long-term growth.

Export markets are important to every producer of poultry and eggs, not just those firms which do the exporting. It is true that unlike wheat or corn or soybeans the export of our commodities represents a relatively small portion of our total production. But the movement of that product into international markets has a real effect on the prices U.S. producers receive domestically.

This year, when exports have slowed because of increased subsidized competition and the closing of certain markets plus the strength of the U.S. dollar, it has become especially evident that we have a need for maintaining and expanding export opportunities.

We cannot stress enough the importance of the cooperator program between government and industry. This program, made possible by the Congress through Public Law 480, is in our opinion unique. I know of no other government-industry partnership like it. On top of U.S. industry participation, there is an increasingly heavy involvement by foreign groups, our customers, who are willing to spend their currencies to help promote U.S. poultry and eggs.

Let's just touch a minute on the problems in exporting.

Because the poultry industry was the first to feel the brunt of the European Community's common agricultural policy in 1962, and because of the variety of nontariff barriers that have existed against our products in other markets, we watched with anticipation the multilateral trade negotiations—the so-called Tokyo Round. Unfortunately, we got little from those negotiations. Nothing was done about the highly protectionist EC common agricultural policy that can so successfully control the flow of poultry and eggs into the EC.

But one thing did emerge—the subsidies code.

I was chairman of the Agricultural Technical Advisory Committee for Trade Negotiations for Poultry and Eggs, and in the report to the President in 1979 we discussed this, and we expressed then that we were particularly concerned about an EC subsidy action which was announced even before the ink was dry on the EC signatures subscribing to the subsidies code. The code was signed in 1979, and then effective June 1 the EC began subsidizing chicken parts in addition to whole birds.

So in spite of their expressed agreement to the code, we were again faced with their utter disregard for fair trading practices.

I have discussed that a little more fully in my prepared statement.

Last September the industry set out to test section 301 in the subsidies code. A petition was filed charging that the United States has been preempted from participating in significant world markets on account of the bestowal of unjustified and unfair export subsidies. As a direct result of the subsidies, producers within the EC have gained more than an equitable share of the world export trade at prices materially below prices charged by the United States in various world markets.

The petition has been accepted by the administration and the process is underway, but very slowly.

It is too early, Mr. Chairman, to address the effectiveness of section 301 in enforcing trade agreement rights, but we are pleased that the administration at least has accepted our petition. But there is a need for strong commitment at high levels in our Government to insure that the EC recognizes that the United States is serious about unfair trade practices like subsidies and that we intend to do something about it. We cannot stand idly by and let the European Community deny its commitment to the subsidies code. We cannot let the EC find ways of declaring that certain products are not covered or that the code was not meant to cover practices in which the EC has been engaged for years prior to the signing of the code.

Between 1967 and 1978, annual expenditures by the EC on subsidies for poultry meat exports have increased 11 times. In 1979 and 1980, subsidies exceeded total expenditures for the preceding 12 years; $100 million was spent on poultry meat subsidies in 1980. Add to that the subsidies paid on eggs and egg products and the amounts are staggering. That doesn't include national subsidies that may be paid, particularly by the French. We cannot fight that kind of unfair competition.

In my prepared statement I have given some of the detail that is in the section 301 petition as it outlines the subsidy issue and what has happened to the United States as a result of that even though we have had a continuing growth of exports.

Subsidies paid by competitors are not our only problem. Nontariff barriers exist in many areas of the world—quotas, restricted licensing, barriers in the guise of health regulations, closed borders, and the like.

We were asked to discuss the role of Government. As I discussed earlier, the Government can play a positive role by continuing to fund market development activities in cooperation with agriculture's non-profit associations.

Credit for export needs improving. The poultry and egg industry really has not been able to avail itself of various credit programs because there have been enough funds to go around.

We realize it is necessary to export grain, lots of it. I am sure you heard that this morning. We agree it is an important factor for agriculture and for our Nation's balance of payments. But we cannot have tunnel vision, and that has happened. There is a need to place sufficient emphasis on added-value products, and you, Mr. Chairman, referred to that in your opening statement.

In our case every pound of poultry or egg product, every dozen eggs represents feed grains consumed and labor input.

The Government must play a strong role in reducing impediments to trade, in patricular the use of subsidies by competing nations, and the removal of nontariff barriers. We especially need the support of Congress in helping the administration have a strong action program on behalf of poultry producers in the section 301 petition. We cannot afford to delay. Promptness with strength is of vital importance.

Export issues deserve the same attention given to foreign policy with the international rules of trade, we must maximize exports from the United States.

I said earlier in an apeparance before the Senate Finance Committee that for too long we have not assumed the leadership in making the established rules of trade. Historically we have gained a reputation that we will do nothing if our trading partners break the rules. The Government has, we believe, the obligation to see that a workable trading system is developed, implemented and then enforced.

Thank you very much.

[The prepared statement of Mr. Campbell follows:]

Prepared Statement of Lee Campbell

Mr. Chairman, Members of the Committee, my name is Lee Campbell. I am President of the Poultry and Egg Institute of America, Arlington, Virginia, a national nonprofit trade association representing those who produce, process and distribute chickens, ducks, eggs, turkeys and poultry and egg products.

The poultry and egg industry of the United States does not enjoy the benefits of any government support program--a price or production control program. It is true that our industry has been experiencing financial difficulties, there is no secret about that. If there is a bright spot, it has been our export market and, thus, these hearings today are important to our industry, Mr. Chairman, and we compliment you for holding them.

In the late 1950's export sales of U.S. poultry and eggs were virtually non-existent. Through strong market development efforts in cooperation with the U.S. Department of Agriculture's Foreign Agricultural Service and dedicated efforts on the part of U.S. poultry and egg firms, the U.S. has grown as an exporter. In fact, we were the world's leading exporter of poultry meat in 1981. Eggs and egg products exports have grown, too.

This has been done in spite of adverse elements that exist in the international marketing of poultry and eggs. These elements may be limited access to markets or other non-tariff barriers. More importantly, we face subsidies paid by our competitors, especially the European Community and Brazil.

The facts are that when fair access is accorded U.S. poultry and eggs, it has been demonstrated that we are able to compete anywhere in the world. The Poultry and Egg Institute of America, in cooperation with the Department of Agriculture's Foreign Agricultural Service, has been aggressive in market development efforts abroad. Our methods, our focus, have been changed from time to time because of market conditions beyond our control. Our U.S. exporters have reacted to changing markets, have developed products geared to specific markets and have worked the markets. Hand-in-hand, we have had a part in building what amounted to nearly $800 million worth of sales. The U.S. poultry and egg industry has, in fact, achieved record exports of its products in the past dozen years.

We have opened and developed markets where there were no markets before. We have had to be diplomats, traders, negotiators, promoters and merchandisers.

Currently, under our market development project agreement with the Foreign Agricultural Service, we have offices in Caracas, Venezuela; Hamburg, Germany; London, England; Tokyo, Japan; Hong Kong and Singapore. We have contract representatives in Malaysia and the Middle East and are in the process of retaining one in West Africa.

Working out of these offices, experienced staff members carry out active promotional programs. These programs include demonstrations, cooperative promotions with importers, retailers, hotels and restaurants, point-of-sale activities, exhibits, advertising, consumer information services and the like.

Let me cite a few examples of how these efforts work:

AUSTRIA

In a generally declining market, the U.S. increased poultry sales from 365 m.t. to 395 m.t. in 1980. PEIA promotion activities were extended to the Metro Chain and two wholesalers. A product demonstration was given to 200 chefs and buyers in leading hotels and restaurants in Salzburg. Initially, this resulted in sales of 2 m.t. each of turkey schnitzel and skinless turkey thighs, and 1.5 m.t. of turkey rolls. Follow-up orders then substantially exceeded these quantities.

FEDERAL REPUBLIC OF GERMANY

PEIA re-established activities with a leading German retail chain and independent supermarkets. One promotion for seasoned turkey parts in Frankfurt helped sales reach 60 m.t. in one promotion week. Total sales to this country in 1980 increased to 12,253 m.t. compared with 10,958 m.t. a year earlier. In 1981, as a result of further strong promotion efforts, the U.S. suffered less loss than any other supplier country due to the unfavorable exchange rates.

HONG KONG

Hong Kong's largest fast-food chain and PEIA joined in promoting a "new-to-market" product made from 100% U.S. chicken. During a one-week promotion 42,825 pounds of chicken were used in making "chicken-burgers." At the same time, the chain reported a remarkable increase in the sale of U.S. chicken legs.

THE NETHERLANDS

As a result of joint PEIA promotion, a Dutch importer agreed to resume importing U.S. turkey parts for caterers and retailers. Another cooperative promotion on U.S. turkey breasts set up with a Dutch chain store resulted in a first-time sale of 6.5 m.t.

SINGAPORE

Although the U.S. poultry market in Singapore has, with concentrated effort, grown to the point where the U.S. share is about 75%, PEIA continues its efforts to maximize sales with a good product mix. For example, participation in an American Fair at a leading supermarket group featured all kinds of U.S. poultry. Cooking demonstrations and sampling demonstrations were used in-store. Recipes were geared to local cookery. Two supermarkets reported sales up 350% more than normal during the promotion. The retailer believes sales will now continue at this higher level.

SWITZERLAND

Imports of U.S. poultry increased from 1,700 m.t. in 1979 to 2,442 m.t. in 1980. The U.S. share of the market rose from 3.5% to 4.7%. PEIA point-of-sale activities were held with a number of leading importers. A U.S. turkey promotion with a large Swiss supermarket cooperative resulted in a 26% increase in sales compared to the year before.

UNITED KINGDOM

In a very tight and competitive market, and one made even more difficult by trade barriers, a PEIA joint promotion with one importer on U.S. roast turkey breast and other turkey products resulted not only in his maintaining his market position but also increased his market share. In the first six months of 1981, the importer's purchases went up over 100% to a total of 224 m.t.

JAPAN

Consider that prior to our promotion efforts in Japan, now our number one customer, the Japanese had not eaten any poultry with the bone in. Today our largest seller there is chicken legs.

Turkeys and ducks are moving, too. A series of special promotion activities was done in cooperation with two U.S. duckling brands. As a result, in 1980 the U.S. share of Japan's duck market rose to 42.6%. And during the first quarter of 1981 there was an 86.2% increase in the volume of ducks shipped.

Japan is our best market, too, for egg products (dried and frozen). Working closely with importers and users of egg products as ingredients, we have provided seminars, demonstrations and technical services. In 1981, the U.S. shipped 20,245 m.t. of egg products. That compares with 9,619 m.t. in 1980.

MIDDLE EAST

As part of our intensive effort in the Middle East regional market, we recently launched a major recipe development promotion with emphasis on further processed U.S. poultry products. The idea is to make a broad range of these products a regular and familiar food item in most Middle East households. Fifty-five recipes were developed using turkey sausage, turkey ham, poultry rolls, poultry franks, turkey pastrami, as well as U.S. chicken, duck, turkey and other poultry meat. U.S. eggs are recommended, too. Already we are getting tremendous readership as these photo-recipes are finding their way to top quality magazines read by Arab women.

We are also seeing interest develop on the part of importers. Example - in 1980 there was almost no processed poultry from the U.S. in Lebanon. Today, at least one U.S. processor is selling a full line of products like turkey rolls, roasts, ham and pastrami. Non-pork in an area that is receptive when informed and educated can find a special market acceptance.

A large importer in Saudi Arabia who had never ordered anything but a few cartons of U.S. duckling has just ordered two containers.

I need to emphasize that it is not enough to develop markets. There is a need to fight to maintain them. We have competition. And we are getting more all the time. But, if we can continue to promote as we are doing, even on a limited scale, as we are doing, and our products are afforded fair access, we believe that there is opportunity for a steady long-term growth.

Export markets are important to every producer of poultry and eggs, not just to those firms which do the exporting. It is true that unlike wheat, or corn, or soybeans, the export of our commodities represent a relatively small portion of our total production. But the movement of that product into international markets has a real effect on the prices U.S. producers receive domestically.

This year, when exports have slowed because of increased subsidized competition and the closing of certain markets plus the strength of the U.S. dollar, it has become especially evident that we have a need for maintaining and expanding export opportunities.

We cannot stress enough the importance of the cooperator program between government and industry to work on overseas promotion. This program, made possible by the Congress through Public Law 480, is unique. I know of no other government-industry partnerships like it. On top of U.S. industry participation there is an increasingly heavy involvement by foreign groups, our customers, who are willing to spend their currencies to help promote U.S. poultry and eggs.

Problems in Exporting

Because the U.S. poultry industry was the first to feel the brunt of the European Community's Common Agricultural Policy in 1962 and because of the variety of non-tariff barriers that have existed against our products in other markets, we watched with anticipation the Multilateral Trade Negotiations--the so-called Tokyo Round. Unfortunately, we got little from those negotiations. Nothing was done about the highly protectionist EC Common Agricultural Policy that can so successfully control the flow of poultry and eggs into the EC.

But one thing did emerge from the MTN--a Subsidies Code.

The Agricultural Technical Advisory Committee for Trade Negotiations for Poultry and Eggs, of which I was chairman, said in its report to the President, June 13, 1979:

> The most interesting code to this Committee is the Subsidies Code. We have repeatedly urged that every effort be made to do away with subsidies which allow trading partners to compete unfairly against U.S. poultry and egg products. The EC, particularly, has not only engaged in practices which wall-out shipments to the EC from third countries, but it has used subsidies to compete unfairly in markets around the world.

The Subsidies Code does not, in itself, solve the problem that concerns us, but it, perhaps, offers a medium for solving the problem.

It is one thing to have a Subsidies Code, provided, of course, that other countries agree to it, but unless there is a method for making it incumbent upon the United States to utilize it, it is a worthless tool.

For example, Section 301 of the Trade Act provides ways of dealing with unfair trade practices of other nations but it has not been utilized.

The U.S. position on the Subsidies Code has been that phrases in the current GATT methods of dealing with subsidies are difficult to quantify. In particular, the phrase "equitable share of the market" has been all but impossible to define.

The concept under the code would, among other things, provide that subsidies would be prohibited when the use of any such subsidy displaces the trade of other countries in third-country markets or results in material price under-cutting in such markets.

We do have some concern about how much easier the term "priced materially below" those of other suppliers to the same market is to define than "equitable market share." The real test would probably come through test cases if the code is implemented.

The Committee is especially concerned about an EC subsidy action which was announced before the ink was dry on the EC's signature subscribing to the Subsidies Code. Effective June 1, 1979, the EC began subsidizing chicken parts in addition to whole birds. In spite of the EC's expressed agreement to the Subsidies Code, we are again faced with their utter disregard for fair trading practices.

This clearly points to the need for the U.S. to take strong action and utilize the options available to it under the Subsidies Code. The Committee is hopeful that the Congress will make it clear to those responsible for U.S. trade policy its intent that prompt action should be taken by the Administration to counter any unfair subsidies paid to price poultry and/or eggs materially below those of other suppliers and thus take over U.S. markets.

Last September, the U.S. poultry industry set out to test Section 301 and the Subsidies Code. A petition was filed by the National Broiler Council, the Poultry and Egg Institute of America and ten state poultry and egg associations, charging that the United States has been preempted from participating in significant world markets on account of the bestowal of unjustified and unfair export subsidies. As a direct result of the subsidies, producers within the EC have gained more than an equitable share of world export trade at prices materially below prices charged by the U.S. in various world markets.

The petition has been accepted by the Administration and the process is under way, albeit slowly.

It is too early, Mr. Chairman, to address the effectiveness of Section 301 in enforcing trade agreement rights of the United States. We are pleased that the Administration has accepted industry's petition. There is need for a strong commitment at high levels in our Government to be sure that the EC recognizes that the U.S. is serious about unfair trade practices like subsidies and that we intend to do something about them.

We cannot stand by idly and let the European Community deny its commitment to the Subsidies Code. We cannot let the EC find ways of declaring that certain products are not covered--or that the Code was not meant to cover practices in which the EC has been engaged for years prior to the signing of the code.

Between 1967 and 1978, annual expenditures by the EC on subsidies for poultry meat exports have increased eleven times. In 1979 and 1980 subsidies exceeded total expenditures for the preceding 12 years. One hundred million dollars was spent on poultry meat subsidies in 1980. Add to that the subsidies paid on eggs and egg products and the amounts are staggering. We cannot fight that kind of competition.

Let me, for the record, recount the effect of EC subsidies on U.S. and on EC exports of whole chickens (as recorded in the Section 301 petition filed in September 1981 by industry):

> Since 1975, the whole chicken export market has grown almost 300 percent, yet the U.S. has been unable to capture even a third of this growth.
>
> In 1980, if the U.S. were to have increased its share of E.C.-U.S. whole chicken exports by 1 percent, domestic producers would have gained an additional $6.3 million in export sales.
>
> Attaining a 50 percent share of the combined E.C.-U.S. whole chicken export market would result in additional annual export sales of approximately $120 million for U.S. producers.
>
> Between 1975-1979, the E.C. captured 91 percent of U.S.-E.C. whole chicken exports to those countries to which it made its export refund available, and only 27 percent to those areas to which it did not make the refund available. Furthermore, the market for exports in the subsidized countries was three and one-half times larger than the non-subsidized market.
>
> During the 1975-1979 period, the subsidized market for whole chickens grew 173,000 metric tons (200%), while the non-subsidized market grew only 42,000 metric tons.
>
> In the Middle East, where the export refund has been in effect continuously, the whole chicken export market grew 63 times between 1971 and 1980. It now comprises over half the world market for whole chickens. Yet the U.S. has captured only 11 percent of combined U.S.-E.C. exports to this market during this period.

If during this growth period the U.S. had captured even an additional one percent of the Mideast whole chicken export market, it would have sold an additional $12 million of exports.

Had the U.S. captured half the combined E.C.-U.S. export market in whole chickens to the Mideast during this period, it would have gained an additional half billion dollars in export sales.

Based upon 1980 export sales, a loss of 5 percent market share for whole chickens in the Far East and Caribbean markets (where the E.C. has just reimposed export subsidies) would result in a loss of $2.5 million in export sales by U.S. producers.

The E.C. increased its 1980 share of U.S.-E.C. whole chicken exports from 13.4 percent to 31 percent in those countries to which subsidy was previously not available between 1975 and 1979.

Subsidies paid by competitors are not, of course, our only problem. Non-tariff barriers exist in many areas of the world--quotas, restricted licensing, barriers in the guise of health regulations, closed borders and the like.

The European Community, in addition to subsidizing its products into the world market, successfully controls the movement of U.S. poultry and eggs into the EC through the use of gate prices, a variable levy and a supplemental levy. There is also the problem of the U.S. meeting EC health directives--directives that are not even met by the EC countries themselves. If that is not enough, the United Kingdom has pulled out an old chestnut that prohibits the importation of poultry from any country that is not Newcastle-disease-free--and that includes nearly everyone.

Egypt and Nigeria, which have been growing markets for our products, recently banned all imports of poultry and eggs.

Increasing costs of ocean transportation plague us, too. We seem to get very little attention from the various freight conferences in our pleas for relief from continued increases in spite of our increased traffic.

The Role of Government

As I discussed earlier, the Government can play a positive role by continuing to fund market development activities in cooperation with agriculture's nonprofit associations. This helps assure that every segment of U.S. agriculture--including those associated with relatively small volume--exports commodities.

Credit for export needs improving. The poultry and egg industry, really, has not been able to avail itself of various credit programs because there have not been enough funds to go around.

We realize that it is necessary to export grain--lots of it. It's an important factor for agriculture and for our nation's balance of payments. But, we cannot have tunnel vision, and that has happened. There is a need to place sufficient emphasis on added-value products. In our case, every pound of poultry or egg products, every dozen eggs, represent feed grains consumed and labor input.

The Government must play a strong role in reducing impediments to trade, in particular the use of subsidies by competing nations, and the removal of non-tariff barriers. We especially seek the support of Congress in helping the Administration have a strong action program on behalf of poultry producers in the Section 301 petition now in process. We cannot afford to delay. Promptness, with strength, is of vital importance.

Export issues deserve the same attention given to foreign policy. Pursuit should be a government-wide objective. Consistent with the international rules of trade, we must maximize exports from the United States.

For too long we have not assumed the leadership in making the established rules of trade work. Historically, we have gained a reputation that we will do nothing if our trading partners break the rules. The Government has, we believe, the obligation to see that a workable trading system is developed, implemented, AND enforced.

Senator ABDNOR. Well, thank you, Mr. Campbell, for that very excellent testimony. It was very helpful because of some of the areas that we are going into. We really appreciate it. We'll have some questions when we are through with all the testimony.

I hate to do this, Mr. Hammer, but I am going to have you start, but then I have to make a mad dash. They have got another vote on.

I don't think this is going to keep up. Somebody moved to reconsider the last vote and called for a rollcall.

Mr. TOSTERUD. Go ahead, Mr. Hammer.

STATEMENT OF THOMAS A. HAMMER, ON BEHALF OF THE CALIFORNIA ALMOND GROWERS EXCHANGE, SACRAMENTO, CALIF.

Mr. HAMMER. I will try to summarize my prepared statement.

I am here on behalf of the California Almond Growers Exchange. Steve Easter, who was invited to participate, was unable to make it from California. That is my gain, I suppose. It is a pleasure to be here. I feel some closeness to this subject, as I have just left the Government service where I was the deputy under secretary primarily over much of the area that we are talking about here today. I had fun in writing my own statement and participating with the exchange.

Let me make a few remarks here about the California Almond Growers Exchange. It is a cooperative market association for 5,000 member growers and nearly three-quarters of the almond growers in the State of California. The exchange receives, processes, packs and markets almonds for its members.

The U.S. almond industry harvests approximately 60 percent of the world almond crop. All of the almonds harvested commercially are produced in California.

Almonds were California's largest food crop export last year. In the last full marketing year over two-thirds of the total U.S. almond production was exported, with a value of approximately one-half billion dollars. Thus exports are extremely important to our industry, the State's economy, and the Nation's balance of payments.

Having relied on market development programs to arrive at the current level of exports, the exchange is pleased to submit its views on export promotion efforts in the private sector. We will address the need for a comprehensive and sustained market development program for agricultural exports.

Quickly, to summarize, in 1950 the California almond industry was in a near chaotic condition. At that particular time there was an extreme surplus condition in the industry. Of interest, I think, is the demand for chocolate almond candy bars following the war had declined, leading to some of these problems. Additionally, the surplus condition was exaggerated by large volumes of subsidized, low priced imports from Spain and Italy, then the two leading producers, who were trying to earn dollars through the forced export of these products.

The marketing order then, combined with improved production and marketing efficiency, strong leadership in the industry and the growth of world markets, made possible an excellent export growth.

During the 32 years of the marketing order's existence the almond industry has gone from being a net importer of almonds to being a significant net exporter. In fact, it accounts for approximately 1 percent of total U.S. agricultural exports.

In order to maintain and expand the current level of exports, it is necessary to pursue aggressive market development activities. The exchange has been a leader in both identifying and developing export markets for U.S. almonds and currently sells its almonds in 88 foreign countries.

The market development activities began in the 1960's and they continue today in conjunction with USDA's Foreign Agricultural Service market development program. The cooperation and support received from FAS has been instrumental in the remarkable success which the exchange has had in exporting almonds throughout the world.

The success story of our market development efforts can best be exemplified in Japan. Almonds were virtually unknown until the 1950's in Japan except for the introduction, again, of almonds through chocolate bars. The first market development activities then were geared to promoting chocolate bars with almonds.

In the 1960's Japan opened a one-man promotional office in Japan. This office was maintained on a limited scale until 1968 when the Foreign Agricultural Service began providing the exchange with market development support. With this support the Japanese market development office greatly expanded and now employs over 40 individuals.

Over the years these promotional agents have relied heavily on shirt sleeve efforts to expand U.S. almond sales in Japan. They have worked through trade journals, food shows, seminars and food outlets and others to demonstrate and market their products.

There are several notable examples to these efforts. In 1970 the exchange aggressively marketed almonds at the World's Fair. At the same time the exchange then began working with cooking schools in Japan so that almonds could be placed on the curriculum. Later in the 1970's the exchange contracted with Coca-Cola Bottling Co. to distribute almonds at the retail level with its soft drinks. In this way it expanded the baking and confectionery business to include retail snacking. By working with food technologists and product developers, more processed foods containing almonds, such as almond milk and almond cheese, began to appear in Japan.

Because of these and other promotional efforts, combined with the support received from FAS, U.S. almonds are now successfully marketed in Japan. Our exports have increased from a level of zero in 1950 to 24 million pounds valued at over $40 million. At current levels Japan represents the third largest market for U.S. almonds in the world. Through continued support from USDA's market development program, the exchange expects to achieve even greater growth in the Japanese market.

Because U.S. almond growers are capable of producing far more than can be utilized domestically and production levels continue to rise, it is critical that we strengthen our efforts to develop, maintain, and expand our export markets.

The exchange is prepared to invest the time and money needed to expand exports. We cannot accomplish significant market development, however, without a comprehensive and sustained commitment by our Government to expand export markets for U.S. agriculture.

The Foreign Agricultural Service's market development program is a good starting point. The success of this program is well documented and has been achieved at relatively low costs.

The program's current funding level stands at $29 to $30 million, a figure representing less than two-thirds of 1 percent of the total value of U.S. exports. Even at this low level of spending, enormous benefits have been derived from the increased exports achieved under the program.

USDA estimates that for each additional $1 million of tree nut exports the U.S. economy gains $1.8 million in added direct and supporting business activity. If jobs and income are considered, the total increase in business activity amounts to $5.5 million. Given these costs and benefits, additional market development moneys would be well spent.

The Government's role in export expansion must not stop with the FAS market development program. To maximize our development of overseas markets the U.S. Government must work in partnership with exporters to identify those countries with market potential. If there are trade barriers to such markets, U.S. officials must work vigorously to eliminate them. Our Government must assume this responsibility wherever necessary, as private citizens cannot petition foreign governments to remove impediments to trade.

The Exchange is currently working with U.S. trade officials to, one, eliminate the EEC's 7-percent duty on almonds; two, remove India's restrictive and discriminatory trade practices on almond imports; and three, to eliminate Canada's illegal 10-percent duty on roasted almonds.

Such trade barriers must be removed before the California almond industry can develop these markets.

The administration's commitment to freeing world markets of unfair trade practices was forcefully articulated in the President's national agricultural export policy announced on March 22 of this year. The Exchange applauds this commitment. A strengthened effort to remove trade barriers, combined with FAS's market development program, will allow us to duplicate the success we have achieved in Japan in other markets throughout the world.

With the continued plantings and production of California almonds, the need to expand markets cannot be questioned. The Exchange will continue to pursue all market development opportunities. The success of our efforts is largely dependent, however, on a strong national commitment to developing, maintaining, and expanding export markets for U.S. agriculture.

We would like to thank the subcommittee for its interest in this most important matter.

[The prepared statement of Mr. Hammer follows:]

Prepared Statement of Thomas A. Hammer

INTRODUCTION

The California Almond Growers Exchange (the "Exchange") is a cooperative marketing association for 5,000 member growers, or nearly three-fourths of the almond growers in the state of California. The Exchange receives, processes, packs and markets almonds for its members.

The U.S. almond industry harvests approximately 60 percent of the world almond crop. All of the almonds harvested commercially in the United States are produced in California. There are currently over 400,000 bearing and non-bearing acres of almonds in California and additional plantings are continuing. Almonds are the largest tree crop in the state. In the last full marketing year, sales of almonds amounted to approximately three-quarters of a billion dollars.

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Almonds were California's largest food crop export last year. In the last full marketing year, over two-thirds of the total U.S. almond production was exported, with a value of approximately one-half billion dollars. Thus, exports are extremely important to our industry, our state's economy, and our nation's balance of payments.

Having relied on market development programs to arrive at our current level of exports, the Exchange is pleased to submit its views on export promotion efforts in the private sector. We will address in particular, the need for a comprehensive and sustained market development program for agricultural exports.

HISTORY OF THE ALMOND MARKETING ORDER

The almond marketing order was put into effect in 1950 amid conditions of near chaos in the industry. At that time, there was a surplus of almonds in the U.S. because of a decline in demand for chocolate-almond candy bars following World War II. The surplus condition was exaggerated by large volumes of subsidized, low priced imports from Spain and Italy, the world's two leading producers.

The marketing order established an Almond Control Board to carry out and enforce the provisions of the Order. The Board's activities included production research, quality control and supply allocation between domestic and foreign markets. The supply allocation provision proved to be especially important in coping with the surplus problem and assuring the long-range prosperity of the industry. Instead of turning the surplus commodity over to the Almond Control Board for distribution in non-competitive export channels, this order provided that individual handlers could become agents of the Board in the disposition of surplus. The marketing order was amended in 1972 to authorize advertising, promotion and crediting for brand advertising.

During the 32 years of the marketing order's existence, the almond industry has gone from being a net importer of almonds to being a significant net exporter. Two-thirds of the almond crop goes to the export market and accounts for approximately 1 percent of total U.S. agricultural exports.

The marketing order, combined with improved production and market efficiency, strong leadership by the California industry and the growth of world markets, have made possible this excellent export record. However, in order to maintain and expand the current level of exports, it is necessary to pursue aggressive market development activities.

SPECIFIC MARKET DEVELOPMENT EFFORTS

The California Almond Growers Exchange has been a leader in both indentifying and developing export markets for U.S. almonds. The Exchange currently sells its members' almonds in approximately 88 foreign countries.

Its market development activities effectively began in the 1960's and they continue today in conjunction with USDA's Foreign Agricultural Service (FAS) Market Development Program. The cooperation and support received from FAS has been instrumental in the remarkable success which the Exchange has had in exporting almonds throughout the world.

The success of our market development efforts is perhaps best exemplified in Japan. There, almonds were virtually unknown until the 1950's, when U.S. soldiers brought chocolate bars containing almonds to Japan. The first market development activities of the Exchange were geared to promoting chocolate bars with almonds.

In the 1960's, Japan opened a one-man promotional office in Japan. The office was maintained on this limited scale until 1968, when the Foreign Agricultural Service began providing the Exchange with market development support. With this support, the Japanese market development office greatly expanded and now employs over 40 individuals.

Over the years, these promotional agents have relied heavily on "shirt sleeve" efforts to expand U.S. almond sales in Japan. They have worked through trade journals, food shows, seminars and food outlets to demonstrate and market our products.

There are several notable examples of these efforts. In 1970, the Exchange aggressively marketed its almonds at the Japanese World's Fair. At the same time, the Exchange began working with cooking schools in Japan so that almonds would be placed on the curriculum. Later in the 1970's, we contracted to have the Coca-Cola Bottling Company distribute our almonds at the retail level with its soft drinks. In this way, we expanded our baking and confectionary business to include retail snacking. By working with food technologists and product developers, more processed foods containing almonds -- such as almond milk and almond cheese -- began to appear in Japan.

Because of these and other promotional efforts, combined with the support received from FAS, U.S. almonds are now successfully marketed in Japan. Our exports have increased from a level of zero in the 1950's to 24 million pounds, valued at over $40 million. At current levels, Japan represents the third largest market for U.S. almonds in the world. Through continued support from USDA's Market Development Program, the Exchange expects to achieve even greater growth in the Japanese market.

THE NEED FOR A NATIONAL COMMITMENT TO EXPAND AGRICULTURAL EXPORT MARKETS

Because U.S. almond growers are capable of producing far more than can be utilized domestically, and production levels continue to rise, it is critical that we strengthen our efforts to develop, maintain and expand our export markets. The Exchange is prepared to invest the time and money needed to expand exports. We cannot accomplish significant market development, however, without a comprehensive and sustained commitment by our government to expand export markets for U.S. agriculture.

The Foreign Agricultural Service's Market Development Program is a good starting point. The success of this program is well documented and has been achieved at relatively low costs.

The Program's current funding level stands at $29-30 million, a figure representing less than two-thirds of 1 percent of the total value of U.S. agricultural exports. Even at this low level of spending, enormous benefits have been derived from the increased exports achieved under the Program. USDA estimates that for each additional $1 million of tree nut exports, the U.S. economy gains $1.8 million in added direct and supporting business activity. If jobs and income are considered, the total increase in business activity amounts to $5.5 million. Given these costs and benefits, additional market development monies would be well spent.

The government's role in export expansion must not stop with the FAS Market Development Program. To maximize our development of overseas markets, the U.S. government must work in partnership with exporters to identify those countries with market potential. If there are trade barriers to such markets, U.S. officials must work vigorously to eliminate them. Our government must assume this responsibility whenever necessary, as private citizens cannot petition foreign governments to remove impediments to trade.

The Exchange is currently working with U.S. trade officials to: 1) eliminate the EEC's 7 percent duty on imported almonds, 2) remove India's restrictive and discriminatory trade practices on almond imports, and 3) eliminate Canada's illegal 10 percent duty on roasted almonds. Such trade barriers must be removed before the California almond industry can fully develop these markets.

The Administration's commitment to freeing world markets of unfair trade practices was forcefully articulated in the President's national agricultural export policy announced on March 22, 1982. The Exchange applauds this commitment. A strengthened effort to remove trade barriers, combined with FAS's Market Development Program, will allow us to duplicate the success we have achieved in Japan in other markets throughout the world.

CONCLUSION

With the continued plantings and production of California almonds, the need to expand export markets cannot be questioned. The Exchange will continue to pursue all market development opportunities. The success of our efforts is largely dependent, however, on a strong national commitment to developing, maintaining and expanding export markets for U.S. agriculture.

We thank the Committee for its interest in this important matter.

Mr. TOSTERUD. Thank you very much, Mr. Hammer.

When I was putting together the panel for this afternoon's session I worked, of course, very closely with FAS cooperator people. There was absolutely no question in their minds that the California Almond Growers Exchange was one of the real shining stars as far as accomplishment in market development is concerned. By the looks of those numbers, they were absolutely right.

We will continue on with Mr. Middaugh, please.

STATEMENT OF ALAN R. MIDDAUGH, ON BEHALF OF THE UNITED STATES MEAT EXPORT FEDERATION

Mr. MIDDAUGH. Thank you, Mr. Tosterud.

My name is Alan Middaugh, and I am testifying on behalf of the United States Meat Export Federation. The federation is a cooperator with the Foreign Agricultural Service of the USDA in foreign market development of meat and meat products derived from beef, pork, and lamb.

Although a relative newcomer to the cooperator program, having started not quite 6 years ago, we have probably some of the same background as Lee Campbell's organization, the Poultry and Egg Institute of America. In fact, we at this time share offices with PEIA in Tokyo, London, and Hamburg.

This opportunity to express the views of our organization on the very important subject of meat exports is welcome and appreciated.

My summary of the prepared statement will address itself primarily to three areas:

Meat export opportunities and promotions; problems associated with this export potential; and finally, the role of the Federal Government in assisting in foreign market development.

During the past half a dozen years geographical areas of opportunity have been identified, primarily in Japan and the European Community. Export growth for red meats has more than quadrupled over the past 10 years, with the value of U.S. beef, pork, lamb, and variety meats, variety meats being items such as livers and kidneys and tongues, rising from $192 million in 1971 to $886 million in 1981—this growth during periods of overseas inflation and a relatively strong dollar.

The demand for high quality meat products continues to grow as the United States has just begun to tap the vast potential awaiting us in market areas around the world.

For example, if the United States was able to export 1 pound of high quality beef to every consumer in the beef producing/consuming signatory nations of the General Agreement on Tariffs and Trade at a price of $4 a pound, implemented over a 5-year period, a fifth of a pound per year, U.S. producers would realize earnings exceeding $3 billion annually, a legitimate and, I think, a conservative goal for the U.S. meat industry and one which respects a foreign country's self-sufficiency standard, as desired, at 95 percent.

American livestock producers and packers are not and should not be apologetic for our progress over the past 6 years. Traditional markets have been enlarged and a platform now exists from which we must move on to other expandable opportunities. But since dollar values are not matched by tonnages, a redirection is called for, possibly a redirection in the areas of maintaining a presence and a promotional activity in Japan and the European Community; greater penetration in these expendable markets. For example, the Middle East, Caribbean, Mexico, Southeast Asia, Eastern bloc countries, et cetera. And, finally, the intensifying of the industry's influence regarding trade posture at the Government level. Some people have suggested in the case of the meat people that foreign market development probably should be about 10-percent promotion and 90-percent access.

Significant effort and funding by producers and packers supported by the USDA foreign agricultural service cooperator program have been devoted to the recognition of product demand overseas and to the adoption of foreign consumer needs by exporting interests. As foreign governments have become cognizant of America's thrust toward export identity, the erection of trade barriers has become quite commonplace.

Although the door was opened to beef markets in Japan and the European Community as a result of the 1978–79 multilateral trade negotiations, each particular geographical sector continues to effectively limit U.S. export opportunities.

Although Japan has basically lived up to its obligations to buy beef in accordance with earlier trade agreements, the Japanese Government tightly regulates the importation of beef through its Livestock Industry Promotion Corporation. The Japanese price stabilization policy, which translates to artificially high prices to consumers for imported as well as domestic beef, along with nontariff trade barriers such as limited numbers of approved packingplants, rigid certification requirements, yield grading and a complex pricing mechanism effectively limit beef imports.

The LIPC buying system uses imported meat strictly to regulate domestic supply and demand and to subsidize relatively inefficient Japanese livestock producers. And interestingly enough, the Government of Japan then complains that U.S. beef is too high priced while at the same time we see Japanese consumers waiting in line for a limited supply of American high quality beef made available through trade shows and product demonstrations.

Our industry asks is it not fair to assume that with Japanese finished products entering the United States on a virtually free market basis, American agriculture should enjoy this same degree of market access for meat products, particularly when the benefit comes to Japanese consumers as well as U.S. producers?

On the other side of the world the U.S. meatpackers enjoyed in excess of 200 million dollars worth of sales of variety meats, again livers and kidneys and tongues, to the European Community member countries in 1981. Trade negotiations completed in 1979 paved the way for the United States to export up to 10,000 metric tons of high quality beef valued at about $100 million to the European Community on an annual basis. With this bilateral agreement came the immediate barrage of nontariff trade barriers set in place by the Commission in Brussels.

U.S. beef entering the EC is subject to a 20-percent duty based on the delivered price, the CIF price. Assuming U.S. beef exported to the United Kingdom had a value of $3.50 a pound, with freight and insurance costs of about 25 cents a pound, a 20-percent duty would be applied against a value of $3.75 per pound. The MCA, or the monetary compensatory amount, designed to equalize currency fluctuations between Community states, is currently 11 to 12 pence per pound for U.S. beef shipped to England. Therefore the cost of exporting U.S. beef to the United Kingdom on a $3.50-per-pound item amounts to $1 a pound. And as a point of comparison, the duty for EC beef, particularly Irish beef, entering the United States is 2 cents a pound. To compound this inequity, EC beef shipped to the United States is subsidized at the rate of 68 cents a pound.

Differences between the EC meat inspection requirements as determined by the Third Country Meat Directive continue to provide a very effective technical shelter for the Community. The USDA packing plant inspection system is at least as good and possibly superior to the EC system for producing sanitary and wholesome meat for human consumption.

The U.S. meat industry believes that many of these variances in the directive are unreasonable and represent arbitrary and unnecessary nontariff trade barriers.

The trend toward increasing Government intervention in the international meat trade is continuing. As recently as 1978 the European Community was a net importer of beef. Two years later, in 1980, the EC exported over 500,000 metric tons on a carcass weight basis, making it the second largest beef exporter in the world behind only Australia.

The before-mentioned subsidy of 68 cents a pound has placed the EC at a definite price advantage when exporting to Russia, Egypt, North Africa, markets traditionally supplied by Australia and Argentina. The EC's use of extensive export restitutions has resulted in increased activity on the part of Australia to enlarge beef exports to Pacific rim nations at the expense of U.S. beef sales.

Given the opportunities and problems associated with world meat trade, it appears in the best interest of all concerned to look at some form of guaranteed market access as a well-defined principle of international trade in meat.

Responsible world leadership on the part of major trading countries and blocs of countries requires that they relax beef trade restrictions.

Competing with foreign treasuries for available overseas markets is totally unpalatable, particularly when the United States shares its market with other beef producing countries.

Along with the Federal Government's negotiating profile in quest of expanded market access, greater recognition of the value-added concept is absolutely essential.

The Federation works in concert with bulk commodity cooperators such as the U.S. Feed Grain Council, believing that there is ample room in the foreign marketplace for both feedgrains and finished meat products.

Japan happens to be a prime example of the usage of American feedgrains to fatten native Wagyu steers which comprise 29 percent of the beef consumed in Japan. Domestic pork production is highly dependent upon imported feed grains.

What is happening here is the whetting of Japanese appetites for grain fed meats, a demand far in excess of Japan's ability to meet this demand, thus the need for beef and pork imports.

I feel two assumptions might be in order here. The first one would be that it probably makes little difference to corn producers in this country whether they market grain through export channels or here at home through livestock, the meat from which could enter the export trade. One ton of grain produces an 1,150 pound steer yielding approximately 725 pounds of carcass and 525 pounds of exportable boneless beef.

A second assumption could be that major export efforts over the years by both Government and private trade have been dedicated to bulk commodities—feedgrains, wheat, soybeans. And I think this is quite fairly done. This is where the tonnage is, so here is where the emphasis should be placed.

But to insure that the United States fully realizes the potential economic benefits of expanded agricultural exports, it would seem appropriate to step up the visibility of value-added products in the overall export scheme—stimulating job opportunities and business investments and broadening the U.S. tax base.

It would appear to be catastrophic to America if we continue to allow the Japanese the enviable reputation of master practioners of the value-added concept.

In conclusion, Mr. Chairman, America's livestock producers, packers and processors, with the recognition that grain-fed quality meats are unique in world agriculture, ask that a stronger stance be taken by U.S. negotiators in dealing with protectionistic governments overseas, and that value-added products be given a substantially higher priority by this administration.

Thank you very much.

[The prepared statement of Mr. Middaugh follows:]

PREPARED STATEMENT OF ALAN R. MIDDAUGH

My name is Alan R. Middaugh. I am testifying on behalf of the United States Meat Export Federation. The Federation is a Cooperator with the Foreign Agricultural Service of the USDA in foreign market development of meat and meat products derived from beef, pork and lamb.

This opportunity to express the views of our organization on the very important subject of meat exports is welcome and appreciated.

My testimony will address itself primarily to three areas:

1. Meat export opportunities and promotions.
2. Problems associated with this export potential.
3. The role of the Federal Government in assisting in foreign market development.

Geographical areas of opportunity have been identified over the past several years primarily in Japan and the European Community (EC). Export growth for red meats has more than quadrupled over the past 10 years with the value of U.S. beef, pork, lamb and variety meats rising from $192 million in 1971, to $886 million in 1981 - This growth during periods of overseas inflation and a relatively strong dollar. The demand for high quality meat products continues to grow as the U.S. has just begun to tap the vast potential awaiting us in market areas around the world.

For example, if the U.S. was able to export one pound of high quality beef to every consumer in the beef producing/consuming signatory nations of the GATT at a price of $4.00/lb. implemented over a 5 year period, U.S. producers would realize earnings exceeding $3 billion annually -- a legitimate goal for the U.S. meat industry and one which respects a foreign country's self-sufficiency standard of 95%

During the past several years, livestock and meat exports have slightly exceeded imports ($3 billion).

American livestock producers/packers are not apologetic for our progress over the past 6 years. Traditional markets have been enlarged and a platform now exists from which we move on to other "expandable" opportunities. But, since dollar values are not matched by tonnages, a redirection is called for:

1. Maintain presence/promotional activities in Japan and E.C.
2. Greater penetration in "expandable" markets, i.e. Middle East, Caribbean, Mexico, S.E. Asia, Eastern Bloc, etc.
3. Intensify the industry's influence regarding trade posture at the government level (Foreign market development: 10% Promotion - 90% Access)

Significant effort and funding by producers and packers, supported by the United States Department of Agriculture/Foreign Agricultural Service Cooperator Program, have been devoted to the recognition of product demand overseas and to the adoption of foreign consumer needs by exporting interests in the U.S. As foreign governments have become cognizant of America's thrust toward an export identity, the erection of trade barriers has become commonplace.

Although the door was opened to beef markets in Japan and the EC as a result of recent multilateral trade negotiations, each particular geographical sector continues to effectively limit U.S. export opportunities.

Although Japan has basically lived up to its obligations to buy beef in accordance with earlier trade agreements, the Japanese government tightly regulates the importation of beef through its Livestock Industry Promotion Corporation (LIPC). The Japanese price stabilization policy -- which translates to artificially high prices to consumers for imported as well as domestic beef -- along with non-tariff trade barriers such as a limited number of approved packing plants, rigid certification requirements, yield grading and complex pricing mechanisms effectively limit beef imports. The LIPC buying system uses imported meat strictly to regulate domestic supply and demand and to subsidize relatively inefficient Japanese livestock producers. The GOJ then complains that U.S. beef is too high priced while at the same time Japanese consumers wait in line for limited supplies of American high quality beef made available through trade shows and product demonstrations.

Is it not fair to assume that with Japanese finished products entering the U.S. on a virtually free market basis, American agriculture should enjoy this same degree of market access for meat products, particularly when the benefit comes to Japanese consumers as well as U.S. producers.

U.S. meat packers enjoyed in excess of $200 million worth of sales of variety meats to EC member countries in 1981. Trade negotiations completed in 1979 paved the way for the U.S. to export up to 10,000 metric tons of high quality beef (valued at $100 million) to the EC on an annual basis. With this bilateral agreement came the immediate barrage of non-tariff trade barriers set in place by the Commission in Brussels.

U.S. beef entering the EC is subject to a 20% duty based on the C.I.F. price. Assuming U.S. beef exported to the U.K. had a value of $3.50/lb. with freight and insurance costs of about 25¢/lb., a 20% duty would be applied against a value of $3.75/lb. The monetary compensatory amount (MCA), designed to equalize currency fluctuations between Community states, is currently 11-12 pence per pound for U.S. beef shipped to England. Therefore, the cost of exporting U.S. beef to the U.K. on a $3.50 item amounts to $1.00/lb. As a point of comparison, the duty for EC beef entering the U.S. is 2¢/lb. To compound this inequity, EC beef shipped to the U.S. is subsidized at the rate of 68¢/lb.

Differences between the EC meat inspection requirements as determined by the 3rd Country Meat Directive (72/462/EEC) continue to provide a very effective technical shelter for the Community. The USDA packing plant inspection system is at least as good, if not superior to, the EC system for producing sanitary and wholesome meat for human consumption. The Directive establishes health and sanitary requirements for packing plants wishing to export to the EC in significant variance to U.S. inspection procedures. The U.S. meat industry believes that many of these variances are unreasonable and represent arbitrary and unnecessary non-tariff trade barriers.

The trend toward increasing government intervention in international meat trade is continuing. As such intervention proceeds, market forces are becoming progressively more constrained. Severely restricting world meat trade is the practice of governments encouraging domestic production with price support schemes thus causing a tremendous tonnage buildup of reserve stocks which are being placed on the international market at highly subsidized prices ($1,500 per ton). As recently as 1978, the EC was a net importer of beef. In 1980, the EC exported over 500,000 tons (carcass weight) of beef making it the second largest beef exporter in the world behind Australia. This subsidy of 68¢/lb. has placed the EC at a definite price advantage when exporting to Russia, Egypt and North Africa -- markets traditionally supplied by Australia and Argentina. The EC's use of extensive export restitutions has resulted in increased activity on the part of Australia to enlarge beef exports to Pacific rim nations at the expense of U.S. beef sales

Given the opportunities and problems associated with world meat trade, it appears in the best interest of all concerned to look at some form of guaranteed market access as a well-defined principle of international trade in meat.

Responsible world leadership on the part of major trading countries and blocs of countries requires that they relax beef trade restrictions. If the U.S. would assume the same action as

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the other major world markets and reduce its imports, substantial damage to the beef industries in the major exporting countries would unquestionably result. Competing with foreign treasuries for available overseas markets is totally unpalatable, particularly when the U.S. shares its market with other beef producing countries. The U.S. beef industry should not be required to absorb the instability caused by restrictions of other major countries or trading blocs.

The major objective of such a principle must be to provide reciprocal access at a level determined by a percentage of domestic beef production and/or consumption during a given period of time. Each country -- or bloc in the case of the European Community -- would guarantee international access based upon a formula mutually initiated on a bilateral basis and consistent with the U.S. voluntary restraint agreements. Major exporting nations must be prepared to extend the same access opportunities to their own domestic markets as requested elsewhere. The U.S. must be prepared to provide guarantees of access in addition to those prevailing when Western Europe and Japan have granted guaranteed access to beef and pork without significant tariff or non-tariff barriers.

Along with the Federal Government's negotiating profile in quest of expanded market access, greater recognition of the value added concept is absolutely essential.

The Federation works in concert with bulk commodity cooperators such as the U.S. Feed Grain Council believing that there is ample room in the foreign marketplace for both feed-grains and finished meat products.

Japan is a prime example of the usage of American feedgrains to fatten native Wagyu steers which comprise 29% of the beef consumed in Japan. Domestic pork production is highly dependent upon imported feedgrains.

What is happening here is the whetting of Japanese appetities for grain-fed meats -- A demand far in excess of Japan's ability to meet this demand -- Thus, the need for beef and pork imports.

Two assumptions might be in order here:

1. It makes little difference to corn producers whether they market grain through export channels or here at home through livestock, the meat from which could enter the export trade. (One ton of grain produces a 1,150 lb. live animal yielding 725 lbs. of carcass and 525 lbs. of exportable boneless beef.)

2. Major export efforts over the years by both the Government and private trade have been dedicated to bulk commodities - feedgrains, wheat, soybeans, etc. Quite fairly, this is where the tonnage is, so here is where the emphasis should be placed.

To ensure that the U.S. fully realizes the potential economic benefits of expanded agricultural exports, it would seem appropriate to step up the visibility of value added products in the export scheme -- stimulating job opportunities and business investments, and broadening the U.S. tax base.

It will be catestrophic to America if we continue to allow the Japanese the enviable reputation of "Master Practioners" of the "Value Added" concept.

IN CONCLUSION, America's livestock producers, packers and processors, with the recognition that grain-fed quality meats are unique in world agriculture, ask that a stronger stance be taken by U.S. negotiators in dealing with protectionistic governments overseas, and that value added products be given a substantially higher priority by this Administration.

Senator ABDNOR. Thank you, Mr. Middaugh. Your testimony has figures and facts that I am happy to have. Somehow I knew these things were going on, but I never got it pinned down. We appreciate this very, very much.

Senator Hawkins has arrived. She is a very important part of this committee. The only trouble is she is important to other committees, too. I am going to call on Senator Hawkins to introduce our next witness.

Senator HAWKINS. Thank you, Mr. Chairman. I do apologize for all of us having to be all over the ballpark these days.

I would like to welcome our witnesses, and particularly Mr. Lester of our Florida Department of Citrus.

I congratulate the distinguished chairman of this subcommittee for arranging these important hearings on the private sector initiatives to increase agricultural exports. I want to assure you gentlemen that they will be widely read. The activities of the week are so hectic, so we have to do a lot of our homework at night.

I would just like to add for the record that the year 1981 was a record-breaking year for Florida foreign trade. Last year the value of goods exported from Florida totaled almost $11.2 billion while the value of imports was estimated at $6.5 billion. This represents a $2 billion increase in Florida's foreign trade activity over 1980.

Given Florida's two coast lines, 14 key water ports, 5 free trade zones, and its proximity to Latin America and the Caribbean, its business emphasis on agriculture and high technology manufacturing, it is no wonder that foreign trade remains the fastest growing segment of Florida's economy. Leading the way are Florida's citrus growers and processors, and I am convinced that the record trade total for 1981 is only the beginning. There is enormous international potential for Florida's agricultural output and for our national farm output.

This potential can be most effectively achieved by cordinated effort by industry and Government, and I am anxious to hear and read the comments of this expert panel of witnesses on how to bring this about.

I am glad to see Mr. Lester again. We worked together on many citrus issues in the past.

I have a question for you since I have to leave to make a statement on the floor, Mr. Lester. The answer may be in your statement. I haven't seen it. Several months ago, as you know, I chaired a Senate Agriculture Committee field hearing in Florida in which you participated concerning citrus trade with the EEC.

In our hearings we discussed the problems that Florida's citrus industry has experienced due to unreasonably high tariffs and value-added taxes imposed by the EEC countries. The Florida citrus industry has been attempting to work with the Italian Government and Italian businessmen in order to lift these restrictions.

Could you tell this subcommittee more of your efforts to establish a joint venture with the Italians?

STATEMENT OF W. BERNARD LESTER, EXECUTIVE DIRECTOR, FLORIDA DEPARTMENT OF CITRUS, LAKELAND, FLA.

Mr. LESTER. I would be glad to, Senator.

We have three of our Florida citrus processors that have proposed to the Italian Government establishing a joint venture to blend the Italian product with Florida product, or Brazilian product, whatever, to create a juice market in Italy. The situation we have right now is that the European Community has both a tariff, as the Senator mentioned, of 19 percent on orange juice, and they also have a value-added tax that in some cases is four times as much as what it is on other food products. So as a result, going into the various European countries we sometimes confront a combination of tariffs and value-added tax of 44 percent on our products.

What is particularly disturbing about this to us is that the production in Italy represents less than 10 percent of what the European Community consumes. So we have a situation here of where they are protecting something that they cannot even supply themselves, and we find this to be very ridiculous.

Italy, in addition to these various taxes and tariffs, has a license and sales system that prevents any concentrate coming directly into Italy. So what happens now, it goes to one of the other European Communities which pays the tariff and then goes over to Italy, and all of this time our people have already put money into an account that can go toward this joint venture.

The Italian orange will not produce a desirable juice product. In the world of citrus there are some areas that the fruit is available only for fresh consumption; in other areas the fruit is very preferable for juice production. Florida and Brazil happen to be the two areas where it is very desirable for juice production. And so Italy needs to blend their product with product from somewhere else in order to expand the market in the European Community. And you can imagine with up to a 44-percent tariff on top of the product why it is a little bit difficult to get the product moving in those areas, although we are pleased with what we have been able to accomplish in that market over the last few years.

In addition to the European Community, we feel that with the contacts they have with Eastern Europe there could be a great expansion of that activity if they would just agree to cooperate with us and eliminate these tariffs where they were protecting something they don't even produce in any significance.

Senator HAWKINS. You and I have discussed several times the problem we are having with the Japanese also regarding citrus products and the potential there for Florida citrus. What should the U.S. Government be doing to promote expansion of citrus trade into Japan that we are not doing?

Mr. LESTER. Again the main thing, Senator, is we could get rid of some of the barriers. Japan has a quota on fresh grapefruit of 31 percent. They don't produce any grapefruit. So again they are protecting something they don't produce.

That market still, though, represents 20 percent of Florida's fresh grapefruit shipments. So we have done a relatively good job in spite of the tariff. But we need to eliminate that 31-percent tariff. It has moved down slightly from the 40 percent where it started.

In the case of grapefruit juice, in addition to a tariff they also have a quota, and that quota represents each Japanese consumer getting one 8½ ounce serving in an entire year. So you can see how ridiculous it is. Again, they don't have grapefruit juice.

In the case of orange juice they have a similar situation to Italy in that their Mikan orange is an orange you eat fresh but it does not make a desirable juice. We have tried to work with the Japanese and have offered entirely at our expense a market development study that will show if they will blend that product and develop a juice market it will help utilize some of their surplus Mikans, because right now they are literally destroying Mikans every year because they can't sell them all fresh, and we tried to convince them that the U.S. market confronted the same situation back in the 1940's. We developed frozen concentrated orange juice. It did not ruin the fresh industry. The fresh industry continued to prosper. But we began using what would have been surplus conditions.

Japan feels like that that's just our biased viewpoint, and to this point have not even been willing to let us fund the test to show them what can be accomplished over there.

So it is the trade barriers that we have the problem with. The industry is quite willing itself to spend the money in developing the program if they will just let us in.

Senator HAWKINS. What are your views on the present three-party plan for market expansion in Europe?

Mr. LESTER. We are very pleased with what's been accomplished there. For the benefit of the chairman, the three parties involved are the foreign brand owner, the Florida Department of Citrus, and the Foreign Agricultural Service of the USDA.

When we first started the program each of us put in a one-third share. We have now evolved the program to where the foreign brand owner and the Florida Department of Citrus put in 40 percent and the FAS puts in the other 20 percent.

We feel it has been a very desirable program for all three of us, because in the case of the foreign brand owner and the Florida Department of Citrus we are getting back $2.50 in marketing impact for every dollar we put in. Of course, FAS is getting $5 marketing impact for every dollar they put in.

We decided to go with this kind of brand program rather than a generic advertising program like we do here domestically, because we felt like in those markets where a particular brand already had an image we would work with that brand owner and then we would have that brand owner have his product inspected by independent labs periodically so that we are assured that the quality that has the Florida name on it is being maintained. But he agrees to put the Florida name on his brand. And since he also is interested in continuing to expand his market share, we feel like that that has worked very well for us, because what actually happens is that most of the brand owners contribute more than their 40 percent share to the program. So as a result the expansion factor actually gets increased by even more than the 2½ or the 5 times that we mentioned previously.

So we are very pleased with the way it is moving. If we can just get the tariff barriers off we feel like there is a lot of movement that can occur.

Senator HAWKINS. Thank you.

Mr. LESTER. Mr. Chairman, I think those particular areas pretty well summarize the main points that we wanted to make, because frankly where we feel you can be of help, as some of the other witnesses have commented on, is the Government taking a stand in areas where there are ridiculous barriers and barriers that our other trading partners have agreed to a particular rule and then they ignore them, and yet they expect us to continue to abide by all of ours.

The European Community, for example, in addition to the value-added tax and the tariff we mentioned, they have also granted preferential tariff reductions to a number of Mediterranean countries, and, of course, we feel like this is contrary to the GATT, and the Government has in fact recently filed a section 301 brief regarding these preferential reductions. But the reduction is 70 percent in some cases. When you add that on to what we are confronting with the tariff and the other items, it does get to be kind of a ridiculous situation for us.

So it is in the area of where either items are being protected that a country doesn't produce, or in items where some of our trading partners are giving preferential reductions where we would like to encourage the Government to do as much for us as they can. We'll take our chances as far as competing with other producing areas in the world, but we want a fair shot.

[The prepared statement of Mr. Lester follows:]

Prepared Statement of W. Bernard Lester

INTRODUCTION

The Florida Department of Citrus appreciates the opportunity to acquaint you with our current export promotion programs, relate current problem areas and suggest areas where the Federal Government can be of assistance.

The Florida Department of Citrus is an agency of the state of Florida charged with three basic functions:

1) It supervises the development and implementation of marketing programs designed to increase demand for Florida citrus in domestic and export markets.

2) It administers the Florida Citrus Code which provides regulatory powers for the packing, processing, labeling and handling of citrus fruits and products. Regulations are designed to ensure the quality of citrus fruits and products.

3) It also conducts programs in scientific, economic and market research.

The Department is financed entirely by the industry with the exception of limited federal funds used in export development programs. Such programs will be explained shortly.

The United States is the world's largest producer of citrus, accounting for approximately 35% of the world's orange production and 70% of the world's grapefruit production. Of this, Florida is the major contributor, representing over 75% of the total U.S. citrus production which translates to 28% of the world's supply of oranges and 54% of the world's supply of grapefruit.

Florida is very interested in, and supports the concept of, world trade. Among domestic producers, the Florida industry is the leading exporter of processed citrus juices and fresh grapefruit.

DESCRIPTION OF CURRENT PROGRAMS

The Florida citrus industry's export promotion activities occur primarily in Canada, Europe and Japan. The industry's primary export products are orange juice and fresh grapefruit.

CANADA

The Canadian export development program is designed to differentiate Florida citrus from its competitors which in the case of orange juice is Brazil and for fresh grapefruit, the state of Texas. The program features television, radio and trade promotions. We utilize a Canadian advertising agency for our media activities and have three full-time merchandising specialists to develop promotions with the trade. This system has worked favorably as per capita consumption of processed citrus products equals that in the United States and per capita consumption of fresh grapefruit in Canada exceeds that of our domestic market.

EUROPE

In Europe the Department operates a Three Party cooperative program in which marketing expenses are shared by the foreign brand owner, the Foreign Agricultural Service of the U. S. Department of Agriculture (FAS-USDA) and the Florida Department of Citrus (FDOC). The three way division was initially one-third each but it has evolved to an investment of 40% each by the foreign brand owner and the Florida Department of Citrus and 20% by FAS-USDA.

The program has been beneficial for all parties. The foreign brand owner and the Department of Citrus, with their 40% investments, receive $2.50 in marketing impact for each $1.00 invested whereas the FAS-USDA receives $5.00 of marketing impact for each $1.00 invested.

The product labels must include both brand and Florida identification. The product must be inspected by independent laboratories in Europe to assure the Florida industry that quality standards are maintained. Through experience during the initial stages of the program, the industry concluded that working with specific brand owners was preferred to operating a generic promotional program as is done domestically. Florida benefits from the established brand image in each particular market and the desire of the brand owner to spend as much as practical to further his brand awareness and market share. In reality, we find that the foreign brand owner usually contributes more than his required 40% share of the marketing expenditures. Consequently, the investments by our Department and FAS are actually expanded by greater amounts than previously mentioned.

This program currently operates in twelve European countries. Activities conducted include all forms of media advertising, coupon distribution, in-store demonstrations, point-of-sale materials and various retail promotions such as displays and sales contests.

JAPAN

The primary development to date in Japan for the Florida citrus industry has been the sale of fresh grapefruit which represents over 20% of Florida's total fresh grapefruit shipments. The industry has used a combination of programs, including television, to announce the seasonal availability of the fruit, in-store demonstrations to acquaint the consumer with the quality of the fruit, massive displays to attract attention, and personal appearances by the Florida Citrus Queen to create added publicity.

TRADE PROBLEMS

The primary problems restraining export development which can benefit by U.S. Federal Government assistance exist primarily in Europe and Japan.

EUROPE

The European Community has a tariff of 15% on processed grapefruit juice, 19% on processed orange juice and 20% on fresh oranges at the time of year that Florida enters the market. These tariffs are particularly frustrating to the Florida industry as the European Community tends to produce less than 10% of its total citrus consumption.

In addition, the European Community grants a preferential duty reduction of 70% to a number of Mediterranean countries, an action which many consider contrary to the GATT.

Further, the European Community imposes a value added tax (VAT) on citrus juices which varies by country but is up to four times the value added tax for other food items. Since orange juice is a food and not a luxury item, it should be taxed at the same rate as other food items.

Hence, on an item which the Community can produce only an insignificant portion of its consumption, it is assessing on the U.S., depending on the particular country, a combination tariff and VAT of up to 44% for processed orange juice and up to 40% for processed grapefruit juice.

While we understand the reasons for protecting a viable domestic industry through the use of import tariffs, we connot accept the imposition of tariffs where no viable nor significant industry exists. In situations where a country, or economic unit, believes an import tariff on a specific commodity to be necessary, the Florida citrus industry considers a specific rate tariff rather than an ad valorem tariff to be preferable. United States citrus products cost more to produce and transport to European markets than products produced in Brazil and other countries benefitting from selective forms of government subsidies and preferential duties.

It is our understanding that the only country in the European Community which objects to a suspension of the tariff on orange juice is Italy. Even though Italy produces oranges satisfactory for the fresh market, the juice, when converted to a processed product, generally needs blending with juice-type oranges. A group of private Florida Citrus Processors ~~investors~~ has offered to organize a joint venture with Italy to produce a blended juice for sale in the EC as well as Eastern European markets to which they have access. To date, Italy's response has been to maintain the tariff, refuse to grant licenses for imports of frozen concentrated orange juice directly into Italy and destroy each season a portion of their fresh oranges. The result is that imported orange juice still finds its way into Italy by first entering another EC country and then being transshipped to Italy, after first paying the tariff. A blending operation would permit Italy to utilize oranges it is now destroying and the lower prices associated with a tariff suspension would result in expansion of the OJ market in both Western and Eastern Europe.

JAPAN

As regards fresh grapefruit, Japan imposes a tariff which is currently at a level of almost 31% of landed product value. This tariff is imposed on a product which Japan does not produce.

In the case of fresh oranges, there's both a tariff and a quota. The quota existing at the time Florida has fruit available permits the entry of just over one orange per Japanese consumer over a 9 month period.

In addition, Japan utilizes a licensing system in connection with the quotas by which license holders are able to trade and restrict the use of licenses. As an indication of what the tariff and license system does to the Japanese consumer and hence, the Florida industry, a grapefruit which lands at the dock in Tokyo at a cost of 30¢ each, reaches a price of 75¢ each at the retail level.

For processed orange juice, Japan imposes a tariff of 25% to 30% depending on the product specifications plus a quota of 6000 metric tons. For processed grapefruit juice the tariff is 22.5% to 30% depending on the product specifications plus a quota of 5000 metric tons. These quotas permit only one 8.5 ounce serving of OJ and approximately the same size serving of grapefruit juice per year for each Japanese consumer.

Japan's primary citrus product is the Mikan orange, a fruit favorable for fresh consumption, but unfavorable for juice consumption unless blended with a juice-type orange. The market in Japan for pure citrus juices is currently very small. The Japanese have found it necessary to destroy Mikans due to saturation of the fresh market in order to prevent unacceptably low producer prices. The Florida industry has tried to convince the Japanese that a blended juice program would utilize the surplus production. We have offered to fund, entirely at our expense, market evaluation studies to determine the acceptability of 100% juice products. To date, they have refused to permit the tests.

SUGGESTED FEDERAL GOVERNMENT ASSISTANCE

We would encourage you to continue providing assistance for promotional activities. We recognize the necessity of reducing federal programs as much as possible and obtaining fair value for money invested. We believe the type programs which have been conducted with the Florida citrus industry have done just that. In the case of our Three Party Program the Federal Government now receives $5.00 marketing impact for each $1.00 invested. Given that agricultural exports are one of the few bright spots in the United States' trade balance, we believe such investments are beneficial to the industry and country.

We would also request that the Federal Government continue efforts to eliminate trade barriers which exist for products which a country either does not produce or produces in such small quantities as to be insignificant. Furthermore, we would urge you to encourage the conversion of citrus tariffs to a specific rate basis, elimination of preferential duties, and the reduction of value-added taxes on citrus juices to at least the tax level of other foods.

Finally, we recognize that with the general press of business it is sometimes difficult to touch base with various commodity groups which are involved when trade matters are to be negotiated. Consequently, we would encourage periodic sessions such as this one so that members of the government who are involved with trade matters are aware of issues confronting the various commodity groups. We also appreciate previous visits to Florida by staff members of the International Trade Commission and Special Trade Representatives' Office and would encourage the continuation of these on-site visits.

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Senator ABDNOR. Thank you, Mr. Lester. We certainly don't want to abbreviate your remarks, if there is some other part that you want to bring out orally. I assure you the entire text of your prepared statement will be placed in the record.

We do have some questions, and already some of them have come out very strongly here in your testimony. It makes me shudder. I knew things were bad. In the value-added products area it looks like it is even far worse than I had even realized, which presents the problem of how we go about it.

I saw an article in yesterday's Wall Street Journal regarding Japan. It said "The Japanese easing of import curbs to be delayed." They apparently had a number of lesser agreements they had gotten together on and a few more coming up. They announced they were going to take 67 measures to ease product standard testing and other nontariff barriers, but it has not been going over that well. I guess they have a very strong agricultural lobby. I guess they control whatever they have for a congress or a legislature over in that area, and it's difficult.

But these are some of the problems we hope we can be talking about and working on, and that is why it is so important for us to have you people in today.

Let me ask you something. We've talked about where we go with agriculture, many times discussing the subject of agriculture and about the present-day problems without looking down the road, and some experts contend that, looking down the road, traditional farm policy which emphasizes price supports and commodity programs will continue to be ineffective in dealing with farm problems which largely originate in the international sphere.

What would be the focus of a farm policy in the 1980's, gentlemen, from the way you see it? Which way should we be going when we talk about a farm policy?

Why don't we start with Mr. Campbell. I heard you say you didn't care for controls.

Mr. CAMPBELL. As I indicated in my statement, the poultry and egg industry has never been involved in any kind of control or price support program and I think generally is opposed to that.

On the other hand, of course, we have from time to time had our ingredients—the cost of our production has been involved in one kind of program or another that affects the price.

You know, it's a little hard for me to comment on what is best for grain producers or dairy producers, because our general position has been one of the Government not having its hands on business. Now somebody could come back and say, yes, but the market development programs are in effect supported by Government, and that's true. But that is, I think an entirely different approach, because in that instance the Government's money is matched by industry. It is really about the only program I know of that draws money to the Government other than the IRS. I think that has worked out very well.

Senator ABDNOR. Good point.

Mr. Hammer, I know less about almonds than any subject, as to which direction we should be looking. Just generally what are your thoughts on future farm policy?

Mr. HAMMER. Well, Mr. Chairman, in the case of almonds there is Federal marketing order which is of no cost to the Government and voted on by the producers. I think, as I stated in my statement, over the last 32 years that has operated for almonds very well. But in the larger sense, having just retired from the USDA within the last months or so, your question about the 1980's is one that I think is intriguing.

I believe that in the 1960's and 1970's when we experienced our record growth in agricultural exports we knew for over a decade each quarter, as we looked at the announcements that came out, exports had exceeded the exports from a quarter previous to that. That was the case, as I said, in the 1970's and some of the 1960's. Last year for the first time we were shocked when we came out with our announcement that indicated that farm exports were down. There are a lot of economic and technical reasons, but in a nutshell, the economies of the world were no longer expanding in the 1980's as they did through the 1960's and through most of the 1970's.

What that indicates is that as far as exports are concerned we're in for—and I talk about exports because we have determined that we can outstrip our ability to produce food just domestically—we're in for a period of keen competition. We have seen it surface in unfair competition that's been discussed here in terms of subsidies, cut rate interest, increasing of trade barriers.

What disturbs me, as I was in the Department I heard a number of people say to me in a questioning term, perhaps we are too dependent upon exports. And my question is, What is the answer? The answer, it seems, we are not going to increase domestic demand dramatically. At least not in terms of the agricultural production plant that we have here. The only answer, if you begin questioning that way, is to return to the farm programs of the 1940's and 1950's, and that's stringent production controls, and I think we've come through a period in time when we recognize that agricultural exports are far too important for that to the Nation's economy, be they value added or bulk commodities. We cannot afford to go back to a period of time where we are idling acres, taking land out of production and not trying to export.

So I come to the conclusion, and therefore am also very thankful for the opportunity to have these hearings today, that the only way out of this is through intensified and aggressive efforts to export our commodities. The producers, the packers, the exporters are all willing to do this. They have showed that they will put their time and money to the effort. But they have got to do it in partnership with the U.S. Government.

Although I think that the FAS market development program has been a help and put seed money in, an area where I think we will have to devote our attention to is in the very difficult task of removing these trade barriers we talked about here this afternoon.

Senator ABDNOR. I will tell you, Mr. Hammer, I felt all along the hearings were important to us, but after hearing some of the testimony we have had over the last month, and particularly today, I am more convinced than ever before.

Some of you gentlemen have testified before the Finance Committee. I will be visiting with Senator Dole from time to time to see what they have.

Let me ask you, Mr. Hammer, if there is something that could be done about the unfairness in our trade and trade barriers. You said that the increase in exports have more or less leveled off at the present time. Do you think there would be quite a change in that and we would see an increase in exports if we could some way, somehow effectively deal with some of these barriers?

Mr. HAMMER. I think that each of your panel of witnesses here today has pointed out opportunities that if the trade barriers were removed there is great opportunity for U.S. agricultural exporters to move into those markets. We have already demonstrated with nearly $45 billion worth of exports that we can move into every corner of the world. We have got a productive agricultural plant; we can meet and have beat the competition throughout the world. But when these artificial barriers stand in the way, there is many times nothing you can do.

Senator ABDNOR. Mr. Middaugh, I am sure you have some thoughts on policy for the future, too.

Mr. MIDDAUGH. Just two thoughts, Mr. Chairman. The first one would be that probably Government, and most certainly university, economist people tell us that the United States in the past 5 years has reached what they call a mature meat consumption level. I'm talking about beef and pork and lamb and poultry. We are not going to eat any more than about 250 pounds per capita per year. The changes are going to come in the mix of poultry versus pork versus beef.

We are one of only a very few countries in the world that have reached that particular maximum. But to get back into the best utilization of Tom Hammer's agricultural operation, which right now from a slaughterhouse standpoint is running about 75 percent capacity, there is only one other way we can go, and that's overseas. And I think everybody in the industry recognizes this, except now the mechanism has to be put in place to get a foot in the door overseas so we can move the product.

The axiom of 10 percent promotion and 90 percent access on the pork and on the beef side is really not too far off the mark.

The only other second point I would make is the problem of subsidies. I think the people that I represent, or that the federation represents, to go into any kind of a subsidy program to encourage these kinds of exports overseas I think would be awfully dangerous. It takes away one of the leverage tools that we have to get into a Japanese market or a European 10 market or a Swiss market, someone like that, where they are so highly subsidizing their own producers—$1,500 a metric ton, or this 68 cents a pound I was talking about. That is just unpalatable to people here, and if we go their way rather than trying to knock down their subsidy programs to match our nonsubsidy programs, I think that might be a mistake.

Senator ABDNOR. Mr. Lester.

Mr. LESTER. I would pick up with where Mr. Middaugh left off. We really have no interest in being subsidized or having price controls or production allotments. We have never been involved with that in the Florida citrus industry. But we do feel like, as has been indicated today, there has been a lot done with all of the limitations that all of the groups are confronting. Still agriculture, though, stays as one of our real bright trade spots in spite of all that. But because of the quality of most of our production here compared to the quality of a lot of the products that are going in from other countries, as the economies in those other countries improve, or even as we eliminate some of these barriers, we think that we can continue to expand that trade balance very well.

For example, we compete in Canada with Brazil in orange juice. Our orange juice lands in Canada at twice the price of Brazilian orange juice. Yet because of the difference in quality standards we still share that market about 50-50.

In Sweden we have about the same kind of price discrepancy there, but yet we compete right well. The Swedish people actually consume more orange juice on a per capita basis than the United States.

So there are places where I think, with all of the products that we are talking about today, just a little bit of reduction in some of the trade barriers to get the prices in line, along with those economies continuing to develop and the distributions systems improve, from our part of the world anyway, that's where we need to gain and that's where we need the assistance, and we think that the money that FAS has spent has been very beneficial. Because like in our case we are buying the $5 worth of marketing support for just $1 that the Federal Government is putting in. We would much rather see that kind of program continue for our operations rather than getting any kind of subsidy where you can't compete.

Brazil, again being our main competitor in the orange juice business, there are six firms down there that control practically all the industry, and they and their government and their growers sit down once a year and decide what they are going to pay the grower, how much they are going to subsidize the processor. We can't ever get in a game of competing with that kind of activity. But we think we can outpromote them and provide a much higher quality product to either our consumers or the world than what they can.

Senator ABDNOR. Do you find that Brazil has the same restrictions on them that we do here in this country? They are not just singling out the United States, are they?

Mr. LESTER. Where we are talking about in Japan or Europe or any of those, Brazil confronts the same kind of problems that we do.

Senator ABDNOR. You gentlemen have identified the problems and the countries with the most destructive and unfair market practices which restrict our exports. The question that comes to mind is that we hear a lot about getting tough with these other countries and their trade barriers, but what specifically would you suggest on how do we go about it? What does the Government do?

Mr. CAMPBELL. I think, first of all, I agree that the answer is not, in the case of subsidies, to fight the subsidy war by seeing who has got the biggest treasury. I just think that is the wrong approach. The key is to dissuade the other countries from subsidizing, and if the subsidies code means anything at all, we've got to fight that right down to the very end.

As I said, I think our biggest problem right now is that the other countries, particularly the EC, doesn't believe us when we say we're going to do something about subsidies.

Your question is a good one, Mr. Chairman. All right, what are we going to do? There are a number of options that are available to the Government.

It seems to me that we should have already a list of possibilities that if the United States is not successful in winning its various section 301 cases—and let me talk about poultry in particular. If we take it all the way through the GATT panel and win, the chances are very good that the EC is still not going to do anything. Then I think we need to have a series of alternatives ready, a wide range of them available to the President.

If we lose, then I think there still should be some alternatives available. Do we have to do something about improving the subsidies code? Retaliation is a bad word, and believe me, I've got the scars from the chicken war back in 1962, 1963, and 1964 when we imposed duties on cognac and trucks and some other things.

It seems to me that we have got to take some firm steps to indicate to the EC in particular that we are indeed serious.

Our current administration and Members of the Congress have said some very strong things in this area. But I am afraid that in some areas of government we are still getting a sort of wishy-washy attitude about whether the United States is really serious about overcoming these trade barriers.

I think there are a whole raft of opportunities, not just retaliation.

Senator ABDNOR. What are some of the other possibilities?

Mr. CAMPBELL. There are, of course, ways of seeking out some—well, let me hark back to the chicken war, for example, when we retaliated on brandies, starch, and Volkswagen trucks. Well, really trucks. It means mostly Volkswagen. This was a pretty weak approach. The Germans were scared to death we were going to retaliate on Volkswagen cars at that time. In fact, Volkswagen representatives came to see us. And when they shifted to trucks, then they didn't really care very much anymore.

The cognac issue really didn't mean too much because they were able to get around that by sending in another price cognac.

It wasn't until much later that the starch thing made any issue.

So if we are really going to think about being selective in trying to say that we mean business—pick a few examples. Now the EC will say to us, and they have said to us, "Oh, you know, the EC buys a lot more agricultural products than you do from us." The European Market is essentially very open to American agricultural products, none of which our people would believe for a minute, having experienced it.

One time in Geneva I mentioned to one of the EC people that if I were working for the dairy industry, for example, I would suggest that one good way for the United States to help combat the common agricultural equalization fee variable levy approach would be to say, all right, you fellows have lived with this now for a long time. We ought to adopt that as far as dairy products coming into the United States is concerned.

He couldn't believe that. He said. "You're not really serious."

I said, "Yes. I think that would be a good idea. You fellows have said all along this is a good way to trade."

The dairy farmers of the United States would be very, I'm sure, amenable to that approach, to set up equalization fees and variable levies and all the other things.

I don't think we have to get into a big trade war, but we really haven't done very much. The quid pro quo that we have gotten with the various concessions we've given to the European Community in the past has been nothing. The scoreboard is nothing for the United States and 50 for the European Community. I think we just need a few examples to show we mean business.

Senator ABDNOR. Mr. Hammer.

Mr. HAMMER. Well, with respect to the European Community, there are a number of section 301 cases covering a variety of products that are moving through the GATT system, most of them fairly well and parallel with one another. I would think that relatively soon we will have some idea of whether the GATT subsidy code has in fact done what we thought it did when we agreed to it in the multilateral trade negotiations.

Senator ABDNOR. Do they negotiate individually between countries? Or does everybody act independently on every decision? I mean, it's a number of countries, isn't it?

Mr. HAMMER. This is a subsidy code that is, of course, binding upon any signatory to the subsidy code.

Senator ABDNOR. How many countries belong to that?

Mr. HAMMER. I am not sure how many have actually signed up on the subsidy code. Not all members are. Most are.

Senator ABDNOR. But they do obey it?

Mr. HAMMER. Right now we are in the process of trying to find out whose interpretation of that subsidy code is correct. I don't believe that the United States can lose no matter what the outcome is, because at least we will know what kind of a subsidy code we have in fact obtained for ourselves. If we are successful in the cases, as Mr. Campbell pointed out, then the European Community should be obligated to stop its practices. If they do not, then there are remedies to that, and I think this is what Mr. Campbell was alluding to. If, however, they prove inconclusive from the U.S. point of view, or in fact we flat out lose, which I don't think will be the case, that's not altogether bad for us either, because we need to know what the subsidy code has in store for us.

Having said that, I think the United States would be faced with some very difficult decisions. Having found out that the subsidy code that we thought we had achieved in the MTN is not very meaningful for our agricultural producers, then what do you do? You could withdraw from the subsidy code, I presume. I don't mean to say that is what we ought to do, but I don't suppose we ought to throw any of these options out.

Second, I believe that we could go back in the fall, as is intended, when there is going to be a GATT ministerial to decide what work plan the GATT ought to decide to improve its rules, and we could say, well, let's again take another try at the subsidy code. I think that is a responsible approach. I am not sure we will have time for that. If the European Community continues aggressively stealing the U.S. agricultural markets away with the use of its treasury funds, I don't know how much patience the Congress or the various affected industries will have with that.

So maybe the final one is we say, well, the GATT has now told us and shown us that what the European Community is doing is perfectly OK, and if you can't beat them in essence, the GATT is going to say you've got to join them. I don't know that that's the appropriate approach for civilized nations, to try to beat one another with the use of their government treasures. But it's not a bad time to start reflecting on some of these options and what we are going to be faced with as we go down the line.

Senator ABDNOR. I think it has become somewhat the feeling of a number of the Members of the Congress, not specifically talking to agriculture, that we don't seem to make that much of a dent when we complain, but once the automobile industry gets represented and the steel people you hear a lot about the protectionist type movement in bills that are before Congress. I don't know either if that's the right way to go. It seems like a sad day when we have to in this day and age, but somehow I guess we have to get the attention.

I was surprised to hear Mr. Middaugh tell us—I guess I should have known—the European Common Market is the second biggest importer to America of meat. I think that's what you said. I'm sure you have some thoughts on this.

Mr. MIDDAUGH. Well, I think a little bit on the positive side that there has been more accomplished with the Japanese on bilateral trade negotiations in the last 6 or 8 months than in the last 6, 8, or 10 years because of the simple fact that everybody in this city is pulling together, and I think the Japanese recognize that. They are playing their own kinds of negotiating games. With a lot of respect for Tom Hammer before he left the Department not too many months ago, the Japanese recognize that the United States hasn't got too many cracks left as we've always before in our negotiating position.

So there is a very good plus side in that part of the world, and I think now the emphasis is maybe shifting toward the European Community, and we just need to turn the fire up a little bit.

I kind of endorse, I think, Lee Campbell's attitude that we don't need a war, but we certainly need to maybe take a step in that direction from the standpoint of playing by their rules a little bit more often and not always by our rules, which haven't worked for us for a number of years.

There are such things as administrative guidance which the Japanese use on us, which is not writing anything down, but just leaking some indication that this is what you should be doing. Or maybe toy a little bit with the Swiss cheese quota or the Danish cheese quota into this country. That seems to get their attention sometimes better than the things that they have signed for under the GATT negotiations.

It is their rules. If they don't like them, maybe they should change.

Senator ABDNOR. Have you been satisfied to date on the efforts this country is making to correct this inequity? Do you think those who work with this are doing everything possible and have brought enough pressure to bear with what they have to work with?

Mr. MIDDAUGH. Much more satisfied today than if you had asked that question a year ago. Absolutely. There has been a tremendous amount of progress. It's not as widespread as we think it should be. Again, with the Japanese situation I think it has been demonstrated what can be done when everybody gets their act together.

The emphasis needs to be worldwide and not necessarily against Japan.

Senator ABDNOR. We've had Mr. Brock before our committee on many matters, and he causes, me at least, to think that he is working harder at it than maybe we have in the past. I hope they continue.

Mr. Lester.

Mr. LESTER. At this stage we would like to keep the pressure through STR. We are fortunate in that beef and citrus happen to be two of the items that have gotten a lot of attention over the past couple of years in particular with this, and we think that kind of pressure is having some impact because we are having many more Japanese, for example, come and visit with the industry now to see whether the industry is really as serious as what STR is telling the Japanese counterpart that it is.

We get the impression from them that they feel like there is some protectionist activity coming pretty quick unless they start making some concessions. I think as an industry we feel like we would hate to get to the point of having to take some steps, but we may get to the stage that if they just keep talking and don't finally follow through that there has to be something imposed against their automobiles or TV's or something like that, then, I think the attention would come pretty quick then.

That's where we find it ridiculous that here our automobile and TV and everything else is impacted like it is and yet in our case, and this may be completely different than the other commodity groups, all of our problems are in countries where they don't even produce the product. That's where the frustration is for us.

Senator ABDNOR. Do they absolutely need this product? What would happen if America and Brazil would get together? Do they have to have enough of it so they would have to give in? You assume the two countries produce the big percentage for export purposes; don't they?

Mr. LESTER. Yes. We can apply that kind of pressure, but in terms of citrus being the kind of product it is, we couldn't say that they have to have it. That's one that they could do without. But it is one that the Japanese consumer is very conscious of, both fruits and vegetables.

Another positive thing we are doing with California and other people too, the businessmen over there are very interested in getting some of these barriers released, and there are starting to be stories, for example, related to the Japanese consumer on what kind of impact there is on them, that certainly the American industry is not getting rich, that it is everything that is happening in between with the license systems and the tariffs and everything else.

For example, we land a grapefruit at Tokyo for 30 cents a grapefruit and the retail consumer pays 75 cents for it because of all of the tariffs and distribution systems and everything else that's in between. As that becomes more and more known to the Japanese consumer, I think they will react just like our consumers would here.

Senator ABDNOR. I would have to think so, too, specifically when they look at meat and realize what they are paying.

I see I have a vote on. Mr. Tosterud will pursue this discussion on credit that we got into today. We found that to be an interesting subject with our participants this morning. It seems that most of the groups, on the raw products side, said the credit situation is difficult. France gives lower interest rates for purchasing, and some of the underdeveloped countries need these products and we have got a lot to gain, and I tie that together with where our future really could go in the way of agricultural exports. I don't think we have really touched the Middle East and Africa and some of those countries. Maybe in fruit. I don't know. I don't know how receptive they are to fruit. But at least in grains and meat and things like that.

Some of the fellows thought that if we had more dollars for credit it would be a substantial benefit. They also pointed out that most of the handling of the loans and all have been excellent, that about the only default they had was when Congress themselves voted legislation the other day on Poland.

We do have an amendment floating around the Senate right now by Senator Heinz where I think 20 percent of the import-export loans would have to go for agriculture, which I think is something new. I don't know.

But I would like to get your comments on that subject. While I go vote, maybe I could get you to go ahead and give us your thoughts, if you would, because it will be in the record, and that's what we want.

Mr. TOSTERUD. Mr. Campbell, do you want to start?

Mr. CAMPBELL. Well, I guess as I said in my statement, part of our problem has been that most of the time the credit hasn't been available to the poultry industry. That doesn't mean that we aren't eligible; it just means that there never has been any money available when somebody wants to sell poultry or eggs and get credit.

One of the issues that I, of course, have heard discussed by a good many of my colleagues that are involved in the whole agricultural picture is this revolving fund for credit which has never been funded. It seems to me that that, from the standpoint of agricultural exports, would be a good approach, to get that funded. It is just a matter of one expenditure and from then on that fund stays there and just keeps revolving. It isn't a matter of adding to it every year.

I think probably, too, this idea of specifying a certain amount for agricultural exports out of funds that are available would be a good idea.

It is true that we are not only fighting subsidized competition but this whole area of low-interest loans on the part of other countries. Brazil, as far as poultry is concerned, which is a big exporter, says they don't have a subsidy program. Whether they do or not is moot. But they do have low credit, very low credit, investment credit that helps make it possible for them to put product into the market at a very low price.

There apparently is already a shortage of credit even for the bulk commodities, which are admittedly in large quantities. When you get down to those that are like ours who are below a billion dollars in export sales and are a relatively small portion of the total industry in dollars, but in effect important, I think if there were a way of assuring that some of that credit would trickle down it would be good, too.

Mr. TOSTERUD. Mr. Hammer.

Mr. HAMMER Well, I am not aware that Federal credit for export of almonds has been an issue simply because of the nature of the product not being a bulk commodity. But in the broader sense, I think I said earlier that the situation as far as exports is concerned has been trending down. We had an announcement that our sales last year were off in dollar value. They were still up in volume, but that is because prices were depressed. It is conceivable that even at the end of this year both exports could be off both in volume and in dollar value, and I have to think that that's going to be an untenable situation to find ourselves in when we have become as dependent upon agricultural exports as we have.

An obvious tool, among other things that we have talked about in terms of market development moneys or trade restriction removal, is Government credits. Currently we have now an export credit guarantee program. No direct funds are funded. That, of course, could be done.

As I traveled around the world for the Department last year, I asked everyplace I went what the CCC cost of credit was, and at the time when I was traveling it was running in the neighborhood of 18, 18½, 19, 17 percent, and that's pretty heavy interest rates for countries that are trying to buy food.

I also asked what our competitors were putting the money in there at, and in places like Morocco and Algeria I found that the French were putting it in at about 7 to 8 percent. Well, I'd just as soon have them come up to our interest rate, but if we can't get that done, I think we ought to be prepared to meet the trade in those markets. That will at least get their attention.

But one notion that has been floated around town is a system where we could leverage down the export guarantee portion. In essence, what would happen is the Commodity Credit Corporation or even the Eximbank could agree to guarantee the funds which are made available by private banks or commercial entities, and they have typically given those loans to countries for commodities, if you will, at their cost of money. For a relatively small amount of U.S. expenditure that bank rate could be bought down by 2 or 3 percentage points or whatever it would take, and my guess would be that if we wanted to do something, and I believe that we are going to find ourselves, unless we want to have burdensome stocks and all that other costs and problems associated with not moving our products into the export market, that we may want to approach that from that standpoint. I think we would get a lot of bang for our buck, if you will. It wouldn't cost the Federal Treasury much money at all. And if you take into account—and I think we are narrow in our approach to these things when we don't take into account—the negative cost to farm programs, deficiency payments and the positive benefits of tax revenues, profits, jobs, and other things, I think we'll find that we can have a lot more flexibility in the export market and still keep things at a cost that would be well within reason, 13, 14, 15 percent, whatever it takes to move those products.

Mr. TOSTERUD. Would than you expect those countries to retaliate by going down to 6 or 7 percent?

Mr. HAMMER. Well, we're well above them now. I think in most cases we would probably just be meeting what they are doing now. I do now know whether they would do that or not. Apparently they are telling us that we're doing it so it's fine for you to do it.

Mr. TOSTERUD. Mr. Middaugh, please.

Mr. MIDDAUGH. I believe on the part of the pork and beef and lamb buyers overseas we really haven't got credit as a deterrent in any way due to the nature of the price of the products here, and therefore the nature and the ability to pay of the consumer on the other side—the Japanese, the German, the Swiss market.

There could be an opportunity—where there exists an opportunity in the livestock side for credit, I think already in place, it strikes me that there should be a good tool for places like Egypt in some of the items. They are buying more from us now than they ever have. I'm talking about liver and kidneys and some of these kinds of meat items. We don't have credit available for that. That could be a tool.

I think in the context of what our organization does, which is more in the relatively higher priced items, credit is not a restriction at all.

Mr. TOSTERUD. Mr. Lester.

Mr. LESTER. I am not aware of any problems in that area either, Bob.

Mr. TOSTERUD. One of the big problems that has come up time and time again when the United States tries to get tough and promote its value-added or processed products is that the other countries will retaliate by limiting their imports of our primary products. I think that has happened on automobiles and a variety of other industrial commodities particularly. They always manage to come back and get agriculture, and agriculture in the end gets it in the end. How would you suggest that we attack this dilemma where we are promoting processed products they come back and reduce their imports of American primary products?

Mr. Hammer, do you have a comment?

Mr. HAMMER. I was trying to think of a case where that may have happened so I could be more responsive. If they do do that, my guess is that they are probably violating some previous agreement that they have had with this country. It may be a tariff that was bound through international trade negotiations. and they are responsible for compensation to the United States if they do that. If that's the case that at least I am visualizing in my mind, our U.S. Government should move forcefully to defend those rights by requiring compensation, or better yet, they could have them remove the obstacle that they have just put in the way.

I wish I could be more responsive to you, but I can't.

Mr. TOSTERUD. I think it is a general fear of farmers that while we are promoting value-added products with the labor value in it that it jeopardizes in some way the exportation of our primary products.

Mr. Campbell, do you have something?

Mr. CAMPBELL. One of the problems, too, I'm afraid—during the MTN there is one thing that I think the agriculture community was particularly sensitive to, and I certainly was among those. In the consideration we had to consider agriculture and industrial products together. Well, as it turned out, that didn't work out that way; the EC wouldn't go that route. I think the quotation in the previous STR office was that we were considering them in parallel. Well, if I remember my geometry right, in parallel those two lines never meet. I think that has been one of the problems, that the Europeans tend to think in terms of agriculture and only agriculture.

I'm not sure that there aren't areas where we could get a lot of support from the industrial segment that action could be taken in some of those areas instead of always thinking purely of agriculture. In other words, if the EC threatened the primary thing. Let's face it, a good many of those things, not all of them, but a good many of them they need. I can recall the tremendous uproar on the part of the EC when we had problems with the soybean embargo, saying, you know, the United States has got to be a dependable supplier. You ought to guarantee us that we are going to get certain amounts of products. With that guarantee perhaps should have gone a guarantee that you're going to keep your market open for other things in the agricultural fields.

I think that our problem has been that too much in our area, as forced upon us perhaps by our trading partners, is the idea of trying to keep industry and agriculture separate as part of the trade process we have. There may be times when a little nudge in the industrial area would get their attention.

Mr. TOSTERUD. Mr. Lester, do you have a comment?

Mr. LESTER. I would like to see them discussed together there, and it seems to me there are a number of times where they would—you know, everybody doesn't need us, but at the same time they do need a lot of these products. So I don't know how far they could go either on just shutting the door.

Mr. TOSTERUD. Another point that was brought up that was very interesting this morning was the—I don't know how one should put it—perhaps the ineffectiveness of the embargo clause or the antiembargo clause in the current farm bill and that Congress tried to build an effective mousetrap and the U.S. Government, they have the feeling, could build a better mouse to get around it, and that perhaps it may be necessary to strengthen that provision of the bill.

Do you have any comments on that?

Mr. Campbell.

Mr. CAMPBELL. I guess my only comment is that I think our people are opposed to the embargo approach from this country, if that's what you are talking about. I think what we've had before, while essentially—you know, people think of the last grain embargo as a grain problem. The poultry industry lost 65,000 tons of shipment of poultry also in that embargo. We think it should be a clear thing that an embargo that would include only agricultural products would be a terrible mistake.

Mr. TOSTERUD. Mr. Hammer.

Mr. HAMMER. Well, almonds were not affected by the embargo placed on as a result of Afghanistan, and the Soviet Union is a significant market for U.S. almonds. Of course, any embargo that would affect agriculture and almonds would be something that could be very detrimental to the industry.

The only thing I could say is that we have to try to build on remarks such as President Reagan made on March 22 where he made at least three assurances to the agricultural community in a statement that he made to the agricultural editors. One was that—and I think in times like these we don't think it is very important, but in another set of economic circumstances it may well be very important—we will not shut off exports because of high prices, because of domestic high prices.

Second, he said that he would not have an agricultural embargo except in the most extreme cases, and I don't believe that a President can ever say much more than that.

But he went on to say that the last embargo—Afghanistan—was counterproductive, costly, inefficient, and several other descriptive terms about it, and finally he said that we will work wherever we can to remove trade barriers and unfair trade practices. I believe that the President needs to be reminded of that statement whenever possible, because that's really the answer. If we don't have an embargo, we don't have a problem. I think that's where we have to continue to place our efforts.

Mr. CAMPBELL. There are good many in agriculture who have accepted the idea, I think, or tried to stress the idea, that an embargo in absence of breaking diplomatic relations or some strong point like that—as Tom says, it's sort of hard for the President to define it exactly, but I think a good many in agriculture felt that it ought to mean that in the absence of breaking diplomatic relations there should be no embargo. That gets it pretty close to the right spot.

Mr. TOSTERUD. Another point that was brought up this morning is the need for a long-run, consistent export trade policy on the part of the United States, the embargo clause being part of that trade policy, as I understand it. Do you feel there is a need for some special provisions in that export trade policy for processed or value-added agricultural commodities, and if so, what kind of a focus would you like to see?

Mr. LESTER. What sort of things are they suggesting now?

Mr. TOSTERUD. Well, on the embargo. As an example, on the embargo clause would be a 9-month or a 12-month date specific that all contracts would be fulfilled; there is absolutely no question that within 12 months following the sale that those products would be delivered.

Trade barriers was another part. Monetary conditions overseas. Things of that sort.

Mr. CAMPBELL. I don't know that it would be, personally, necessary to have a specific defined policy with regard to added value, except that I wouldn't have them excluded either. Just as you talk about, I think most everybody thought in terms of grain in the embargo, but it so happened that a really sizable order—you know, 65,000 tons is a lot of chicken. I mean a lot of chicken. It involved everybody from the growers on up to the processors. When you talk about protection of contracts, you know, I wouldn't want us to drop through the cracks because an export policy took care of only primary products. I don't know that we need a special one, but I would like to at least see it fall equally.

Mr. TOSTERUD. Mr. Hammer.

Mr. HAMMER. As I said in my prepared remarks, I believe that there is a real need for an articulated, announced, and sustained market development and trade policy on behalf of the administration. I think it would be a mistake to differentiate between value-added and bulk-type commodities. I felt, and still feel, that there is great opportunity for value-added products. There will always be an opportunity for bulk commodities.

It seems to me that we approach it as any good salesman would. When we go to that market or the purchaser we show him the full line of products and try to convince him which one we think would be best for them and try to sell it to them. In some cases some countries for their own purposes may decide that they have got an infant poultry industry and they are going to try to make something of that. It may well be that the best thing for them to do is buy broilers or parts or something from the United States. If that country doesn't choose to do that, you obviously shouldn't try to leverage your buyer into some product that he is not interested in. He'll go someplace else.

So I really think it's a mistake. I think that the interest in value-added commodities has been very important. It's been a sensitizing approach. It's made our trade and our U.S. Government representatives overseas aware of it. I think they are more knowledgeable about it. Even Secretary Haig polled all of his embassies and had his staff people in those embassies go out to the various countries and find out what opportunities there were for value added.

I think this is all very constructive. But I really don't see it as something you have one policy for one and another for another. We're talking about U.S. agricultural exports, and it's been my experience that if it isn't all healthy then ultimately you are going to have trouble in the agricultural community. I think we have got to work to keep our basic agricultural plant strong.

Senator ABDNOR. I think we have pretty well covered the subject. I certainly readily admit it is something we could spend a lot of time on. You have been extremely helpful to us, gentlemen, and we appreciate that you have given us the afternoon for this purpose. Maybe we will be wanting to come back to you. I certainly intend to visit with Senator Dole as some of you have testified before him. I believe we can spread the information we have received today among people in Congress who would be most interested in it, and certainly it is going to be extremely valuable in our report.

I do thank you for your time and the trouble we have put you through. Thank you very much.

The subcommittee is adjourned.

[Whereupon, at 4:15 p.m., the subcommittee adjourned, subject to the call of the Chair.]

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