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PERSPECTIVES ON THE FUTURE OF AMERICAN AGRICULTURE

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BEFORE THE

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PERSPECTIVES ON THE FUTURE OF AMERICAN AGRICULTURE

THURSDAY, SEPTEMBER 27, 1984

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to notice, at 2:10 p.m., in room SD-628, Dirksen Senate Office Building, Hon. Roger W. Jepsen (chairman of the committee) presiding.

Present: Senators Jepsen and Abdnor.

Also present: Robert J. Tosterud and Dale Jahr, professional staff members.

OPENING STATEMENT OF SENATOR JEPSEN, CHAIRMAN

Senator JEPSEN. This hearing "Perspectives on the Future of American Agriculture" will come to order.

First I would like to welcome and thank all of the members and the panel that took time out from their business schedules to be with us today.

The establishment and development of the next generation of farm policy is key to the future economic well-being of this Nation.

Agriculture presents one of the greatest dilemmas of our time. It shouldn't, but it does. For the first time in history, a country stands poised to produce and deliver food in proportion to the world's hunger. We have the technological and natural resource base to explore agriculture's next frontier—new foods, new products, new production and processing techniques, new soil and water conservation practices, yet it seems that it is our resources, the most productive on the face of the Earth, which are unilaterally reduced. It is our agricultural scientists and researchers who labor under the impression that their efforts to improve the productivity of American farmers is considered counterproductive, and as some critics have even said unpatriotic.

It's our farmers and ranchers, the most efficient producers of the world's most valuable commodities, who are going broke. There is unfortunately a dangerous perception growing in Washington that agriculture is a problem to be minimized. What is most distressing is that this attitude is spreading among farmers themselves. I can't stress strongly enough that agriculture is not a problem. It's a solution. It's a blessing. It's an opportunity to be maximized.

For many of us, behind this agricultural dilemma hangs a sense of deja vu that we've kind of been here before, perhaps even several times—I'm speaking to the choir in church on that, I'm sure—

where once promising opportunities became menacing and troublesome burdens. One recalls several U.S. industries which were on the cutting edge of technological and global domination—that's automobiles, steel, textiles, consumer appliances, machine tools, and the list goes on. These industries which once used their economic competitive clout to break down doors to international markets are today using their political clout to erect doors of protectionism. Confronted with the challenges of world markets, these industries geared down and today are shadows of what they could have been.

I think we can't and must not avoid this question any longer. How close are we to yielding this country's largest and perhaps its last international comparative advantage? Agriculture—with minor exercise of the imagination, one can assemble a scenario of an America without agriculture—discouragement and frustration leading to continuous larger and tighter supply controls, while our competitors implement production incentives to fill the gap voluntarily vacated by the United States of America. Substituting U.S. food producers with less efficient, more vulnerable food producers, suggests that the world will ultimately pay a horrendous price for this folly.

The 1985 farm bill must phase out the past and phase in the next generation of farm policy. Have no question about it, the 1985 farm bill will define and set agriculture's horizon. Some envision agriculture as a highly protected, closed industry, frozen in time with the Government mandating production and marketing decisions. They contend that American farmers can only realize fair prices through a Government-sanctioned food and fiber production monopoly. There are others that see the 1985 farm bill providing a minimum of public report or influence. They see America's farmers, armed only with their productivity and their inherent sacrificial tendencies, going forth and doing battle with the treasuries of the European Economic Community and the Canadian and Australian Grain Boards.

Obviously, our challenge is to search out the more rational ground which lies somewhere between these two extremes.

We need a new perspective, a new founding principle for the next generation of farm policy, and I suggest future farm policy have as this founding principle a global scope and appreciation of U.S. agriculture. The productive efficiency of today's average size U.S. family farm is exceeded only in the world by its U.S. neighbors. Current surpluses have suggested to many that resources devoted to farm production should be reduced. Even if this is the case, U.S. farmers and their land should be the last to be retired from food production, including those farms currently under financial stress and facing bankruptcy.

Survival of the most efficient is a basic principle of our economic system. We must extend this principle into the international marketplace. Unilateral U.S. supply control programs have had the tragic consequence of substituting less efficient farm producers for more efficient U.S. producers. If, indeed, fewer resources should be devoted to food production, I suggest we begin with the French. I believe that U.S. agriculture may be as much a humanitarian obligation as an economic opportunity, but we don't delude ourselves.

The bottom line as to whether U.S. farmers can fulfill this obligation is profits. Businesses, and those which supply food and fiber are no different, require an incentive to provide products to the marketplace. Therefore, the primary public role in agriculture is to firmly endorse and support American farmers by designing and implementing Federal policies which will fully reflect the competitive economic clout of U.S. agriculture in the world marketplace.

I'm fearful that the continuation of traditional farm commodity programs will compromise this Nation's agricultural potential and heritage.

During the last 4 fiscal years, in excess of $50 billion will have been spent for farm price support programs. This is more than was spent for this activity during the previous 20 years combined. According to a Congressional Budget Office study commissioned by the Joint Economic Committee, the public cost of continuing current farm programs through the period of 1985 to 1988 will amount to another $50 billion. Doing more of the same is clearly not the answer for either farmers or taxpayers. We need the vision, the wisdom, and the confidence to do better.

It's time to combine in a cooperative, constructive, and nonpartisan way all the vision, the wisdom and the confidence this society can muster. Agriculture needs and deserves nothing less.

I thank you very much for taking time out of your extremely busy schedules to share with this committee your perspectives on the future of American agriculture, and we are looking foward to hearing from you.

I will now yield to Senator Abdnor for any opening statement he has to make.

OPENING STATEMENT OF SENATOR ABDNOR

Senator ABDNOR. Thank you, Mr. Chairman. I'll be very brief. I just want to say it's a great honor to welcome our distinguished panel of former Secretaries of Agriculture, and I'm proud to have them before this Joint Economic Committee again.

Two and a half years ago, Mr. Butz and Mr. Bergland will recall, this committee began its first agricultural initiative in some 25 years, and our kickoff hearing assembled a panel of former Secretaries which included two of you gentlemen that are here today. I think that was a historical as well as a memorable occasion. It was the first time that Congress had brought together former Department heads at the same time. I don't know why someone hadn't done it a long time before. There's no doubt in my mind that as you gentlemen look back over your own years as Secretary of Agriculture and your programs, you are able to cast a great amount of light and information on how you look at programs today.

Since the time of that meeting, this committee too has come a long way. I want to say we've held some 30 different hearings on agriculture. We've received testimony from 200 witnesses, including farmers and ranchers, consumers, taxpayers, and policymakers. We've documented 3,000 pages of useful information, and we've produced two staff studies on the economics of agriculture. Almost every conceivable topic was considered during the initiative—the importance and the contribution of agriculture to the U.S. economy, the structure and the condition of the farm sector, the technology, credit and finance, international trade, conservation, the rural and the small town economy, the tax implications, the farm program performances, and farm policy options. All of these were covered, and I'm sure you all have a lot of thoughts on these same subjects.

The Joint Economic Committee has set the stage for the 1985 farm bill, and I think we've shed some light on the subject. In a sense having you gentlemen before this committee now indicates we have almost gone a full circle in our analysis of the diverse and increasingly complex agricultural economy.

Mind you, I'm not suggesting in any way that means we're going back to where we started. We've come a long, long way, but it's time to hear from you people again.

We've proved we can't spend our way out of this agricultural recession. What are we doing right and what are we doing wrong? The farm policy tools and the program we currently employ we all know are 50 years old, but are they working? Can our farm policy objectives take into consideration the rapid changes occurring both inside and outside of agriculture? Just 50 years ago the U.S. farm sector was domestic in scope and insulated from changes in the macroeconomy. Now U.S. agriculture is a giant that competes in an aggressive world trade arena and has been exposed to all kinds of economic uncertainty. We as policymakers must fully appreciate the new situation which U.S. farmers are facing. We owe it to them and to all Americans. Your wisdom, your expertise and your advice will guide us. I really do appreciate your willingness to share your views with us today.

I don't want to take up all the time and because we did come to hear from you and to have the opportunity to ask you questions.

I do want to say one thing. These are busy times. I wish we had all afternoon with no one bothering us, but the buzzer's ringing. This bill's up. I've got a couple of amendments I've got to get out on an Interior bill on some issues coming up on CR. So if we're back and forth, please forgive us. We're truly honored and flattered to have you here today. Thank you.

Senator JEPSEN. I assure the panel I will not leave. I will be here and I am looking forward to hearing every word that you have to say.

Before I start with the panel, it's evident that former Secretary Orville Freeman was unable to attend our hearing this afternoon. I wish to place in the record a recent address by Mr. Freeman entitled "Comparative Advantage in an Interdependent World: The Need for a Realistic Agricultural Policy for the U.S."

[The address referred to follows:]

Comparative Advantage in an Interdependent World: The Need for a Realistic Agricultural Policy for the US

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Address
by Orville L. Freeman
Chairman
Business International
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Export Conference
Dean Rusk Center
School of Law
March 30, 1984

Comparative Advantage in an Interdependent World: The Need for a Realistic Agricultural Policy for the US

Let me tender my apologies for this ambitious title. When Dean Rusk invited me to address this important export conference he, reasonably, asked me to address myself to "some aspect of agricultural exporting." But the more I thought about it, the more it became clear to me that there is no aspect of agricultural exporting that can be usefully addressed in isolation. Indeed, US agriculture—both its fabulous and problem-fraught productive capacity and its vital function in the US trade balance and in the role the US plays in the current world economy—cannot be assessed, or even described, without analyzing the connections and complexities that constitute reality today.

So I decided to go for broke and to share with you my thoughts on what is needed to hammer out a comprehensive agricultural policy for the US that will be responsive both to domestic concerns and international requirements.

I would like to emphasize my profound conviction that the active participation of every one of you here is essential in defining and structuring such a policy and in assisting the process of implementation.

This is, I believe, a vital task. If the United States of America is going to continue its world leadership as well as improve the well-being of her own people, it is critical that we have a policy with clear-cut goals and objectives. I am certain that if there is public understanding, support and participation, an agricultural policy will evolve that is responsive to reality, and that the President of the US will be able to provide the leadership to put such a policy in place and carry it forward to execution.

Facts and Figures

Before addressing directly what I think an agricultural policy for this nation should encompass, permit me to identify the facts and forces that must be factored into a realistic policy. First and foremost is the critical importance of American agriculture to the well-being of our people and to our constructive role as leader of the free world. It is not an overstatement, I believe, to describe the accomplishments of American agriculture as the number-one production miracle in the history of mankind. Today only 2% of the population of the US is on the farm. On the average, each of these farmers feeds 76 Americans at prices that are lower as a percentage of personal income than they are anywhere else in the world. In addition, agriculture, directly and indirectly, is responsible for approximately 25% of US employment.

Between 1965 and 1980, while farm population decreased by one half, annual output in constant dollars tripled, increasing by over $100 billion. Between 1970 and 1982, grain production in the US climbed from 170 million metric tons to 330 million metric tons. And while US exports climbed from 38 million MT to 150 million MT, Soviet imports climbed from 8 million MT to 43 million MT. American family farm agriculture accomplished this with 350 million acres of land under plow, in contrast to the 500 million acres cultivated in the Soviet Union. The $44 billion worth of American agricultural exports in 1981 were an essential offset to our otherwise rapidly deteriorating balance of trade and current account.

At the Crossroad

Despite this unexcelled record, American agriculture today stands at a troubled and uncertain crossroad. All is *not* well on the farm. Aggregate income is the lowest it has been in 50 years. Farmer return on equity in 1981 and 1982 was a negative 9.2% and 6.5%, respectively, and will probably be negative again in 1984. Land values declined for the first time in 27 years. Exports have slipped in the last two years, suffering a 20% shrinkage. The debt/equity ratio is way up as farm debt climbed 300% between 1971 and 1983. Bankruptcies and foreclosures are sharply on the rise. The cost of price-support production control programs has zoomed, reaching a record $18.9 billion in fiscal 1983. If one includes the cost of the PIK program, price support costs were actually $28.3 billion, 10 times the average annual cost in the 20-year period from 1961 to 1981, and five times higher than the largest expenditures in those two previous decades.

What Went Wrong?

It is my contention that these adverse developments call for a careful, thoughtful reexamination of where we have been, where we are, and where we want to go. Only if there is recognition and understanding of the massive change that has taken place in American agriculture can we develop a viable and workable policy that will make it possible for this nation to regain lost ground and to take appropriate advantage of the magnificent productive plant that we have built over the past generation.

How, then, did we lose ground? How did we get ourselves into the mess we're in? The answer to that question is, of course, complex. But the key point is that agricultural policy, as implemented over the last two decades, has not reflected the fact that American agriculture is no longer national in scope. It is international. We are no longer relatively isolated from the rest of the world in any way.

To illustrate: In the 1950s, agricultural exports were less than 10% of cash farm receipts. Today, exports represent 30% of total cash receipts and 54% of crop receipts; production of four acres out of every 10 is destined for foreign markets. Typically, we export a fourth of the US corn crop, half of the soybean crop, 60–65% of the wheat crop, and over 40% of cotton and rice crops.

The Global Connection

What these figures demonstrate, dramatically and incontrovertibly, is that for the US agricultural plant to be continuously operated at an acceptable capacity level, foreign market share must be maintained and expanded. Farmers and agribusiness alike now have a vital stake in international conditions, economic and political, a stake that did not exist before the last decade.

The New Uncertainties

Agriculture, as all of you are aware, has always been subject to great uncertainties. Historically, these uncertainties were predominantly on the supply side. No one can control the weather. Disease and pests, equally unpredictable, also seriously affect supply. Adjusting production to signals in the marketplace is much more difficult, and the lead time required much longer than that for industry. These uncertainties continue. But uncertainties in demand have now become as great, or even greater, in the internationalized marketplace. Let me sketch for you two scenarios that will manifest these new uncertainties.

A Growth Scenario

The first scenario can be properly labeled a growth scenario. It starts with the fact that the middle-income developing countries increased their imports of grain from 12.7 million MT in the years 1960-63 to 44.7 million MT in 1977–79. With their own annual economic growth in a 5–7% range, these countries became an explosive market for agricultural products, particularly grain, resulting in firm and growing prices. Had the world not slipped into a major recession in 1980 and, with it, the threatening debt overhang we face today, US agricultural exports would not have slumped. As a matter of fact, had economic growth continued in those countries and around the world, the 38 low-income developing countries, whose increase in agricultural imports had climbed only to 8.7 million MT a year, would have accelerated their purchases as well.

It follows from this that, if the world returns to a reasonable level of growth and prosperity, with favorable growth rates in the developing world, the demand for food, and particularly for protein, would again explode. That is where future markets will be found. In fact, a number of studies projecting such growth conclude that there is actually a serious threat of major shortfalls. Some studies estimate a shortfall of as much as 70 million MT of grain by the turn of the century. Obviously, if this should happen, US agriculture would respond, assuming we still have the productive capacity. Prices would move up solidly and American agriculture would prosper. That is one scenario.

A Competitive Scenario

A more realistic scenario, given the current world economy still largely bogged down in recession, with the heavy debt overhang inhibiting growth and expansion of developing world markets, is that for at least the next four or five years, there will be strong competition for commercial world markets. During the late 1970s, the US became, in many respects, a residual supplier. This occurred in part because of a very strong dollar, and also because of price-support levels that were higher in some instances than the prices our competitors in world markets were able to offer. This we can no longer afford.

US policy, resting solidly on our comparative advantage as an agricultural producer, must be to move more aggressively into world markets and be prepared to meet competition everywhere. I emphasize *meet competition*. We would make it crystal clear that the US will not *initiate* export subsidies. However, we should also send a strong signal that if our competitors in the world market engage in export subsidies we will match them.

Therefore . . .

This nation, built on private enterprise in a competitive market place, should firmly set the course for an open, competitive world, with agriculture in the lead. In the process we can point the way for the industrial side of our economy to reverse its current tilt toward protectionism.

The Skewed State of Affairs

Currently, world agricultural markets are in an abnormal state. On a global basis, production has been expanded significantly as our competitors have been favored by excellent yields in the last few years.

At the same time, global demand has fallen sharply because of the world recession. The result is a glut of grain. The total carryover of grain stocks, plus the equivalent of idle acres in the US, has climbed to an all-time high of 283 MT or, in terms of world consumption days, to 68 days. For perspective, this carryover compares to 104 days in 1961 when I became Secretary of Agriculture. The problem we face in these terms is thus not a new one.

The immediate result is weak market prices and an acute recession in the agricultural sector of the US economy. Given these circumstances—and they are likely to recur in unpredictable but inevitable cycles—the US must have in place a domestic farm program to support and assist the American farmer. To make the program work, experienced and competent management must be in place.

Policy Premises

The policy premise for this program is twofold:

First, the production capacity of the US agricultural sector must not be seriously eroded. History has shown that we, at home, and the world internationally, will need American production capacity when global economic cycles emerge from their trough.

Second, and equally important as a policy imperative, both fairness and equity demand support by the government of this nation to the farmers who have contributed so much to our economic well-being, and who are uniquely subject to uncontrollable external causes, and to cyclical movements and global interactions.

Nevertheless, a policy and program to accomplish what, for want of a better word, I will call this defensive purpose, must be sensitive to global realities and designed in a fashion that does not result in the US pricing itself out of world markets.

A Feasible Program

Let me offer some ideas on how I think this can be done and on what it will take to design an agricultural policy for the US that will effectively integrate both domestic and international realities.

On the international front, the US must launch a carefully coordinated, major, sustained, integrated agricultural export offensive. Such an offensive should take advantage of our production superiority, our efficient agribusiness marketing systems, and of US exporters geared to foreign needs. The effort must recognize that demand has leveled off in the industrial countries, and that the developing world, now taking one third of US farm exports, offers the best opportunities for expansion in the years ahead, if and when those nations again show income growth.

It must be recognized that this offensive will be a different kind of game than we have known in the past, requiring a wider range of skills, resources and initiatives. An exporting strategy based on the notion that it can expand sales simply by writing orders will fail. We will have to do our homework. Americans will have to research potential customer countries in terms of their total requirements. We will have to look at consumer needs and wants, purchasing power, political pressures, the needs for infrastructure such as port facilities and transportation, and customer countries' needs for new production, storage, and processing technology, as well as farm products. In short, we will have to size up these opportunities in terms of packages that meet the customer's needs.

Happily, the US is solidly positioned to put such packages together and to tie them to a sensible domestic farm program.

Since 1954, and the passage of PL 480, this country has, on a concessional basis, moved over $100 billion of food and fiber to meet human needs, contribute to economic development, and build commercial export markets in developing countries all over the world.

Shipments since 1954 have ranged from 15.3 million MT of grain in 1967 to an estimated 4 million MT in 1983. In the process we have learned how food abundance can be effectively utilized. We have also learned how, if carelessly managed, it can be counterproductive.

An International Initiative

It is my conviction that the time has come to combine that knowledge and our farm abundance into a solid, efficient, international agricultural initiative.

Such an initiative should have four components.

1 Humanitarian We should reach out all over the world to help feed truly needy people. A major effort with a significant US contribution is now under way in drought-stricken Africa. That effort must be strengthened and expanded. In addition to relief, food aid should be tied into self-help projects focused on improving production potential, aimed especially at small producers.

2 Developmental The US should expand its economic development assistance program to many more developing countries. Food aid can be used to stimulate agricultural development in developing countries. Food-for-work programs, building needed infrastructure, can be highly successful if well managed.

Title 3 of PL 480 provides for the US to grant money it receives for agricultural commodities back to the country to finance agricultural development projects, with forgiveness of funds if the project is successful. The authority of Title 3 could be expanded to help finance investment by American agribusiness companies in developing countries. The present initiative of the Bureau for Private Enterprise in the AID Agency can make good use of Title 3. It should be given more support and resources.

The Industrial Policy Context

Our nation is engaged today in a great debate on industrial policy. We are trying to identify what should be the relationship between the government and the private sector as American industry faces new technology, new challenges, and new competition around the world. One can hardly pick up a newspaper or tune in a television station without exposure to the question of how to relate government and the private sector as we go forward to meet competition in world markets and successfully accommodate basic structural change.

There is no doubt in my mind that the private sector moves technology to use more efficiently than does the government, and that this is true in developing countries as much as in industrialized ones. Obviously, profit and risk criteria must be met if private agribusiness companies are to invest in the developing world and move modern technology in production and marketing to small farmers in the developing countries. My point here is that identifying these win-win opportunities for private sector activity in the developing world, and encouraging US companies to respond, could and should be an important ingredient of our national agricultural policy. Designed in close cooperation between government and business at the highest level, this kind of global enterprise would have a triple dimension for the US: It would yield profits; it would build export markets; and it would make friends in the political arena.

A Grain "SDR"

Another innovative way of putting American food abundance to constructive use in solving pressing global problems would be for the US government to make available to the International Monetary Fund a substantial volume of wheat, in addition to the credit already recommended by the President. The IMF could use this wheat to alleviate the debt loads that now plague many of the developing countries. The wheat could be supplied by the IMF to grain-importing LDCs, with payment negotiated over a period of time at appropriate levels of interest. Such a move would make it possible for hard-pressed LDCs to use foreign exchange they would otherwise spend on grain imports to meet their international obligations, or to invest in internal growth and development.

3 Marketing-Minded We must expand our market development activities, coordinating them closely with our economic development initiatives. Since the mid-1950s, the US has run a remarkably successful foreign market development program for agricultural products. It is a cooperative program between the Foreign Agricultural Services of the US Department of Agriculture and some 60 private commodity organizations, ranging from wheat and flour to raisins. The costs of these programs are shared by government and the commodity groups. These market development efforts need to be expanded. They should command top priority and adequate resources.

4 Competition-Oriented The US must fight unfair trade competition wherever it occurs, particularly in nations that use export subsidies, or have erected import barriers for agricultural products. This means developing a long-term strategy to prevent some countries from putting up new protective barriers and getting other nations to reduce unfair levels of protection, such as Japan still has for beef and citrus. Measures to fight protection and subsidies must be specifically targeted. The US must convince other nations that we are serious about unfair practices and that we will take steps to make these practices so costly that others will be discouraged from using them. Measures the US can use range from instituting countervailing subsidies to limiting access to the US market if we don't have fair access to other markets.

A Profile of US Agriculture Today

Before I proceed further with my policy recommendations on the domestic side, let me sketch for you a concise profile of what American agriculture looks like today. You may find the portrait surprising.

At present, approximately 112,000 farms—5% of the total number of farms—produce just under 50% of the entire output of food and fiber originating in the continental US. These are operations that had annual sales of $200,000 or more in 1981. It is important to remember that these major producers are mostly family farms, not what we think of as corporate farms. The great bulk, somewhere around 95%, are individually owned and operated family farm businesses.

At the other end of the scale are the large majority of farms, 1.7 million of them, comprising 71% of all economic units classified as farms by the USDA. These are generally small farms, frequently worked part time, with off-farm income covering a major portion of the family living expenses. These 1.7 million farm units, with annual farm sales of less than $40,000, produce only 12.5% of total US output.

The final feature of the profile consists of the medium-sized traditional family farms. These make up a little less than one fourth of all farms, some 580,000. They are predominantly family-owned and -operated, with the owner-operator engaged full-time in farming pursuits. Sales run between $40,000 and $200,000 annually. In the aggregate, these medium-sized farms produce 38.5% of the output of US agriculture.

So we have three general classes of farming enterprise that are different in size, productivity and income requirements. How then should a comprehensive, national farm program relate to each of these three groups?

A Three-Pronged Approach

Let us consider first the largest farms—the 5% who produce approximately 50% of the total output. According to a number of studies, these farms have cost structures that allow them to be profitable. They have, in recent years, benefited greatly from government programs, but there is considerable question as to how important those programs really are to the continued economic vitality of these larger farms; they could probably make it on their own.

The small farmers, too, are economically strong, albeit in a different way. Because their off-farm earnings are sufficient to fully offset the small losses of income from farming, these small farmers are relatively well off in economic terms, and apparently satisfied with their ability to live in rural areas and pursue farming as a secondary, part-time, or in some cases "hobby" operation.

The middle group, however, is in a different situation. Recent research by Texas A&M University covering cotton farms in Texas' southern high plains clearly suggests that government farm programs have been of major benefit to these medium-sized farm operators. The Texas study found that, without a program along the lines of the farm program of 1981, only 42% of the medium-sized traditional family farms would survive over the next decade. In contrast, the Texas A&M Study found that 98% of the smallest farms would be able to survive for 10 years without any program. And the largest farms—those over 4,400 acres—would survive without any government programs. I think we can conclude that it is the middle category of farms where a long-range farm program is needed for economic survival.

No Change

Let me stress in this context that I foresee no drastic alterations in this profile. All the evidence from agricultural scholars concurs that, for the foreseeable future, the composition of the US agricultural sector will remain much as it is now.

The real question, therefore, is how can a program or programs be developed to meet the economic, social and cultural conditions of these diverse groups?

I have already cited evidence that the small producers would survive without any programs. National agricultural policy can do little to help or hurt this group of farms. However, state programs in the areas of education, health, medical service, roads, schools, etc. *are* important to the economic and social well-being of this group of nearly two million American families.

The group of large farmers would also do well without federal farm programs. These are educated, innovative producers, well financed, efficient, highly mechanized. They can compete effectively in both domestic and world markets. They are fully poised to take advantage of the food requirements of the world for the remaining years of this century.

The needs of this group will be best served by constructive trade and macroeconomic policies. These producers will benefit from government development efforts to stimulate the national economies of the world so that there is capability to purchase the needed food commodities, including those produced in the US. Export credit assistance efforts; export market development assistance; sensible, consistent international trade policy; stable and reasonably valued currency; good infrastructure in the way of transportation and port facilities—these are the policies that will benefit this group of highly efficient farm businessmen. Domestically, they need some assistance from public institutions in research, and a stable, economic climate of growth.

There is, however, one additional policy element to be considered for these large farm producers: However well trained, educated, financed, mechanized and efficient, they are still subject to the vagaries of nature. And because their market is international, they are also subject to global uncertainties and shifts in the economic and political climate. These factors, coupled with the large capitalization and credit requirements of farms with sales of $200,000 or more, subject these larger farmers to a much higher level of risk than many other businesses. Long-term policy should therefore provide a way to cushion the risk faced by this very important part of our productive economy.

At a minimum, a long-range farm program should provide a world market clearing non-recourse loan program for the large producers. This loan program would enable them, in periods of extreme adverse conditions, to assure orderly marketing and some degree of risk-sharing with the public. Such price support loans could be based on a three-year or five-year moving average of the world market prices or some significant percentage of that level.

An additional idea, which deserves further study and consideration, is the possibility of providing a mechanism whereby these large producers would have both the legal and economic ability to limit their production in periods when favorable weather conditions and unfavorable market conditions have combined to produce excess supplies. I have in mind a system in which, under a government-refereed and -sanctioned referendum, large producers of the major commodities could vote to decide if they wanted to have mandatory acreage and production adjustments so as to maintain a reasonable supply-demand balance. There would be little or no expenditures of public funds to carry out such a program. It would provide the economic and legal mechanisms to avoid wasteful and economically disruptive short-term surplus buildups.

Finally, and undoubtedly the most difficult challenge, is the effort to devise a sensible program to deal with the medium-sized family farmers. I believe we need to offer these farmers some system of income transfer protection, perhaps similar to the existing target-price concept. A scheme could be developed that would assure these farms a return from the marketplace, and from the farm program, that would enable the most efficient of them—and this would be a majority—to continue to be viable contributors to our society. Not incidentally, such a program might well include a requirement that the farmer follow sound soil-conserving practices.

Dealing fairly with these farmers is important to the national weal, not only because they produce nearly 40% of our total food and fiber output, but also because they are a vital part of the social and cultural fabric of rural America and, indeed, the nation. A modest expenditure of well under 1 % of the national budget could, in my judgment, be justified to protect and preserve this important part of our society.

The Need for Coordination

A meaningful agricultural policy, responsive to international and domestic realities, requires effective coordination of private and public programs and initiatives. As matters now stand, a wide range of activities need to be tied into logical and sensible packages. Currently, no person or group is performing this function. Recently, at the initiative of the Ohio Farm Bureau, a number of agricultural leaders got together in Chicago to discuss the need for a new leadership position to represent the private sector in export development for agriculture. I find much merit in their recommendations. But I believe we need more than a new leader in the private sector. We need a leader/spokesman to articulate and coordinate a new agricultural policy for this nation, indeed for the world. I suggest that he, or she, be a presidential appointee with Cabinet rank. This Cabinet member should not have direct line responsibility, but should have the complete confidence of, and direct access to, the President. This would make it possible for him, or her, to coordinate across the entire US government and the private sector, speaking with one voice for, and on behalf of, the President on all issues and topics involving US agricultural policy. This person would also maintain direct contact with foreign governments, at the highest level, to measure, in concert with the resident US Ambassador, the Secretary of State, the Administrator of AID, and the US Secretary of Agriculture, how US agricultural policy is being carried out.

Looking Back—and Forward

Twenty-three years ago, John F. Kennedy named me US Secretary of Agriculture. I was privileged to serve in that capacity for eight years. Then, the importance of agriculture to the well-being of the people of the US, and of the world, did not receive priority attention. Today, as we approach the mid-point of the decade of the '80s, the critical importance of agriculture, if mankind is to advance toward its goal of human betterment, is universally recognized. The time has come for this country, as the leader of the free world, to put in place a sound agricultural policy, and to give the highest priority to carrying it out—at home and around the globe.

Senator JEPSEN. As we all know, Orville Freeman was President John Kennedy's Secretary of Agriculture. As fully expected, Mr. Freeman is extremely perceptive, and in my opinion, makes an important contribution to future farm policy. I found particularly interesting two of his statements, both in his address, which I'd like to share for the record.

First, and I quote:

> During the late 1970's the United States became, in many respects, a residual supplier. This occurred in part because of a very strong dollar, and also because of price-support levels that were higher in some instances than the prices our competitors in world markets were able to offer. This we can no longer afford.

Second, and I quote:

> This Nation, built on private enterprise in a competitive marketplace, should firmly set the course for an open, competitive marketplace, should firmly set the course for an open competitive world, with agriculture in the lead. In the process, we can point the way for the industrial side of our economy to reverse its current tilt toward protectionism.

Well, Mr. Freeman has said he remains anxious to appear before this committee to discuss his perspective of the future of American agriculture, and I can assure you, we will accommodate him. I ask that his speech be placed in the record.

Now, from my left to right on the panel, Mr. Robert Bergland, executive vice president and general manager of the National Rural Electric Association.

The next member is Mr. Clifford Hardin, of Washington University.

The next panel member is Mr. John Knebel, of Baker & McKenzie here in Washington.

And on my far right—that just happens to be the way he's sitting there [laughter]—Mr. Butz, Department of Agricultural Economics, Purdue University.

That remark was meant in humor, not in a derogatory sense. I have the utmost respect for every member of this panel. I've had the privilege of working with three members and knowing them very well; and I'm thankful this country had their services.

We will proceed in the normal fashion from left to right, beginning with you, Mr. Bergland.

STATEMENT OF BOB BERGLAND, EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION, WASHINGTON, DC

Mr. BERGLAND. Thank you very much, Mr. Chairman, members of the committee. I should like to state for the record that I am here today as a former member of the President's Cabinet and not as general manager of the National Rural Electric Cooperative Association.

Mr. Chairman, the Nation's 1,000 electric cooperatives are not in the business of recommending commodity policy. They have, however, encouraged me to attend these hearings and share with you my experiences, even though we are not in the official policymaking business on agricultural questions directly.

Mr. Chairman, in my judgment, farmers in the United States are incredibly strong producers and incredibly weak marketers. Therein, lies the problem. Our farmers know how to produce, but they're marketing in a political world. The world is not driven by persons who are necessarily guided by the doctrine of comparative economic advantage. The world is driven by leaders who have some kind of domestic political problem with which they must contend.

Japan is in the rice business, not because it's cheap but because they need to grow rice under their own control. Saudi Arabia is in the wheat business, not because it's cheap but because they live in a dangerous region where they don't dare depend on supply lines. And so it goes all over the world.

American agriculture is competitive but it is unable to deal with the political problems which arise. Therefore, in my judgment, it is necessary that the U.S. Government take an active role in paving the way so that American agriculture can use this enormous ability to produce. In my view, the matter of pulling Government out and away from agriculture will leave American agriculture vulnerable and bankrupt. There needs to be a complete overhaul of agricultural policies, because agriculture is now internationalized, and because we do supply half of the world's agricultural imports.

Therefore, we in American agriculture are affected by things that have nothing to do with farming. The Federal debt, for example, the unbelievable debt which is being piled up in the Federal Government, is having a devastating impact upon the value of farm currencies and, therefore, constitutes a tax against U.S. farm sales overseas.

There has been a drop in farm exports in the last couple of years and all experts I've talked to are convinced that it is because of the strong dollar and the weak foreign currencies, that we are losing our competitive advantage because of our own domestic financial crises.

That's not a matter that American farmers can do nothing about; this is something that has to be treated here, Mr. Chairman, at the political end of our system. American farmers do need access to foreign markets, and I believe that those markets of the so-called market economies of the world have been developed about as well as we're going to see. Japan, Europe, Canada, and other places, are not going to increase the food consumption much. Indeed, my expectation is that Europe will continue to increase its own domestic production, and Europe will not be a net importer ever again; they will be a net exporter in competition with us for much of the markets of East Europe, the Soviet Union, and Africa.

The growth in the U.S. farm sales abroad will occur in the Third World among that three-quarters of the world's population that lives in a continuing state of abject poverty. The reason they don't buy more here is they have no way of paying the bill.

And U.S. foreign policy, therefore, needs to target on poverty, help those people get out of that mode and into an economy in which they have some hope of buying that which we have in surplus in the United States; simply extending them more credit is not the answer.

I was in the Department of Agriculture and extended credits to places like Poland—and, today, they can't pay, haven't been able to pay for a couple of years—credit themselves are nothing more than a short-term expedient. They're not an answer.

There has got to be more attention paid to economic development in the Third World, and this, Mr. Chairman, is a long-haul solution, meaning that there is no quick fix in sight as near as I can tell. I think that we need to develop a domestic farm program that recognizes that the world is an unruly and imperfect place. Most of the cereals and practically all of the coarse grains and oil seeds are grown in places that are fed by rainfall—unpredictable and, of course, unmanageable.

The world's grain crops will fluctuate by at least 40 million tons from one year to the next, depending upon rain conditions. There is no way that American farmers can tell whether the crop in the Soviet Union, or Mexico, or Canada, will be good or bad; that's the kind of market into which they are forced.

Therefore, we need to have a program that can take into account the fact that the rains may come, or they may not; that in some years, we may have surpluses while in other years, they'll be drawn down.

My argument, Mr. Chairman, is that it makes no sense to establish a domestic farm program in the belief that we can always sell all our surpluses every year, no matter what. There will be years in which we can't sell our surpluses at any price and, therefore, we need to develop an agricultural program that recognizes the risks in this fluctuating international market and that, some years, we do need to have crop controls, while in other years, the market can use all we have to spare, and reserves should be used to the benefit of our agriculture.

I think that in the design of a domestic farm program, we need to unhook from the notions which have generally driven farm policy during my adult life, at least, those notions based really on an agriculture in the 1930's, in which we had 6 million farms and almost every farm was like every other farm.

That's no longer the case. We now have a complete change in American agriculture. And I'm now going to read from data which was collected by the Department of Agriculture for the year 1982. That's the last for which we have good information. It shows that, in that year, there were 25,000 farms in the United States that had a net farm income of $572,000 apiece; 25,000 farms that are not hurting. These are the same farms that did indeed enjoy the lion's share of the so-called Federal subsidies.

I see no reason why we should continue to put taxpayers' money into farms of that scale that are doing that well.

On the other extreme of the spectrum, we have 1.4 million farms in the United States that had, on an average, a loss of $69 per farm in 1982. These farms, however, are not big enough to keep the family busy. And these families earned $18,700 apiece in that same year from jobs in town.

The point is that these small farms, these 1.4 million families, don't farm for a living, don't intend to farm, and do not benefit by the traditional farm price supports and other agricultural programs. Their interests lie in jobs. And, as long as jobs are available, they'll do well; but, if jobs fold, they fold.

Those persons live on farms because they enjoy the place and, in most instances, do not intend to make it a commercial enterprise. They are what we in Minnesota call "hobby farms." It's the group in between that I would like to spend some time on, Mr. Chairman, those families with gross sales of more than $20,000 and up to around $200,000.

These are farms that are large enough to keep the family busy; they are large enough to employ the economies of scale: They're modern, they're resourceful, they're high powered, and, many of these are in trouble.

Agriculture today requires enormous amounts of credit. We all understand the expenses connected with running a modern farm, and the persons among that group, on about 800,000 mid-sized commercial family farms that are in real trouble, are the young ones mainly, those who started farming in the last 4 or 5 years, and who have not had a chance to build up any equity. Along comes a crop failure or a slump in prices, and the cash flow dries up; they have no reserves and they are in huge trouble.

My guess is that about a fourth of that number, about 200,000 of that group of commercial-sized family enterprises, are in more money trouble than they can manage on their own, that they are going to need some kind of assistance in order to get through these hard times.

The question then that I think needs to be examined by public policymakers, as we get into the business of examining the 1985 farm bill, is: How do we deal with those persons who have a special problem that's not of their own doing, and they're not going to be saved by the ordinary kinds of remedies?

I've spent most of my lifetime arguing that the way we save agriculture is to increase price supports; I no longer believe that's true.

I think we need to target credit to those people who need help. We need to target tax policy to avoid some of the pure speculation which has certainly been a factor in agriculture, and we need to target benefits. If any payments are made, they ought to be made to those people who need help and not made across the board to the large ones who are rich, as well as to those who are in great need.

I think, therefore, that we have to carefully examine these programs to see how these benefits can be directed. I am no longer a fan of the target price voluntary set aside concept. There was a time when I thought it was the best way to go. I no longer believe that to be the case, because these programs are inherently self-defeating.

If we need to have crop controls, and I'm arguing that in many years, we'll need them, I believe that we ought to do it on the basis of retiring fragile croplands, that we get rid of allotments and quotas, that we get rid of the historical base business. I think that's a relic that we can best dispose of and that if there's a need for retiring cropland because of market conditions, that we focus on that hundred million acres of land in the United States currently cropped which is subject to serious erosion by wind and by water; that we help convert that land to a conserving use; and that we therefore shrink the size of the total cropland base on the farms rather than trying to get corn acreage out of production on land that's capable of producing 200 bushels an acre. There isn't enough money in the Federal Treasury to buy out land with that capacity, and I think we ought not try.

I think, therefore, the reason I have decided that the voluntary set aside control device doesn't work is that when the signup starts in a given year, farmers look at the program and they hope that there'll be enough participation in the program to raise prices so that they can afford to stay out and cash in on a price increase, without costing them anything, diverting noting, and their neighbors will cause a price increase that will accrue to their benefit. The program, therefore, is inherently self-defeating. And all the target price programs simply will not work unless there is an enormous amount of money poured into it. And that simply isn't going to happen.

In conclusion, Mr. Chairman, I therefore am convinced that we can no longer treat agriculture with a broad brush, that we have to be very explicit in treating problems as they arise. I've touched on a few of them, and I would be delighted to answer any questions at the conclusion of this presentation. Thank you, sir.

[The prepared statement of Mr. Bergland follows:]

Prepared Statement of Bob Bergland

All important public decisions throughout the world are made by politicians, whether they are elected to legislatures or executive office, appointed to positions of power and trust, or achieve power in some other way. They decide on tax and trade policy, on matters relating to security issues, defend their currencies and do all those things that guide the political or economic train of state.

The question is: How can we build a system founded on the principles of comparative economic advantage and fit it into a turbulent world -- an unruly, difficult, and sometimes dangerous world -- in which an Idi Amin or Ayatollah Khomeini come into positions of power and disrupt plans that we design to fit an orderly process?

Governments establish food policies that sometimes neither recognize nor respect the doctrine of comparative economic advantage. The reason is simple: I know of no government in the world that would systematically deprive its people of enough to eat. Governments, after all, are there to assure that their citizens have enough food, a variety of food, and at a cost within their reach.

Governments usually act to restrict food imports in order to protect agriculture within their own country even if the cost is high. Saudi Arabia is in the wheat business not because they can grow it cheaply, but because they can control supply. Japan is in the rice business not because it's cheap, but because they can produce it within their own political control. We in the United States have food policies that restrict imports of beef, sugar and dairy products. The world is full of these political barriers.

The question facing American agriculture -- is how do we deal with the political realities of this unruly world? It is not good enough to devise a domestic farm program and ignore the realities of worldwide politics.

Our agriculture is now internationalized and any new farm program must deal with the fact that we supply nearly half of the world's food exports and that new growth in foreign markets is tied closely to the foreign policy of our country. The three fourths of the world's population that needs what we have to sell have no way of paying their way. Our policies must key on poverty wherever it is found. We must distinguished between need and demand. Because most of the cereals and nearly all of the coarse grains and oil seeds are rain fed on a global scale, we can probably expect yields to vary by plus or minus 40 million metric tons per year globally. Such a wide variance means we must be prepared to meet the ends of that range.

Translated it means we can not expect to always clear our surpluses every year. We need some sort of a domestic crop control program, at least on a standby basis to be used when the world can not absorb our surpluses.

The farm programs with which we are familiar generally are rooted in the 1930s based on a notion that all farms are alike -- that we can establish a commodity policy and that its benefits will flow equally among all farms fairly and equitably.

Well, that's not the world in which we live any longer; we have seen a complete change in the structure of American agriculture primarily since 1945.

The changed face of
American agriculture

In 1982, the last year for which good data are available, 25,000 farms in the United States had a net income <u>per farm</u> of $572,000.

On the other end of the spectrum, we had 1.4 million farms that had an average loss per farm of $69. Those 1.4 million small farms also had an income of more than $18,700 per family, derived mostly from wages and salaries earned from a job in town. The point is that those persons living on small farms don't farm for a living, and they are not affected much by commodity policy.

In between are farms with gross sales of over $20,000 and under $200,000. These farms are generally large enough to keep the family fully employed; and they are the most resourceful group in our system. Many of the families on these farms are persons who recently started farming and have not had a chance to build up equity in land or save anything from better years and are consequently operating on a very thin margin. As soon as hard times come -- whatever that means -- as soon as cash flow diminishes, they are in big trouble fast. It's in this mid-sized commercial group that we find the largest number of families being squeezed hard today.

Does it matter? I think we need to examine carefully whether or not it's in the public interest to assist those young families getting started in business, who simply don't have the depth, don't have the credit, don't have the resources, to carry them through two or three tough years. There are ways it can be done, but it does require that farm programs unhook from the notion that all farms are alike. Strategies must be devised to target groups of farms or families chosen because we consciously decide that it's important to replenish the blood in farm management. Of course, we may choose not to. My point is that the choice ought to be made.

The Farmers Home Administration has been pulled in all directions and no longer has a clear purpose.

I think we should target credit help to persons getting started and others suffering from natural or economic disasters but we should restrict the help to those on a family scale. This business of FmHA helping high rollers and pure speculators can and must stop.

I think price support loans should be regarded as an orderly marketing tool, not as the primary income guarantee device. These loans should be available to all growers complying with program conditions. Direct Treasury or income insurance payments can be targeted to small and mid-sized commercial farming enterprises. They can either be capped up to a size necessary to achieve the economics of scale or graduated downward as farm size increases.

I am no longer a supporter of the voluntary target price concept in farm programs because of cost to the Treasury and the leakage resulting from the many ways the purposes of this program can be frustrated by non-compliers. In these instances the interest of each individual farming enterprise is in total conflict with the overall industry interests. For example, non-compliers in the voluntary set aside programs hope that compliance is high enough to bring about a price increase bringing them an increase in income at no cost to themselves; the concept is inherently self-defeating.

I do think there must be a standby control program for grains, cotton and oilseeds, but not on a commodity basis. Quotas and bases should end. We should go to a cropland base designating the fragile lands for conversion to another use, perhaps on a long term contract on which rental payments are made -- perhaps on a bid basis. On the cropland base, the grower should be encouraged to plant whichever crops are best suited to the farm without regard to history.

Senator JEPSEN. Thank you, Mr. Bergland.

Mr. Clifford Hardin, you may proceed. I advise the panel that all of their statements will be entered into the record. Therefore, you may proceed in any manner you so desire.

STATEMENT OF CLIFFORD M. HARDIN, SCHOLAR IN RESIDENCE, CENTER FOR STUDY OF AMERICAN BUSINESS, WASHINGTON UNIVERSITY, ST. LOUIS, MO

Mr. HARDIN. Mr. Chairman, members of the committee in absentia, this morning, as I was looking over my prepared statement and making a few notes, my mind wandered a little bit and I started thinking about football, of all things. Most successful coaches insist that while football has become a very complicated and sophisticated sport, you must still give highest priority to the simple basics—how to tackle, how to block, how to hold the ball so it won't be knocked loose—things of that sort. To be careless with basics is to run the risk of being chased off the field.

And there's a famous story of Vince Lombardi, who, after his Green Bay Packers had played poorly, in his estimation, he called the squad together on Monday morning and told them how lousy they were, that they'd forgotten the basics; and, this week, beginning now, we're going to drill on the basics.

And he held up a football and he said, "Gentlemen, this is a football."

That is the kind of approach I'm going to take in my remarks this afternoon. I will emphasize a few basics which, if not heeded, will leave little opportunity to apply some of the other sophisticated techniques that would help American agriculture.

The invitation to participate in this hearing included a question concerning lessons learned in the past 50 years about agriculture and agricultural policy that, if heeded, could be helpful in assisting this great American industry to achieve its maximum potential.

We have learned a great many things, but some of the lessons we think we have learned we have not learned well enough. In recent years, in developing farm legislation we have ignored some of the basics, and the neglect has been costly.

Let me give you a few examples. We have learned that unilateral efforts—as Secretary Bergland touched on—unilateral efforts to reduce world supplies of export commodities by limiting U.S. production is an open invitation to producers in competing countries to expand their own production under our price umbrella. Such actions may produce short-term benefits, but our farmers pay dearly in succeeding years because foreign production, once in place, is not easily nor quickly dislodged.

We have learned, also, that when designated loan or support prices become higher than world prices or higher than market clearing levels, the Commodity Credit Corporation stocks rise and get locked up and overhang the market in ensuing years. Once again, short-term benefits to farmers are usually translated into lower prices in future years.

And we have learned that policies that seemed appropriate when U.S. farmers were producing primarily for domestic production are counterproductive in an era when they are also producing for export markets.

And we have learned that events and governmental policies exterior to agriculture, as Secretary Bergland commented, can and sometimes do have serious effects on the income of U.S. farmers, and here I am thinking about the value of a dollar and the worldwide recession.

These things can happen quickly and unexpectedly, and if at the same time agricultural legislation is written so tightly that the Secretary of Agriculture cannot make appropriate adjustments, the results can be more devastating to farmers and costly to American taxpayers than they otherwise would have been.

The fifth point I approach with a little fear and trembling in these halls, but I think we have also learned that changes in the structure of the Congress itself have added significantly to the difficulties involved in passing sound and productive legislation. The granting of increased power and automony to subcommittees has created an environment in which organized commodity groups compete with each other for special favors.

The general farm organizations which once provided a forum for mediating differences among commodity groups have lost some of their influence as commodity groups have found ways to work directly through the appropriate subcommittees.

As late as the first half of 1981 many of us let ourselves believe that following 50 years of overproduction, burdensome surpluses, and depressed prices that we had moved into a new era, a period in which U.S. farmers would be able to sell just about anything they could produce, and there were some solid reasons for that optimistic outlook.

Following 1970, Government programs had permitted markets to operate freely. Foreign buyers had responded. A decline in the value of the dollar had made our export products cheaper in relation to world currencies. Simultaneously, incomes of at least a portion of the world's population were rising and causing an almost automatic immediate increase in the demand for more and better foods in both the developed and underdeveloped countries.

Japan had become the world's largest importer of soybeans and feed grains, and exports to the U.S.S.R. were rising.

Incidentally, some of those forces are beginning to reappear. But that was a buoyant economic environment that existed when the Agricultural Act of 1981 was written and passed by the Congress.

The 1981 act contains some beautiful prose, giving the Secretary great leeway in adjusting loan levels and target prices in order to maximize exports and dollar returns to farmers. But the fine print takes some of that away. The Secretary is told that he can only adjust above certain minimum levels that are specifically provided in the act for each crop for each of the 4 years for which the program is to be effective. Furthermore, the act mandates the creation of a farmer-owned reserve for wheat and corn that could not be sold for at least 3 years.

Among the Members of Congress and other persons who supported the 1981 act, there were some who worried about the restrictive language, but given the optimistic scenario that existed, there were few who felt that the restrictive language would really produce serious problems during the 4 years that it would be in effect.

The results are now history. With favorable weather, U.S. farmers set new grain production records. A worldwide recession, along with a rise in the value of the U.S. dollar to record levels, combined to reduce exports of all American products, including farm products. The largest grain surpluses in history were locked into the farmer-owned reserve, where they were supposed to stay for a minimum of 3 years.

To complicate the matter further, quantities of corn in the free market in December 1983 were so small that some export orders could not be filled and sales were lost. The cost of the farm program to taxpayers for fiscal 1983 exceeded $20 billion, making farm programs the most rapidly growing item in a deficit-ridden Federal budget.

Some of the trouble and much of the cost could have been avoided if the 1981 act had given the Secretary of Agriculture more room to make adjustments.

Given then the agricultural situation that existed in 1983 and the restrictive language of the 1981 act, something drastic, like the Payment-in-Kind Program, had to be invented.

The long-term policies reflected in the PIK Program were wrong, but to do nothing was intolerable. The program did provide a way to put stocks of the Commodity Credit Corporation and the farmer-owned reserve back into the free market. It also provided some cash relief to debt-ridden farmers, and it reduced U.S. grain production in 1983.

The programs were expensive, and the longer term costs will also be high, the continuing costs.

During the past 12 months, farmers in competing countries have expanded production under our price umbrella. For instance, farmers in Canada planted more wheat, and those in Argentina planted more corn as a result of the PIK Program. By our own actions we have encouraged greater competition for world markets for farm products.

Partly as a result of these events of the past 3 years and the desperate straits in which many farmers find themselves, interest in national agricultural policies has been rising.

The Curry Foundation, centered here in Washington, has just completed an impressive series of reports and seminars on the subject.

The American Enterprise Institute has a series of comprehensive studies now underway.

The Kellogg Foundation has just made a major grant to Washington-based Resources of the Future to study U.S. agricultural policies.

There are several other additional centers of activity in universities and other institutions across the country. These efforts to develop sound and progressive agricultural policy alternatives deserve support.

But in my mind, the real issue is whether the creation of new information and understanding will actually result in improved legislation. Hopefully, it will, but I have attended several of these seminars, and I think I can say that the others who attended and those who submitted papers generally agree that price supports must be kept below world prices. They concur that the unilateral efforts of the United States to adjust world grain supplies, as has been done intermittently for 50 years, will turn out to be counterproductive.

Most of these same people will agree that legislation must permit the Secretary of Agriculture to make appropriate adjustments when unforeseen economic events occur, and the majority agree that the current dairy price supports are too high and should be lowered.

Many Members of the House and Senate, of course, know these things, too.

Well, why then do we get so much legislation that sacrifices long-term economic health for short-term gains? Why are basic lessons learned from the past so often ignored when new legislation is being developed?

A partial answer to both questions I think lies with the Congress. Through its efforts to reform and reorganize, it has lost some of its ability to control excesses. This is not only in agriculture but in other places as well.

The single-issue lobbyists are having greater and greater influence on legislation.

Now, I want to emphasize I am not attempting to criticize individual Members for being responsive to constituent desires. That is our system, and we all support it. I am concerned that these natural tendencies to do everything possible for constituents are no longer being held in check by the organizational restraints, the structure, if you please, that once existed in the Congress.

If we had time, we could go into such things as the change in the Rules Committee and the change in the appropriations process, where 60 percent of the budget is on autopilot, and so on. But I want to concentrate in this session on subcommittees who have been given the general right to consider all bills and programs failing within their defined policy jurisdictions.

With assured budgets and staffs, subcommittee members have been freed from the domination of full committee chairmen. In fact, that was one of the reasons for giving increased power to subcommittees.

A decade ago, a full committee, maintaining a broader representation of constituent interests, could mute the excessive enthusiasm of each of its subcommittees. Increasingly, the subcommittees tend to observe a reciprocity agreement, keeping their noses out of each other's business.

And I think the dairy price support program provides one recent example of how the system can work. The administration wants price supports reduced because the program has resulted in Government ownership of huge and rising stocks of butter, cheese, and dried milk. However, the House Subcommittee for Livestock, Dairy, and Poultry has been successful in preventing decreases in price supports, at least enough to get a change in production, and the mountains of surplus dairy products keep growing.

There is a strong tendency for all of us, as we try to look ahead, to project from our most recent experience. Whether it is good or bad, I think that is a basic human trait.

In spite of the recent difficult times for American agriculture, some of the positive economic forces that created the optimism that lasted well into 1981 could resurface, and this could happen just about as quickly as they departed.

I think it is important for us to remember this. Already economic conditions in many countries are improving, and even though it seems far away right now, at some point the value of the dollar is going to decline again. Worldwide weather will again be less than ideal. It is critical that U.S. policies be flexible enough to permit farmers to take maximum advantage of any of these unforeseeable economic developments.

[The prepared statement of Mr. Hardin follows:]

Prepared Statement of Clifford M. Hardin

US.FARM POLICY:
LESSONS FROM THE PAST

The invitation to appear at today's hearing included a few questions concerning lessons learned in the past 50 years about agriculture and agricultural policy that could be helpful in assisting American agriculture to achieve its maximum potential. We have learned a great many things, but some of them we have not learned well enough. I will list a few of these and then attempt to place them in proper perspective.

1. First of all, events and governmental policies exterior to agriculture can and sometimes do have devastating effects on the income of U.S. farmers. Often such economic events can occur with little advance warning.
2. Unilateral efforts to reduce world supplies of export commodities by limiting U.S. production is an open invitation for producers in competing countries to expand their own production under our price umbrella. Such actions may produce short term benefits, but our farmers pay dearly in succeeding years because foreign production once in place is not easily nor quickly dislodged.
3. When designated loan or support prices become higher than world prices, or higher than market clearing levels, Commodity Credit Corporation stocks rise and overhang the market in ensuing years. Once again, short-term benefits to farmers are usually translated into lower prices in future years.

4. Policies that seemed appropriate when U.S. farmers were producing primarily for domestic market are counter- productive in an era when they are also producing for export markets.
5. Economic conditions, both within the U.S. and worldwide, can change quickly and unpredictably. If, at the same time, agricultural legislation is written so tightly that the Secretary of Agriculture cannot make appropriate adjustments, the results can be devastating to farmers and costly to American taxpayers.
6. Finally, changes in the structure of Congress itself have added significantly to the difficulties involved in passing sound and constructive legislation. The granting of increased power and autonomy to subcommittees has created an environment in which organized commodity groups compete with each other for special favors. The general farm organizations which once provided a forum for mediating differences among commodity groups have lost influence as the commodity groups have found ways to work directly through appropriate subcommittees.

As late as the first half of 1981, many of us interested in agricultural policy hoped that following 50 years of over production, burdensome surpluses and depressed prices, we had moved into a new era -- a period in which U.S. farmers would be able to sell just about everything they could produce. There were solid reasons for that optimistic outlook. For nearly a decade, following 1970, government programs had permitted markets to operate freely and foreign buyers had responded. A decline in the value of the dollar had made our export products cheaper in relation to most world currencies. Simultaneously, incomes of at least a portion of the world's population were rising and causing an almost automatic and immediate increase in the demand for more and better foods in both the developed or developing countries. Japan had become the world's largest importer of soybeans and feed grains, and imports by the USSR were rising.

The Agricultural Act of 1981

That was the bouyant economic environment that existed when the Agricultural Act of 1981 was written and passed by Congress. The 1981 Act contains some beautiful prose giving the Secretary great leaway in adjusting loan levels and target prices in order to maximize exports and returns to farmers -- but the fine print takes in all away. The Secretary is told that he can only adjust above certain minimum levels that are specifically provided in the Act for each crop for each of the four years for which the program was to be effective. Furthermore, the Act mandated the creation of a farmer-owned reserve for wheat and corn that could not be sold for at least three years. Among the members of Congress and others who supported the 1981 Act, there were some who worried about the restrictive language, but given the optimistic scenario that existed, there were few who felt that the restrictive language would produce serious problems during the four years that it would be in effect.

The results are now history! With favorable weather, U.S. farmers set new grain production records. A world-wide recession along with the rise in the value of the U.S. dollar combined to reduce exports of all American products. The largest grain surpluses in history were locked into the farmer-owned reserve where they were supposed to stay for a minimum of three years. To complicate the matter further, quantities of corn in the free market in the summer of 1983 were so small that some export orders could not be filled and sales were lost. The farm program cost to taxpayers for fiscal 1983 exceeded $20 billion, making farm programs the most rapidly growing item in a deficit ridden federal budget.

Some of the trouble and much of the cost could have avoided if the 1981 act had given the Secretary of Agriculture more room to make adjustments. Given the agricultural situation that existed in early 1983 and the restrictive language in the 1981 Act, something drastic like the Payment-in-Kind (PIK) program had to be invented. The long-term policies reflected in the PIK program were wrong, but to do nothing seemed worse. The program did provide a way to put stocks of the Commodity Credit Corporation and the farmer-owned reserve back into the free market. It also provided some cash relief to debt-ridden farmers, and it reduced U.S. grain production in 1983. Even so, the longer-term costs will be high. During the past 12 months farmers in competing countries have expanded production under our price umbrella. For instance, farmers in Canada planted more wheat and those in Argentina planted more corn as a result of the PIK program. By our own actions, we have encouraged greater competition for world markets for farm products.

Experts Agree on Elements of a Successful Farm Policy

As a result of these events of the past three years and the desperate straits in which many farmers find themselves, interest in national agricultural policies is rising. The Curry Foundation centered here in Washington has just completed an impressive series of reports and seminars. The American Enterprise Institute has a series of comprehensive studies underway. The Kellogg Foundation has made a major grant to Washington-based Resources for the Future to study U.S. agricultural policies. There are several additional centers of activity in universities and other institutions across the country. These efforts to develop sound and progressive agricultural policy alternatives deserve support. But the real issue is whether the creation of new information and understanding will actually result in improved legislation.

For example, a majority of those attending farm policy seminars and submitting papers agree that price supports must be kept below world prices. They concur that the unilateral efforts by the U.S. to adjust world grain supplies, as has been done intermittantly for 50 years, will turn out to be counter-productive. Most of these informed observers also agree that legislation must permit the Secretary of Agriculture to make appropriate adjustments when unforeseen economic events occur. The majority would agree that dairy price supports are too high and should be lowered. Many members of the House and Senate know these things too.

Applying the Lessions from History

Why then do we get so much legislation that sacrifices long-term economic health for short term gains? Why are lessons learned from the past so often ignored when new legislation is being developed? The answer to both questions is that Congress -- through its efforts to reform and reorganize -- has lost some of its ability to control itself. It isn't only in agriculture that we are getting special interest legislation -- it is occurring in other areas as well. The single issue lobbyists are having greater and greater influence on legislation.

I want to emphasize that I am not attempting to criticize individual members for being responsive to constituent desires. I am concerned that these natural representative wages are no longer being held in check by the organization restraints of the past.

Subcommittees have generally been given the right to consider all bills and programs falling within their policy jurisdictions. With assured budgets and staffs, subcommittee members have been freed from domination by the full committee chairman. In fact, that was one of the reasons for giving increased power to subcommittees. A decade ago, a full committee maintaining a broader representation of constituent interests could mute the excessive enthusiasms of each of its subcommittees. Increasingly, the subcommittees tend to observe a reciprocity agreement, keeping their noses out of one another's business.

The dairy price-support program provides one recent example of how the system is working. The Administration wants price supports reduced because the program has resulted in government ownership of huge and rising stocks of butter, cheese, and powdered milk. However, the House Subcommittee for Livestock, Dairy and Poultry has been successful in preventing decreases in price supports -- and the mountains of surplus dairy products keep growing.

Conclusion

In spite of the recent difficult times for American agriculture, favorable economic forces could surface again just as quickly as they departed. World-wide weather conditions could again be less than ideal. Already economic conditions in many countries are improving. At some point, the value of the U.S. dollar in relation to other national currencies will decline. It is critical that U.S. policies be flexible enought to permit American farmers to take maximum advantage of any unforeseen economic developments.

Hopefully, when congressional committees and subcommittees consider a new 1985 farm bill, they will heed the lessons of recent experiences. Hopefully, they will recognize the true international character of American agriculture and will develop policies that will maximize the ability of our highly efficient and productive American farmers to compete successfully.

Senator JEPSEN. Thank you, Mr. Hardin.

Now, Mr. John A. Knebel, you may proceed.

STATEMENT OF JOHN A. KNEBEL, ATTORNEY, BAKER & McKENZIE, WASHINGTON, DC

Mr. KNEBEL. Thank you, Mr. Chairman. Thank you and your committee for your interest in this vital subject of U.S. agriculture in international markets.

This issue has become one of paramount importance to the U.S. agriculture community and the Nation itself. This vital sector traditionally contributed more to the strength of the U.S. position in the U.S. economy than any other section of American commerce.

However, recent trends and events, notably a rather sharp decline in U.S. agricultural exports and the rising cost of our U.S. farm programs have brought the issues of agricultural competitiveness to a head, and as policymakers prepare to grapple with the making of new farm legislation in 1985, we commend you for your interest.

Many of the problems faced by U.S. agriculture have been on a legislative agenda for more than half a century. Viewpoints differed then, and they differ now, on how best to handle these problems. A number of key questions remain to be answered. Among them:

Is a greater market orientation the solution to Agriculture's troubles? Or, should only modest modification be made in present supply, pricing and loan programs to protect the farmer's income against sudden fluctuation in demand?

Second, will freer international trade permit the nation to make full use of its rich natural resources and productive capacity? Or, should the Government play a greater role in leveling the playing field to counter what some analysts call the unfair trading practices of others?

Finally, will short-term measures, such as export promotion, make a real contribution to resolving farm problems? Or, does the real key lie in longer-term steps to reduce the Federal budget deficit, reform the Tax Code, resolve the international debt crisis, and promote healthy economic growth?

As Secretary Hardin has just indicated, the search for answers to these and other questions has prompted a number of leading private sector organizations to undertake studies and conduct a dialog on what it will take to improve the U.S. competitive position in the agricultural field today.

One such study which I am familiar and which I'm involved in is the Fowler-McCracken Commission. It is a nonpartisan, national, international effort directed toward improving Government business cooperation in the conduct of international economic policy.

The Commission, as you know, is co-chaired by former Treasury Secretary, Henry Fowler, and former chairman of the Council of Economic Advisers, Paul McCracken.

We have recently conducted a survey of agricultural policy, which will be issued later this month. However, I could share with you a few of the preliminary results based on some 300 responses from a nationwide audience of farmers, agri-business executives and other members of the agricultural community, because I believe it reveals as interesting and encouraging assessment of the future of American agriculture.

Foremost among the findings:

First, 85 percent of the respondents give a very high priority to the policy making goal of taking vigorous steps to improve the competitiveness of U.S. agriculture and regain America's share of the world markets.

Second, respondents appear to favor reducing Government involvement in agriculture and place great reliance on market forces, especially in the area of supply management.

Perhaps the greatest area for positive Government action in agriculture, according to most respondents, is in the promotion of fair, free trade on the part of all nations, including the United States, and in taking steps to promote expansion of the U.S. agricultural export market.

As a matter of fact, in the questionnaire, six of the top 10 items in the Commission's survey fall into the area of Government trade and export policies. Let me recap those for you.

It is strongly suggested that we conduct market promotion activities of U.S. agricultural goods abroad, that we increase our MTN trade negotiations to promote; to remove unfair and to increase free trade; that we take steps to reduce trade barriers and unfair trade practices of other nations and prohibit export embargoes on agricultural products; that we make use of barter schemes with nations which lack hard currency to make U.S. purchases, and that we utilize food aid to expand overseas markets for surplus U.S. production.

Conversely, the placement of tariffs or quotas on agricultural imports in the United States is considered counterproductive and ranks at the very bottom of the respondents' answers in this survey.

Other points which we have come to realize are:

The survey respondents feel that we must provide a more favorable environment for U.S. agriculture by following sound fiscal and monetary policies, and particularly policies aimed at reducing Federal budget deficits and lowering our interest rates.

These then are the preliminary Fowler-McCracken Commission Report points. I think they give you and members of this committee a strong indication of what the public in the agricultural sector is feeling. We hope that you will look clearly upon them as you go about your very arduous task of rewriting the agricultural legislation in 1985.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Knebel follows:]

Prepared Statement of John A. Knebel*

The declining position of U.S. agriculture in international markets is an issue of paramount importance to the U.S. agricultural community and to the nation itself. This vital sector has traditionally contributed more to the strength of the U.S. position in the world economy than any other sector of American commerce. But recent trends and events -- notably declining U.S. agricultural exports and the rising cost of U.S. Government farm programs -- have brought the issues of agricultural competitiveness to a head as policy-makers prepare to grapple with the making of new farm legislation in 1985.

Many of the problems faced by U.S. agriculture have been on the legislative agenda for more than half a century. Viewpoints differed then -- and they differ now -- on how best to handle these problems. A number of key questions remain to be answered:

- Is a greater market orientation the solution to agriculture's troubles -- or should only modest modifications be made in present supply, pricing, and loan programs that protect the farmer's income against sudden fluctuations in demand?

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*/ Prior to my appointment as Secretary of Agriculture in November 1976, I served as Deputy Secretary (1976), Under Secretary (1975-76) and General Counsel of USDA (1973-75).

- Will freer international trade permit the nation to make full use of its rich natural resources and productive capacity -- or should the government play a greater role in "leveling the playing field" to counter what some analysts call the "unfair" trading practices of others?

- Will short-term measures such as export promotion make a real contribution to resolving farm problems -- or does the real key lie in longer-term steps to reduce the federal budget deficit, reform the tax code, resolve the international debt crisis, and promote healthy worldwide economic growth?

The search for answers to these and other questions has prompted a number of leading private sector organizations to undertake studies and conduct dialogue on what it takes to improve competitiveness in agriculture.

One such study is currently underway under the auspices of the Fowler-McCracken Commission, a nonpartisan national and international effort directed toward improving government-business cooperation in the conduct of international economic policy. The Commission, cochaired by former Treasury Secretary Henry H. Fowler and former Chairman of the Council of Economic Advisers Paul W. McCracken, has conducted a survey on agricultural policy and will be issuing a report on this subject during the month of October.

The preliminary results of the Fowler-McCracken Commission survey -- based on 300 responses from a nationwide audience of farmers, agribusiness executives, and other members of the agricultural community -- reveal an interesting and encouraging assessment of future directions for American agriculture:

1. Eighty-five percent of the respondents give "high priority" to the policy goal of "taking vigorous steps to improve the competitiveness of U.S. agriculture and regain America's share in world markets." This was, in fact, the single highest-ranked item in the entire Commission survey of 52 proposals. In short, those participating in this survey feel that there is a competitiveness problem facing U.S. agriculture today -- and that steps must be taken to correct it.

2. Respondents appear to favor reducing government involvement in agriculture and placing greater reliance on market forces, especially in the area of supply management. Several of the most "counterproductive" items as rated by respondents in the survey fall into the category of supply management, including the "payment-in-kind" (PIK) program, domestic production and marketing quotas, and cash payments to farmers to reduce planted acreage. The overall goal of stabilizing farm income through government commodity management and/or direct payments to farmers is considered "not a priority" by over 50% of the respondents -- placing it third

from the bottom in the entire survey -- while an approximately equal number rate reduced government involvement in agriculture and greater reliance on the market as a "high priority."

3. Perhaps the greatest area for positive government action in agriculture, according to a majority of respondents, is in the promotion of fair, free trade on the part of all nations -- including the United States -- and in taking steps to promote expansion of the U.S. agricultural export market. Six of the top ten items in the Commission survey fall into the area of government trade and export policies, including:

- Conducting market promotion activities for U.S. agricultural goods abroad -- the second highest-ranked item in the entire survey;
- Increasing multilateral trade negotiations to promote unfair, free trade;
- Taking steps to reduce trade barriers and "unfair" trading practices of other nations;
- Prohibiting export embargoes on agricultural goods;
- Making use of barter schemes with nations lacking hard currency to purchase U.S. products; and
- Utilizing food aid to expand overseas markets for surplus U.S. production.

Conversely, the placing of tariffs or quotas on agricultural imports into the United States is considered "counterproductive" and ranks among the bottom ten item in the survey.

4. We must provide a more favorable environment for U.S. agriculture by following sound fiscal and monetary policies, say most Commission survey respondents -- particularly policies aimed at reducing the federal budget deficit and lowering interest rates. Both of these two specific proposals rank among the top ten in the Commission questionaire results. Conversely, a call to ensure the provision of necessary farm support regardless of the effect on the federal budget is voted as the single most "counterproductive" item un the entire survey. In short, a majority of survey respondents appear to believe that sound U.S. farm policies must be complemented by sound macroeconomic measures in order to be fully effective.

These preliminary Fowler-McCracken Commission results represent a significant start in the direction of forming a national consensus on agricultural policy. Clearly, a great deal more remains to be done to turn these general recommendations into concrete, effective actions. Difficult economic, political, and social choices must be made in the months and years to come. But with continuing dialogue and improved consultation and cooperation between the public and private sectors, I believe that the challenge which we face today can be successfully turned into opportunities for improved agricultural competitiveness in the future.

Senator JEPSEN. Thank you.

And, now former Secretary Butz, you may proceed.

STATEMENT OF EARL L. BUTZ, DEAN EMERITUS OF AGRICULTURE, PURDUE UNIVERSITY, WEST LAFAYETTE, IN

Mr. BUTZ. Thank you very much.

Mr. Chairman, one of the significant things here today is the obvious unanimity of the positions taken by four previous Secretaries of Agriculture, one under a Democratic administration, three under Republican administrations. And I think, were Secretary Freeman here today, he would be in essential agreement; I've heard him make statements along the same line.

The bottom line is that we simply must be courageous and make some downward adjustments in the level of price supports, loan rates, and target prices, or continue to move in the direction of shriking foreign markets and increasing governmental controls of our farmers.

Mr. Chairman, I have a prepared statement, which I shall submit for the record. First, I wish to summarize 50 years of Ag policy in this country. I am the senior member of this panel sitting up here today in terms of years. I was a graduate student in 1933 in agricultural economics at Purdue University. That was year 1 of the New Deal, when Franklin Roosevelt was President. We enacted dramatic measures that first 10 days of that administration; we virtually remade the social and political complexion of the country.

Henry Wallace from Iowa was Secretary of Agriculture. He was a great Secretary of Agriculture. He came in with tremendous credentials. We were suffering from too much of nearly all major farm products 51 years ago. I well recall we had a flood of New Deal legislation, including the Agricultural Adjustment Administration, popularly called the Triple-A Act.

I have followed U.S. agricultural policy very closely in the intervening 51 years. We have come full cycle, from drastic measures to reduce output, not alone of crops but of livestock also, in those early New Deal days, to efforts to increase agricultural output and back again to restricted production. In World War II, a fellow Hoosier of mine, Claude Wickard, was Secretary of Agriculture. He coined a catchy phrase: "Food will win the war and write the peace." It may have won the war, but it made a rather uneasy peace. Nevertheless, the effort was made to increase output. And the Congress, responding to the plaintive cries of various commodity groups, jacked prices up, removed discretionary flexibility from the Secretary of Agriculture and established mandatory price supports at 90 percent of parity. In those days, we worshiped at the shrine of parity; in those days the farmers' bible read: "And there abideth faith, hope and parity, and of these, the greatest is parity." We raised price supports, and farmers responded perfectly logically to that price incentive with greatly expanded output.

When the war was over, we again found ourselves with too much production. There was a tremendous struggle over price supports that took place in this town in 1954, at the very time I was Assistant Secretary of Agriculture, in the middle of the Eisenhower administration. The effort was to introduce some flexibility in the level of price supports, so the Secretary could adjust price supports downward if we had too much, and adjust them upward if we needed more.

We gradually got away from the concept of parity, which was completely outmoded, and introduced, 12 years ago, in the Agricultural Act of 1973, the concept of target prices based essentially on cost of production. We now set the level of target prices primarily on the basis of cost of production, in which, by congressional direction, we include a charge for land costs.

If my professors 50 years ago taught me anything, it was that return to land, in agricultural production, is a residential return and not a basic cost of production. Nonetheless, we now factor in land as a cost factor on which we set loan rates and target prices. Once again we have removed discretionary flexibility from the hands of the Secretary. This is at least partially responsible for the mess we're in today.

But, looking back, I remember when Henry Wallace was Secretary. We slaughtered 6 million baby pigs and paid farmers for it. We plowed under every third row of cotton and paid farmers for it.

We had birth control programs for cows and for sows and paid farmers for it. The trouble is they hadn't read the book and didn't cooperate very well.

We spent tremendous sums of money, up to $1 billion a year. That seemed an awful lot of money in those days. But it didn't accomplish what the program set out to do.

In the past 50 years, I've seen us come through these cycles two or three times. The error we make is that too often we make long-term projections and long-term legislation on the basis of short-term situations.

We should read Merle Miller's oral biography of President Harry Truman. Harry Truman was a great student of history. In that oral biography, he often has Mr. Truman saying, "The only new thing in this world is history we haven't read." We haven't read the history of farm programs very well, because we just keep repeating the error we have committed earlier.

We now hold the great bulk of the world's food reserves in the United States. Ten years ago I chaired the U.S. delegation to the World Food Conference in Rome. There was an effort made there to provide for a multinational system of food reserves to be held on a broad basis around the world.

From our point of view, it certainly made sense; but it hasn't worked. There is no reason why other nations should carry their own food reserves because they've seen that we carry them in the United States. We carry the world's food reserves here, and they've come to recognize that if reserves in this country get burdensome, we take unilateral action to cut back, as we did last year with the massive PIK Program, and as we are this year with the set-aside and the paid reserve.

By any other name, it's still the same program. We're the only nation in the world curtailing output. A few months ago, I shared a platform in Toronto with Gene Whalen, who was then the Canadian Minister of Agriculture. And, in a rather relaxed moment, Gene said, "Gee, I hope you don't lower your price supports on wheat in the United States; it surely makes a nice world market for us in Canada."

A year ago I was in Geneva at the International Agri-Energy Conference. My topic: "The Politics of the American Breadbasket." There were some 35–40 nations represented there. All the major grain exporting nations except Argentina were there. I said that if I sat in the Ministry of Agriculture in any one of your nations during the developing American Presidential campaign, I would try to select that candidate that promised the highest level of price supports to our farmers and I'd back him with all the money I could sneak into the United States.

Well, that's history.

In more recent times, we have passed the Agricultural Act of 1981. The Congress assumed that inflation would continue at roughly the rate it had been in the recent past, and the Congress wrote in mandatory escalation in loan rates and target prices. Again, Congress removed the window of flexibility from the Secretary of Agriculture, to make adjustments in loan rates and target prices.

The act of 1981 sent a price signal to U.S. farmers to produce more, and at the same time, we sent a price signal to the rest of the world to produce more. Increased production at home and abroad is a perfectly logical response we've got to the price signal we've sent out from the United States.

Add to that the unfortunate experience we have had with embargoes in this country, and it's easy to understand why our exports suffer.

Add to that the occasional action of longshoremen or the Seafarer's Union when they quit loading boats, and you can see why we have become a residual supplier in world markets. This has happened mainly in response to our own uneconomic price signals.

One of the best illustrations of this is the ridiculous Dairy Price Support Program. I didn't use the word "ridiculous" accidentally. The U.S. Government now owns enough butter and cheese and dry skimmed milk to run us for 6 months if we didn't milk another cow.

These are quasi-perishable products. The storage costs are mounting. You can't give it away fast enough because if you give it away in the fashion we are doing, it simply displaces a sale in the supermarkets. You meet yourself coming back.

How did we get into this mess?

We sent a price signal to our dairy farmers, "we want more milk," and dairy farmers, not being stupid, produced more milk.

At the same time we sent a price signal to our consumers, "eat less cheese," and consumers, not being stupid, ate less cheese.

We got a perfectly logical reaction, a completely economic reaction to the wrong price signals.

We have done the same thing in grains. Last year we had to have this massive and expensive PIK Program to make the adjustment not only in our supply of grains but, in the world supply of grains as well.

Look what has happened to dairy in recent months. Congress passed the dairy bill last December, which again lowered the price support for milk by a modest amount. A price signal has been sent to producers that we don't want as much milk, and milk production has been declining in the last few months. This is partly because we have paid producers to slaughter some cows, but also partly because of the lowered price signals.

At the same time, as we have stabilized and in some cases lowered the price of manufactured dairy products, we have sent a signal to consumers, "eat more cheese," and they are indeed eating more cheese. I won't argue whether that is good or bad, but the record shows they are indeed consuming more dairy products in recent months. This has to be, in part at least, in response to the changed price signals we have sent to both producers and consumers.

There is an important lessón here we can't overlook.

In the long run, the margin between too much and too little food in this world is a fragile margin. As I said a moment ago, 10 years ago I sat in the World Food Conference in Rome, a time allegedly of an approaching food crisis in the world. Minister after minister appeared before the microphone asking how are we going to get through next year without mass starvation in the face of the impending food crisis; 12 months hadn't passed until we were again on a reduction binge back in this country, partly because we were again pricing ourselves out of the world markets.

The point I want to emphasize is that the margin between too much and too little food in this world is a fragile margin.

We came out of the last crop year at the end of this October with a 13-percent carryover of total grain supplies in the world. That's 13 percent of annual consumption in world grain supplies. This is a very dangerous, fragile situation to be in. That's about a 38-day supply. If we had had the same kind of dry and not weather at corn pollination time in the Corn Belt in 1984 that we had in 1983, the world would be in a very precarious position today from the standpoint of its food supply in the year ahead. You can't get any more grain supplies for another 12 months, short of the production in the Southern Hemisphere, but that is not nearly as important as in the Northern Hemisphere.

The point I want to make is that we have to be careful that we don't base our long-term projections on short-term situations. We must recognize that in this world of exploding population and of rising expectations, there is an increasing demand for foodstuffs. We must stay geared up to service that market.

We talk a lot about food security. I have been to the FAO in Rome, as have the three other gentlemen on this panel, where we talk a lot about world food security. We have created the World Food Council for the purpose of providing world food security.

I think of food security not alone in terms of having food available; I think of food security in terms of having food available at reasonable prices. That is where the United States comes into the picture because of the tremendously productive food machine we have in the United States.

I think of food security in terms of having food priced low enough that people can afford some of the other ordinary amenities of life besides food; that they might have an automobile or they might have a second bicycle in some places or they might have electricity or running water or some of the other amenities that come only when an economy can feed itself with less than its total resources.

We can do that here in the United States a resource which is unique in the world. If you take the American Corn Belt and the Great Plains area, from Ohio on the east to the mountains on the west, from the Canadian provinces on the north—and I must include them to make this picture complete—to the high plains of Texas on the south, you have the world's largest contiguous land mass with fertile soil, with rainfall adequate in most years to do the kind of production we do there, with land level enough to lend itself to mechnaical operation and therefore low cost operation, with highly capitalized farmers, with high management capacity farmers, with a good infrastructure to deliver the chemicals, the machinery, the fertilizer, the things we need to produce—and then to market, process and deliver the products of those farms. Then put that tremendous water transportation system right down through the middle of it, that makes Peoria, IL, almost as close to Rotterdam as it is to Springfield, MA, freight-wise—not quite as close, but almost as close—and you have a resource absolutely unequaled on the face of the Earth.

But what are we doing? We are shrinking back, we are curtailing output, we are paying not to produce. We make trade difficult. The trade policies we follow in the United States are absurd, with embargoes, with quotas on shipments of automobiles to this country, so that all of us pay $1,000 for every new car we buy that we ought not to pay and wouldn't have to pay in the absence of those quotas. We make it difficult for our customers to buy from us.

We had that big flap that the President just resolved last week on steel import quotas. He said we are not going to have steel import quotas. But he waffled. He said we are going to negotiate voluntary limitations, which is the same thing under a different name.

We have quotas on the shipments to this country of textiles from China. China reacts in a perfectly logical way. They are not fulfilling the fourth year of their 4-year contract on purchase of wheat and grains in this country. They are falling far short of their commitment to buy for a perfectly logical reason: We quit buying from them.

I want to underscore what has been said here previously, that those macropolicies outside agriculture are perhaps more important than policies within agriculture. But we should pursue sound trade policies. We ought to be price competitive. We ought to send a signal to the rest of the world that the honeymoon is over and that we are going to move in the direction of competitive prices; we are not going to keep on pretending that a Government bin is a market, as we have been pretending in this country. Our crops are not marketed until they are in the hands of some ultimate user. We should pursue a price policy that does just that, and doesn't pile them up in Government hands.

I was glad to hear Secretary Bergland take the position in his initial comments here, that we must make realistic price adjustments. That is politically difficult. It must be done in the next Congress with the recommendation and full support from the administration.

I am heartened to see some commodity groups taking that position. I am heartened to see some wheat growers organizations and corn growers organizations taking that position. We must support them.

We must avoid the temptation simply to fine-tune the old programs. We must start out with a new philosophy that we are going to be price competitive, both at home and in world markets. We must recognize that the former program hasn't worked. Farm income can never be enhanced if we follow the path we are on now. Rural welfare can never be achieved in the long run through a program of restriction, of rising unit costs, of market withdrawal, of expanded Government control.

On the other hand, the answer is going to be found in other directions. Key words will be efficiency, lower unit costs, competitive pricing in export markets, favorable macropolicies in the nonagricultural sectors of government, loan rates at market clearing levels, a safety net under agriculture at a level which quits pretending that a Government bin is a market, a signal to our competition abroad that the honeymoon is over.

There is a discipline in the marketplace that works. It's time we give it a try.

[The prepared statement of Mr. Butz follows:]

Prepared Statement of Earl L. Butz

WE'VE COME FULL CYCLE IN AGRICULTURAL POLICY

It was just 51 years ago, in 1933, that the U. S. Congress, engulfed in a flood of New Deal legislation, passed the original Agricultural Adjustment Act (popularly called the Triple-A). I was a beginning graduate student in Agricultural Economics at Purdue University, and of course followed closely the New Deal agricultural program which was supposed to adjust (reduce) agricultural production and thus enhance prices paid to farmers.

In the intervening half-century we have come full cycle - from crop reduction, to full production, to cut-back again. Last year we called it P.I.K. (Payment In Kind). Government paid our farmers, one way or another, to idle some 78 million acres of crop land - this was roughly equivalent to 38% of our total acres normally devoted to corn, grain sorghum, wheat, and cotton. When the Lord signed up in PIK and sent the 1983 drought in middle America, we really over-shot our reduction goal.

This year we call the reduction program by a different name - set-aside and paid diversion. The basic intent remains unchanged.

In the Triple-A program of 50 years ago, we plowed under every third row of cotton and paid our farmers for it. We destroyed wheat which had been planted, and paid farmers for it. We had birth control programs for cows and for sows, but they didn't work very well. We slaughtered six million young pigs, and paid farmers for it. We attempted to control the cattle population at the source. But cows and bulls didn't understand the program; it didn't work very well. We spent what in those days seemed to be tremendous sums of money to reduce output, but it seemed that the more we spent, the greater was the total output. Higher prices were an incentive to produce more.

In the last 50 years, I've seen us come through two or three cycles of too much and too little. I've seen us attempt to curtail output; I've seen us attempt to expand output. I've seen us try to do both of them simultaneously, as we really are doing this year. We send higher price signals out to our farmers to produce more, and at the same time we send checks out to entice them to produce less. I see many of those same contradictory things also taking place in other nations. They are not exclusive to the United States.

The error we often make in agricultural and food policy is to make long-term projections from short-term situations. We've made that error over and over again. It's like a philosopher once said, "It appears that all some people learn from experience is that they've been wrong again." Ex-President Harry Truman, a great student of history, often remarked, "The only new thing in this world is history we haven't read." Too frequently we have failed to read history.

The great bulk of the world's grain reserves are now held in the United States. At the World Food Conference in Rome ten years ago, in 1974, an effort was made to set up a multi-national system of world food reserves. But the plan has never worked very well because, historically, the United States, as a result of its internal price support programs, has carried the bulk of the world food reserves. Not through any conscious effort on our part to do so; it's been a by-product of our internal price support programs. When Congress passed the Agricultural Act of 1981, it set loan rates and target prices at a pretty high level. Moreover, they assumed that inflation would keep on rising at the same rate as in recent prior years. The Congress provided escalation in loan rates for both grain and cotton, and made it mandatory that escalation take place in so-called target prices -- about 11 percent for wheat over a 4-year period and 6 percent for corn.

Inflation has substantially slowed down, but under existing legislation, we still have escalation in target prices. This is, by itself, a clear signal to farmers to produce more. And farmers have responded perfectly logically by producing more. They have stepped up their use of purchased production inputs, such as chemicals, fertilizer, and irrigation. The United States is a dominant supplier in the world export market for grains and cotton. With our minimum price levels set by a high loan rate, our farmers have the option of selling abroad or selling to the United States government. When export prices get a bit below the U.S. minimum price set by the loan rate, they put their crop under loan, and in effect, sell to the U.S. government.

It's a perfectly logical choice that individuals make. So we've gotten ourselves into a position in the United States, in recent years, of producing for the Government rather than producing for the market. As a consequence, we have virtually set a floor under the world price of both food grains and feed grains. We have become the residual supply source for the world's export trade. It's a perfectly logical market development.

Add to that our unfortunate experience with export embargoes in recent years, and you get multiple reasons why the U.S. has become a residual supplier in the world export trade. We have sent a signal to the rest of the world that we're not a very reliable supplier. Add to that the fact that we have had times when longshoremen refused to load American grain on boats destined for Russia, ostensibly as a punitive measure, but really as pressure for higher wages, and "working rules" changes for the seafarer's unions. So, it's understandable that the impression is abroad that we're not a very dependable supplier.

Add to this the present situation where the U.S. internal price support levels become an incentive for the rest of the world to increase output, and the total problem is really compounded. Some of my colleagues argue that price supports are not at an incentive level in the United States; they maintain that I haven't tried to produce corn for three dollars a bushel. I respond that all I know is that at that price level, the marginal cost of producing another bushel must be low enough that we pour on tremendous additional production inputs. Our farmers are doing this. They respond affirmatively to a pre-guaranteed price.

One of the best illustrations we see of this is the ridiculous system of dairy price supports in the United States, which has been costing us over $2.4 billion dollars a year. Under this program, the government has accumulated and now has in storage enough butter, cheese, and dried skim that we can supply our domestic needs for six months if we didn't milk another cow.

How and why did we get into such a mess? The government sent a price signal to our producers, "We want more milk". And farmers, not being stupid, produced more milk. At the same time, we sent a price signal to consumers, "Eat less cheese". And consumers, not being stupid, ate less cheese. We simply messed up the whole situation by false price signals -- to producers on one end, and to consumers on the other end.

We have done something similar to that in grains -- both in the United States and around the world. The bulk of the world's surplus stocks are held in the U.S.

But look what has happened to dairy in recent months. The support price was lowered, and retail prices moderated some. Production has turned downward in response to price, and consumption has turned upward, in response to price. Government purchases of dairy products has been reduced 40 percent, and the cost of the program has been slashed a like amount. Net income for dairy farmers is looking upward again.

The margin between too much food and too little food in this world is a very fragile margin. I think back to 1974 and the World Food Conference in Rome. Minister of Agriculture after Minister came to the microphone and said, "How are we going to get through the next year or two of this food crisis without mass starvation in my country?". That was the current fear about the global food situation, including most of us in the United States. But scarcely a year had passed, until we were wondering how we were going to get rid of the supplies we had. We've gone through that cycle of too little/too much two or three times in the last two decades. When I became U.S. Secretary of Agriculture in 1971, we sat on top of mountains of grain -- of corn, wheat and grain sorghum, and of cotton. The government owned it. It was a question of what to do with it. The pressure was on to get rid of it, any way. And we really moved it out, both at home and abroad. The headlines blared the big United States sale of grain to Russia. Our sales to third world countries that year increased a great deal. Japan remained our number one customer. We succeeded too well in reducing supply.

Within a year, the pressure was on to shut off exports to stop the rise in domestic food prices, and to release those acres which had been immobilized. Our farmers planted "fencerow to fencerow" in response to higher prices. Since then, we've been through this cycle again of too much/too little in the world. Again, I point out that it's a fragile margin between too much and too little grain in the world.

Too often we make a serious mistake in basing long-term predictions on short-term situations.

The source of our problem is an attempt to keep support prices at too high a level, which are incentive levels. This results in a number of undesirable things. It has a negative impact on world trade; it encourages national self-sufficiency; it encourages efforts to dispose of your surplus one way or another. World trade in food is a good thing. As a matter of fact, I think world trade in any commodity is a good thing.

I am alarmed about the current world drive toward economic nationalism, and the trend to rising trade barriers. You see it all over the world. This is associated, in part, with the drive for food self-sufficiency. And that comes, I presume, partly because of the political insecurity that grips so much of the world today.

I think of food security not alone in terms of adequate supply, but also in terms of cost. If one must spend 80% of his income for his food, he can't afford to own any of the ordinary other amenities of life. He doesn't have "food security". We should produce our food where it can be produced at lowest cost, and then trade among nations.

In the United States, we have one of the world's great resources in the food business. That's in the American Cornbelt and the Great Plains area, from Ohio on the east to the Rocky Mountains on the west; from Canada on the north to the high plains of Texas on the south. In this area we have the world's largest contiguous land mass with fertile soil; with adequate rainfall to do the kind of farming we do; with land level enough to lend itself to mechanical operation, and therefore low cost operation; with that marvelous growing climate in the temperate zone, with long periods of sunshine in July and August, right when the corn plant is doing its job; with highly capitalized, high management capacity farmers; with a good infra-structure to deliver the production inputs we need, and to collect and process and market the produce of those farms. Then put that marvelous water transportation system -- the Mississippi River and its tributaries - right down through the middle of the area, and that makes Peoria, Illinois, almost as close to Rotterdam as it is to Springfield, Massachusetts, freight-wise. Not quite as close; but almost as close. In this fortunate combination, we have a unique resource that's unequalled any place else on the face of the earth. That's not to our credit. The Lord just put it there. We have learned how to use it.

But now we're in the position of cutting back on that tremendous resource, through P.I.K., through set-asides, through paid diversion. We're in the process now of raising the cost of feeding the world by keeping uneconomic areas and uneconomic resources in the business of feeding the world, because we're drifting away from the concept of trade based on comparative advantage.

From the standpoint of providing <u>real</u> food security in the world, we're moving in the direction of raising the social cost and economic cost of feeding the world. We are maintaining uneconomic areas and uneconomic resources in this business, both in this country and abroad, as we build up barriers to trade, as we seek national self-sufficiency in our food systems.

How do we address this problem? How do we again unleash the tremendous productive capacity of Middle-America's bread basket? How do we re-direct world grain production to areas of greatest efficiency and lowest unit cost, both at home and abroad? How do we re-establish our competitive edge in the world's export markets? How do we lift the onus of production controls from our farmers? How do we restore the hope of expanding markets and rising incomes to our farmers?

It is increasingly obvious that the answer does not lie in the course we have been following. That path leads inevitably to expanded competition abroad, to loss of foreign markets, to curtailed production at home, to the proliferation of governmental controls, and to reduced income.

If we are tempted merely to fine-tune the old programs, we should recall President Harry Truman's warning "The only new thing in this world is history you haven't read".

What we have been doing obviously doesn't work. Farm income can never be enhanced and rural welfare can never be achieved, in the long run, through a program of restriction, of rising unit costs, of market withdrawal, of expanded governmental controls.

The answer must be found in other directions. Key words will be: efficiency; lower unit costs; competitive pricing in export markets; favorable macro-policies in the non-agricultural sectors of government; loan rates at market clearing levels; a safety net under agriculture at a level which quits pretending that a government bin is a market; a signal to our competition abroad that "the honeymoon is over".

There is a discipline in the market place that works.

Let's give it a try.

Senator JEPSEN. I thank you, Mr. Butz.

I have asked a member of my staff to pass out some papers. It is a series of highly recognized phrases and concepts, which I would appreciate your brief reactions to. Cumulatively, I think it will provide invaluable background for the record. In one form or another, most of you have addressed each of these things in your remarks, so you can make it very brief.

Mr. BUTZ. Mr. Chairman, are you now going to give us a quiz? [Laughter.]

Senator JEPSEN. Well, no, these are highly recognized phrases and concepts that we hear continually when people talk about agricultural policy in this country. I think we could move through this rather quickly. That is why I had them give this to you.

If we may, I would just like to start with Mr. Bergland. We can take one at a time, or if you would prefer, to go down the list—why don't we just take one at a time for a couple of them? Then maybe we can finish them all at once.

Mandatory controls versus a more market-oriented farm policy.

Mr. BERGLAND. Mr. Chairman, I am not quite sure I understand what you are asking.

Senator JEPSEN. I would like your reaction. Do you have a one-liner you could give on this? I know one-liners are tough on these things.

Mr. BERGLAND. Well, I am for a market-oriented policy, but I am also aware that this is a political world, and farmers themselves can't be put into it by themselves.

Senator JEPSEN. That is good.

Mr. Hardin.

Mr. HARDIN. I agree.

Senator JEPSEN. Mr. Knebel.

Mr. KNEBEL. Mr. Chairman, I just hope that the Congress would resist the impulse it always has when you sit down to write a farm bill—I have been involved in writing several of these—to sugarcoat it. As I say, I just hope the Congress can show some restraint next year when it sits down to write the farm bill away from the sugar coating that invariably occurs.

Unfortunately, when you get something started, when you start talking about market orientation, but often by the time it comes through the end of a conference it has such levels in it that it is no longer market orientation. We have become a residual supplier and relegated to a sideline position.

Senator JEPSEN. Mr. Butz.

Mr. BUTZ. Let me comment on your No. 2 question, support prices at full cost of production.

First, it is very difficult to determine the full cost of production. You ask anybody, are you recovering production costs? The automatic answer is: No, I never get enough. What is a fair price?

Years ago I taught a course in agricultural prices at Purdue University. My students would ask me, what is a fair price for hogs? The only quick answer I could give was 10 percent more. And I was correct.

They said, what is a fair cost of corn that you feed your hogs? The only quick answer I could give is 10 percent less. I was correct on both scores.

This is the way we regard it. The marketplace is always trying to maximize your price and minimize your cost. If you let the marketplace work, it is always trying to do that.

But now comes the Congress, who mandates that we tie our price supports to cost of production someway or other. They have mandated the Department of Agriculture to calculate cost of production on all the crops.

The cost of production for soybeans is markedly different in Iowa and South Carolina, for example. It is markedly different even among neighboring farms in Iowa.

It is very difficult to calculate a figure like that. And then along came the Congress a little later and mandated that we include land costs, as a cost of production.

And what has happened? You base your cost on your land price, and you want a fair return for the land price, and you include that in the loan rate, and it jacks the loan rate up a little bit, which then increases the level of income, and you capitalize that in land values, and that goes up. That raises the price support. You capitalize that, and the land price then goes up. That is what we have done for 10 years in this country until we have gotten to the place where you have $3,500 land in Iowa, and there is no way you put a pencil to that kind of corn land and come out on it. There is no way you can do it.

But we have simply jacked it up that way, in part at least because of the level of price supports based on cost of production. It doesn't make sense economically. From the standpoint of economic theory. I don't know even the most liberal economist who would argue that that is validly included as a part of the cost of production.

I think that has to be corrected. I think you must give the Secretary of Agriculture some degree of flexibility in what he does. True, not all Secretaries of Agriculture are as wise as the four you have sitting here, but they are reasonably wise. [Laughter.]

And I think they have a good staff of economists that can calculate this.

I would say you need a safety net under farmers, as Mr. Bergland pointed out and Mr. Hardin pointed out. You need a safety net under farmers because, after all, they are on an annual crop basis. They make financial commitments ahead of time, and need a safety net. But this should not be so at such a level that it becomes the market in itself.

Senator JEPSEN. Does anyone else want to comment on support prices and full cost of production?

Mr. BERGLAND. Mr. Chairman, one word. It's been a couple of years since I have looked at the cost of production data. I think the last time I saw the number was in 1981. There was a wide variation in the cost of production between and among farms.

Generally, it was tied to regions. I recall, in the case of wheat, for example, that the cost of production ranged from a low of $3 a bushel to a high of over $13. And, bean costs were the lowest in Illinois and were about $4.50 or $5 a bushel; they were the highest in South Carolina, and were close to $20 a bushel.

The wide variation is generally attributed to yields. Therefore, it is impossible to establish a fair and reasonable benchmark if one is to take production cost criteria as the basis upon which to set the support rate.

Senator JEPSEN. Anyone else? [No response.] No. 3, the farmer-owned reserve.

Mr. HARDIN. I'll take a crack at that, Mr. Chairman.

If there is to be a reserve, it should be kept on the farm. I would much prefer that. But, if we're going to do like the 1981 act calls for and put no limits on it and lock it up for 3 years, it won't work.

Senator JEPSEN. Any other comments?

Mr. BERGLAND. I'd agree with Mr. Hardin. The farmer-owned grain reserve was established during my term at USDA. We did not intend it to be used as a price-supporting device. It was intended to be used as a marketing device, recognizing that yields are unpredictable on a global basis, and some years there will be surpluses and some years they will be drawn down. The farmer-owned grain reserves concept was established to be that economic shock absorber. It was never intended to take up surpluses and hold them in perpetuity.

Senator JEPSEN. Anyone else? [No response.]

All right, the family farm. Does someone want to comment on that? That's used often. We find that less than three- or four-tenths of all the farms in the Nation are what you would call corporation farms; the rest are farmed by families in one form or another. Yet, we talk about family farms and some people look at them as a neat little package of 160 acres with a swing on the front porch, and so on. Others in Iowa, such as my own brother along with two sons and one son-in-law, are basic family farms. The farm has been added to. It amounts to more than 160 acres, a considerable investment, but there's a lot of talk about family farms.

Is there any general comment that someone would like to make on that?

Mr. BUTZ. Mr. Bergland chaired the Family Farm Policy Review, did you not?

Mr. BERGLAND. Mr. Chairman, I have a chart that has been assembled from data published by the Department of Agriculture, which I would be willing to submit for the record, which contains the numbers to which you referred and briefly summarized.

[The chart referred to follows:]

Cash Receipts, Income, and Farm by Sales Class, 1982

	Farms	Gross Returns	Net Income Per Farm	Net Farm Income	Non-Farm Income Per Family	Net Family Income per Farm	Net Worth per Farm
	Thousands						
Farms with annual sales of:		Billion $	$	Billion $	$	$	$
$500,000 and above	25	45.6	572,000	14.3	25,900	597,900	2,651,000
$200,000 - 499,999	87	29.5	54,072	4.7	13,128	67,200	1,322,000
$100,000 - 199,999	186	30.4	19,892	3.7	11,008	30,900	866,000
$ 40,000 - 99,999	393	31.3	5,343	2.1	10,857	16,200	521,000
$ 20,000 - 39,999	273	10.5	366	0.1	13,034	13,400	324,000
Under $20,000	1,436	16.6	-69	-0.1	18,769	18,700	137,000
All Farms	2,400	164.0		23.9		26,400	347,000

Percentage of total

	Farms	Gross Returns	Net Income Per Farm	Net Farm Income	Non-Farm Income Per Family	Net Family Income per Farm	Net Worth per Farm
$500,000 and above	1.0	27.8		59.9			
$200,000 - 499,999	3.6	18.0		19.5			
$100,000 - 199,999	7.7	18.5		15.4			
$ 40,000 - 99,999	16.4	19.1		9.1			
$ 20,000 - 39,999	11.4	6.4		0.6			
Under $20,000	59.8	10.2		-4.5			
All Farms	100.0	100.0		100.0			

Source: Basic USDA Data

Mr. BERGLAND. In that year, 1982, according to the Census Data, there were 25,000 farms in the United States that had annual sales of more than $500,000. Some of those were family enterprises, they weren't all corporations. Some of these were partnerships—fathers, sons, brothers—that were family-owned and family-operated arrangements.

So it's impossible to generalize on this subject. There were 87,000 farms with gross sales of between $200,000 and $500,000. Most of those, I think, were family enterprises. There were 186,000 farms with sales of between $100,000-$200,000. I would guess that almost all of those were family enterprises, and that the farm was operated by the family without hiring much nonfamily labor, which is the usual and official criterion.

There were 393,000 farms with gross sales of between $40,000-$100,000. There were 273,000 farms with sales between $20,000-$40,000 a year. And there were 1.4 million with sales of under $20,000 per year.

Now, the interesting set of numbers which don't show up in these farm data is simply that the earnings from jobs and salaries among these families was greater than the income earned from the farm.

Senator JEPSEN. Well, I'd like to probe this a little bit more. You know, politically, if something is perceived to be so, it doesn't make any difference whether it's right or wrong. If it's perceived to be so, that makes it so.

The family farm is being talked about a lot. It was referred to here by a panel member today. Mr. Bergland, I think you used the term targeting Government benefits to a family-scale farm. There are coalitions that say we've got to preserve the family farm. There are people on the campaign trail throughout this country, both sides of the aisle, that are talking about the agricultural policy that ignores the family farms.

But I just heard you say that most farm operations are family farms.

What does the term "family farm" mean—how should it be used? I was ridiculed a little bit for giving a definition of a family farm, which I did on the GOP platform at Dallas, TX, because I thought it needed to be defined, which pretty much reflected what you read there:

A family farm is one with financial interest on which the "family" spends the overwhelming majority of their time managing their own investment in this interest, and actually engages in the business as they stand to lose or gain from whatever the financial results are.

That kind of takes it away from these cozy cliches and little buzz phrases about the family farm being something that's kind of nebulous. Although politically, it's used a lot.

What should we call family farms?

Mr. BERGLAND. Mr. Chairman, there's an official definition. That is, simply:

An enterprise in which the work is performed by members of the family. That, I would think, encompasses practically all American agriculture.

What is significant here though in these numbers is that out of the 2.4 million farms in the United States, 1.4 million don't farm for a living. These are persons who choose to live on a farm, but they're not really out there to farm for a living. They're on a small hobby farm with perhaps a few cows, chickens, a garden or horses, or whatever, and have a job in town.

So I don't think we really need to include them in the definition because they're rural residents. They enjoy what they're doing and they ought to be encouraged to stay there, but that large group of small farms in the year 1982 only produced 10 percent of all the food and fiber that came from our agriculture. So they're not commercial and they are not affected by price supports in the ordinary kind of agricultural policy decisions.

Senator JEPSEN. But they're read about and used a lot in discussions. For example, the average farm income and the profitability of farming. I know there's a difference in the percentage of farms that are profitable when you leave off-farm-income out. If you include the off-farm-income the percentage of farms that are profitable goes up considerably.

So, for planning purposes, and I won't pursue it any longer—so, for planning purposes, and as we get into the 1985 farm bill, I think we need to separate out some of these things and look at them rather than lump them altogether and say:

> Woe is us. We've got farm units that are either 50-plus percent profitable when you're including off-the-farm income, or we've got farms only a very small percentage of which are profitable in this country.

So much for the family tree.

Mr. Butz, do you have comments?

Mr. BUTZ. I'd like to comment briefly. You say our purpose is to save and strengthen the family farm. But it ought not be to freeze the pattern of farm production.

When I was born, there were 40 percent of us on farms. Today, we have 2.5 percent on farms. I'm very happy that nobody at the time I was born said, "We're going to freeze the pattern of production so that you can't adjust, and we're going to keep 40 percent on the land." We're still in the process of adjustment.

But, as Mr. Bergland said, these are still family farms. And, as you pointed out, they may be million-dollar corporations. You described your brother's farm; it's a multimillion-dollar operation. Yet, it's a family farm.

I think we must be very careful that we don't impair the ability of our farmers to grow large and to have multifamily units on a still family farm. You just described that yourself, with your brother, which means that if you've got a livestock farm, each family can get away over the weekend if he wants to. You've got multimanagment units on that farm. But it's still a family farm.

This is becoming increasingly the pattern of farm operation. We ought to be careful in our farm programs that we don't penalize that type of operation, because that's going to keep us efficient, keep us market competitive, help us regain our posture in export markets.

Senator JEPSEN. That brings us right into the next one, the Targeting of Government Assistance. You addressed that rather extensively, Mr. Bergland.

If I heard you correctly, we did, in fact, target those farms with lesser income—I think you said it was $69 a year that some of them were making—while others were making substantially more than that, would you care to elaborate on that?

Mr. BERGLAND. I'll send the numbers to you, Mr. Chairman, so that you and members of the committee can look at them. But, just to summarize, the 25,000 biggest farms in the country in 1982 earned a net income of $572,000 apiece.

I submit that they're really not in trouble. That category really doesn't need Federal aid. There is no evidence to suggest that we should continue to provide Federal aid to farms on that scale.

Senator JEPSEN. Do you happen to know what percentage of these were, quote/unquote, "corporation farms" versus this "family farm"?

Mr. BERGLAND. No, sir, I do not. One thing I do know from the studies we conducted during my time at USDA, on the structure of agriculture, from which these numbers come, I was struck by the fact that the maximum efficiency on the farm is achieved at a relatively small size, surprising as it may seem.

In 1980, the number was $150,000 gross farm sales. A farm of that size in that year was big enough to use modern methods and achieve almost all the economies of scales. Farms that were much bigger than that were frequently much higher cost producers.

There's a belief in some quarters that there's a straight line in the efficiency; that is, as they get bigger, the cost of production goes down.

Mr. Chairman, that is not automatically true. I think it would be in the public interest to target any benefits such as price supports or any income insurance arrangements which may be developed, and any other forms of assistance, including credit, that they be targeted with some structural objectives in mind.

I would draw the line at, say, $200,000 gross farm income, and while farms with income above and beyond that would be encouraged to expand, they would do so on the basis of what the market could bear, while we direct the benefits to those farms that are more medium sized. I think then we could deal effectively with the problems of young people who are getting started, run up against the problem of a poor crop or poor prices, and subsequently get wiped out financially as is currently happening.

We really ought to target the benefits to those kinds of enterprises.

Senator JEPSEN. Are you thinking of commodity programs? Exactly what specific Government assistance do you have in mind when you say target?

Mr. BERGLAND. Mr. Chairman, I'm personally fascinated by an arrangement that's being developed in Canada. It's an income insurance program where growers cooperate with their Government in an income insurance arrangement and are paid out of a fund that has nothing to do with commodity policy.

I think something like that should be looked at.

Senator JEPSEN. Anyone else?

Mr. KNEBEL. Mr. Chariman, I would caution the committee not to just arbitrarily decide that all farms are necessarily in good shape. I happen to be practicing law and have some involvement, and have seen firsthand some very, very large farming operations which, irrespective of their size, does not necessarily reflect that they're genuinely sound in the financial sense.

In fact, I think, if you look at the bankruptcy portfolio in agriculture today, you'll find that it cuts criterion by which you should just automatically decide and conclude that just because a farm is big, it's safe.

Senator JEPSEN. Targeting connotes that somebody has to make the decision on who should be targeted. That's probably the biggest difficulty to overcome.

U.S. trade protection, domestic content. Is there any disagreement from anyone on the panel as to the advisability of that? Or, inadvisability?

Mr. BERGLAND. Mr. Butz alluded to it. We do it all the time. We do it in textiles, beef and dairy, steel, and other commodities. I think, as a rule, that this approach is not in our public interest, but then there are political problems to take into consideration.

I was overrun by demonstrators objecting to the importation of beef during the time I was in the Department. I know about this domestic content business firsthand.

Senator JEPSEN. I understand that, but I am not sure I understood you. Do you feel that we should have domestic content, or do you feel it is not healthy for agriculture to have it?

Mr. BERGLAND. I think in the long pull we ought to not have it as a general policy, but there are these short-term political problems which arise that have to be dealt with.

Mr. Chairman, it is neither in the interest of the American public or of agriculture to have domestic content legislation, to have the kind of rigid quotas we have now.

The Japanese can send a certain number of units to this country. As a consequence they send the high priced units, they sell them under our protected market, and the American public pays a tax of about $1,000 per automobile, it has been estimated.

As a matter of fact, it also has been estimated that for all the jobs this saves in Detroit we could pay them $200,000 a year for the rest of their lives on retirement and be money ahead, based on the costs that we pay ourselves when we buy a new automobile because of that kind of legislation, that kind of executive action.

But let's point out that agriculture, too, doesn't have completely clean skirts on this. A few weeks ago when hog imports from Canada picked up a little bit, the plaintive cry came from the National Pork Producers: "We have got to have something to stop that." It came out of your State of Iowa.

Senator JEPSEN. They want free trade, but they want fair trade. That is their slogan.

Mr. BUTZ. But that covers a multitude of evils. What the individual community groups want is to get the imports stopped. You can call it any thing you want to, but the bottom line is trade restriction.

We are not consistent. Mr. Bergland just mentioned beef coming in. That poses a bit of a problem, but it's not that important.

We maintain a very high-cost sugar industry in this country by doing this. The sugar lobby jacks the loan rate up on sugar, and then we try to keep foreign sugar out. But you can't pass a tariff against Iowa-produced corn, out of which we make high-fructose corn sweetener. Right now you can't get a soft drink in this country with any sugar in it. It all has corn sweetener in it.

This is a case in point, where we have severely curtailed the market for sugar in this country by unwise pricing practices.

Senator JEPSEN. Some people call it tinkering.

Farm debt restructuring. That is very current.

Does any one of you former Secretaries have any comment on that?

Mr. BERGLAND. Mr. Chairman, I have been talking with some of the leaders of the American banking community. My judgment is that about one-third of the farm operators in the United States have no debt of any consequence; about a third have a debt they can manage; but about a third are in trouble. I do think that some form of restructuring is in order, but I think it has got to be on a case-by-case basis.

But I don't think it really takes much change in law. From my recollection, the Farmers Home Administration and the SBA and other Federal lending agencies probably have all the authority they need to negotiate these out on a basis that protects the public interest and does help these borrowers.

Senator JEPSEN. Can this individual basis be handled by a local committee like Paarlberg has recommended? There are some people that have recommended this approach as I have.

Mr. BUTZ. May I comment on that?

You are absolutely right, Mr. Chairman. I know you recommended that in your own statements and in your own legislation on a selective basis.

If we ever get to the point in this country where we impose a wholesale ban on foreclosures, for example, and can't recover on the security we have back of a loan, all you do is raise the cost of credit for all borrowers in agriculture. After all, capital is a very fluid thing; it won't flow into a high risk situation where you can't recover it.

The posture taken by the administration last week when the President announced some credit relief is sound, on a selective basis for local committees to determine whether a particular borrower can make it. If he can't make it, maybe he had better get out before he uses up all the equity he has. But a local committee can decide that. Then a lending institution makes some contribution itself to reconciliation of the debt.

Mr. HARDIN. I had a recent experience on this with some of the Federal Reserve people out in the middle of the country. They had their inspectors out looking at bank loans. This is not Government loans but bank loans. He was wondering whether they—what they should tell their inspectors on classifying loans.

I urged him to look at them with great care. If a good farmer is in trouble but if he could last another year or two he could make it, you should stay with him.

In other words, redefine the problem owners a little bit in these terms. If it is a hopeless situation and there is no chance, then you already know what to do.

But this is a time for some understanding and moderation.

Senator JEPSEN. I think the next item, the value of the dollar, everyone has addressed. It is a problem we wish we didn't have as far as farm markets and exports go.

Next is the cost of compliance with respect to conservation practices. If it is possible for you to do so with a "yes" or "no," I would like to have all four of you address that.

Mr. BERGLAND. I am for it.

Mr. HARDIN. In theory, but you have some problems. You may end up with compliance that some areas of the country don't need, I don't know how you write it.

Mr. KNEBEL. It is tough to enforce, but I certainly think it is worth the effort.

Mr. BUTZ. There are too many ways to wire around it. I wouldn't try it.

Senator JEPSEN. OK. [Laughter.]

The last two. Government subsidies for promotion of exports. Anyone want to comment on that? We touched on it. Does anyone have any closing remark on it?

Mr. BERGLAND. Mr. Chairman, just one comment. I came into the Department of Agriculture in 1977 very skeptical about the effectiveness of the so-called Cooperator Program, in which the Department of Agriculture matched money with the 44 private commodity associations, and together they went overseas and helped develop markets. I wasn't sure that this was a good use of public money.

But after seeing it close hand and after going overseas and observing how these projects are managed, I came out of there a believer, and I would strongly recommend that the program not only be continued but be increased.

Mr. HARDIN. The parts of it that I have seen in operation I favor.

Mr. KNEBEL. Mr. Chairman, as we have looked at this McCracken-Fowler survey, the key to the future certainly seems to us—and I believe it is a consensus point—that unless we turn these exports around we are going to have to really throttle down on our size of production, and certainly the trade associations that have these interests in hand are well able to given an extra dollar, really extend your tax dollar. It is a fine investment and certainly should be continued and expanded.

Senator JEPSEN. Anybody else? [No response.]

Agricultural tax policy. Any comments on that before we get to our last?

Mr. BERGLAND. I have some opinions on the matter, Mr. Chairman. I was waiting for my colleagues.

Here again, I think we ought to look at the consequences of tax policy. What I am really concerned about is the direction we have undertaken here in recent years on policy matters like estate taxes, in particular.

I have a neighbor in my farming community up home in northern Minnesota who has inherited a million-dollar farm tax-free, practically speaking, debt-free. That young neighbor is competing with my son-in-law, who hasn't inherited a penny, and my neighbor starts out with a tremendous economic advantage over my son-in-law, and I fear, Mr. Chairman, that with the direction we are headed in tax policy in the United States that we are going to establish a track in which those persons who inherit land have an inherent advantage over those who do not, and this could be big trouble.

Mr. BUTZ. Mr. Chairman, I have the answer for Mr. Bergland. Give the farm to his son-in-law.

Mr. BERGLAND. Well, he married my daughter but not with that in mind. [Laughter.]

Senator JEPSEN. He would have an imputed interest problem. Maybe that is another problem; that is another dimension. We might address that in the next couple of days before we close shop here.

If you could make one major change in farm policy via the 1985 farm bill—if you would care to answer that. I would understand if you didn't, but to build the record I would appreciate it if you could respond to this question: What would be the major change in farm policy you would make?

Mr. BERGLAND. For openers, Mr. Chairman, I would target benefits and give the Secretary more flexibility.

Senator JEPSEN. Mr. Hardin.

Mr. HARDIN. I would pick those also.

Mr. KNEBEL. Mr. Chairman, I believe you have got to get more flexibility in the hands of the Secretary, and you have got to do more to increase your exports.

Mr. BUTZ. When the 1973 farm bill was passed and the principle of escalation was introduced we in effect announced to the world that we were supporting world prices. I think the new bill should have a scheduled deescalation in it, to tell our competitors abroad that "the honeymoon is over."

Senator JEPSEN. Deescalation. OK.

Does anyone have any statement they would like to make in closing?

Mr. BUTZ. I think we should commend you, Mr. Chairman, for having this hearing before the Joint Economic Committee.

I fully recognize that the legislation will very likely come out of the Agricultural Committees in the Senate and the House, but the Joint Economic Committee has a very definite interest, as does the whole Congress. We want to commend you for doing this, and for taking the initiative as you have.

I understand you are going to have a series of hearings with other groups. This is a subject in which we need a lot of thought and a lot of light and a lot of resolution. You have taken a step in the right direction.

Senator JEPSEN. We have been doing this for 2 years now, with the blessing of both the agricultural chairman in the House, Congressman de la Garza, and the agricultural chairman in the Senate, Senator Helms, and we hope to be able to provide both input and material, research, facts, and so on on a broad-based basis to the folks who will be working on developing the next 1985 farm bill.

I advise the audience and the members of the press that next week the Joint Economic Committee will hold two more agricultural hearings.

On October 2, at 10 a.m., we will have a hearing on the "New Directions for Agricultural Science and Technology for the 1980's." It will be two study groups reporting on the recent findings about high tech needs of agriculture.

The second hearing will be the "Economic Evolution of Agriculture." This will be the unveiling of the Bureau of the Census report on the 1982 census of agriculture. That will be Wednesday, October 3, at 10 a.m., in room SD-138 in the Dirksen Building.

I thank you gentlemen for coming. I know all of you know and have firsthand experience in farming, so you will appreciate the story I would like to share with you in closing.

I called my brother from Dallas when we had completed the agricultural plank in our platform, after spending about 4½ days or so pretty much around the clock getting this done, and I was quite enthused about it. I do this quite often to use him kind of as a sounding board because he is very candid, as farmers are, and he tells you what he thinks, and he does it immediately.

So I told him about this great plank that we had, and he listened, and finally, when I finished, he said, "Well, what we really need is two inches of rain," and that kind of brings you back to Earth. [Laughter.]

I thank you very much. The committee is adjourned.

[Whereupon, at 3:55 p.m., the committee adjourned, subject to the call of the Chair.]

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