TOWARD THE NEXT GENERATION OF FARM POLICY

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE

AND THE

SUBCOMMITTEE ON AGRICULTURE AND TRANSPORTATION

OF THE

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TOWARD THE NEXT GENERATION OF FARM POLICY

THURSDAY, MAY 19, 1983

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

The committee met, pursuant to notice, at 9:40 a.m., in room SD-124, Dirksen Senate Office Building, Hon. Roger W. Jepsen (chairman of the committee) presiding.

Present: Senators Jepsen, Abdnor, and Mattingly; and Representatives Scheuer, Snowe, and de la Garza.

Also present: Robert J. Tosterud and George R. Tyler, professional staff members.

OPENING STATEMENT OF SENATOR JEPSEN, CHAIRMAN

Senator JEPSEN. Welcome, Mr. Secretary. Your appearance here today signals the beginning of one of the most comprehensive evaluations of farm policy that has ever been undertaken by the Congress. During the next 5 weeks, this committee will receive testimony from 32 witnesses appearing on 8 separate panels, each panel addressing a critical component of farm policy.

The administration, the farm organizations, and professional experts in agricultural economics will provide their perspective on future directions in farm policy and programs. These hearings will be followed by panels focusing on the "Consumer's Interest in Farm Policy"; "Agricultural Trade Policy"; "The Economic Conditions and Prospects of Agricultural and Rural Businesses"; "Program and Policy Choices in Agricultural Conservation"; and "Financing Agriculture in the 1980's."

Following these 8 Washington hearings there will be 5, perhaps as many as 7, regional field hearings throughout the country at which we anticipate hearing from an additional 175 to 200 witnesses.

The overall theme of this effort is "Toward the Next Generation of Farm Policy." Its primary objective is to solicit facts and opinions and generate public thought and debate relative to future farm programs and policy. Specifically, all witnesses are being asked to provide judgments on four key farm program elements: Income maintenance; supply control; international trade; and conservation. It is anticipated that the record will be of assistance to the administration and the Senate and House Agriculture Committees in formulating future farm legislation, particularly the 1985 farm bill.

The Joint Economic Committee has the authority, tradition, resources, and obligation to study the economic condition and prospects of major sectors of the U.S. economy. With agriculture generating 20 percent of this country's gross national product, one-fifth of its jobs, accounting for $1 trillion in assets, and as our largest positive contributor to our balance of payments, there is no question that agriculture and its associated industries is a major and dominant sector of the U.S. economy.

In addition, the JEC is specifically authorized under the Employment Act of 1946 "to make a continuing study of matters relating to the Economic Report of the President." The 1983 economic report of the President emphasizes that farm policy and programs are perhaps the most critical determinants in the economic condition of agriculture.

The Joint Economic Committee has a tradition in farm policy analysis. Twenty-five years ago, Mr. Secretary, the JEC conducted a major study entitled "Policy for Commercial Agriculture." Within the academic community, this study is highly regarded and considered a classic. A little over a year ago, the Subcommittee on Agriculture and Transportation of the JEC, under the leadership of Senator Abdnor, held a series of eight hearings and in December of last year, published a staff report on the changing economics of agriculture and the importance of agriculture to the U.S. economy.

Traditional farm programs implemented in 1981, 1982, and 1983 have been costly and have proven to be ineffective in reversing the economic deterioration of the farm sector. The need to resort to the payment-in-kind program is a clear indication of the failure of traditional farm programs. PIK has given us 1, maybe 2 years to formulate and implement the next generation of farm policy—programs which will encourage the production of adequate supplies of food and fiber so as to maintain reasonable prices for consumers and, at the same time, assure farmers a fair return on their investment and efforts.

Mr. Secretary, today, U.S. agriculture is at a crossroads in its evolution as an industry. There is a growing concern that the selection and implementation of inappropriate farm programs could lead U.S. agriculture down a road of recession, decay, and perhaps economic oblivion. The alternative is a new generation of farm programs that will lead U.S. agriculture into an era of prosperity. And today, we take the first step in this journey.

And finally, I'd like to thank the National Public Radio for broadcasting these hearings nationwide. This is a very important issue and I am pleased that the American people will be able to participate in this way. I'd like to invite listeners to help the committee by sending us their own ideas on the future direction of farm policy. It would be a serious mistake for us to think that all wisdom on this issue is to be found here in Washington. My experience is that the best ideas tend to come from individual Americans who are concerned about issues and who get in touch with their representatives.

So if you have ideas on the future directions of American farm policy, please send a letter addressed to Box A of the Joint Economic Committee, Washington, D.C. 20510. That's Box A, Joint Economic Committee, Washington, D.C. 20510.

Again, welcome, Mr. Secretary. I do look forward to your comments. The origin of currrent farm policy, Mr. Secretary, is the Agriculture Adjustment Act of 1933 signed by Franklin Delano Roosevelt

50 years ago this month. I think it's time we move toward the next generation of farm policy.

At this time I would recognize and welcome the distinguished chairman of the House Agriculture Committee, Congressman de la Garza, and I would yield to the distinguished chairman for any comments that he might have and thank him for his bipartisan cooperation and joint venture in this.

OPENING STATEMENT OF REPRESENTATIVE de la GARZA

Representative DE LA GARZA. Thank you, Senator Jepsen. I truly appreciate your invitation to join you this morning to initiate this important series of hearings. I would like to tell you that there may have been some concern in some areas as to why another committee, rather than the Agriculture Committee, would be handling this type of inquiry. But let me assure you that as chairman of the House Agriculture Committee, I welcome your initiative in this area. I welcome anyone who would endeavor to assist us in formulating the farm policy for the next decade and possibly into the next century.

As you have stated, we are in a very critical time in agriculture and we need to take a look at where we are and what direction the American people wish to take in the farm sector. I know that the one direction that all of us want to take now is up because we're at the bottom economically. Particularly, I think that these hearings should be held in your Joint Economic Committee with this prestigious group because I feel that the industrial sector, Wall Street, New York, the major banking institutions, and the major boards, really don't realize the importance that agriculture plays into our economy.

And as you have stated, if I might repeat, agriculture makes up 20 percent of the gross product, and one-fifth of the jobs; the only area where we're bringing back money in our balance of payments.

So I thank you for your initiative, and I commend you for it. I offer you our pledge of cooperation from the House Agriculture Committee.

I would suspect that everyone who appears before you, including our distinguished guest this morning, whom I welcome along with you, is going to give you their side of the story. Some of them will paint a very bleak picture for every farmer. Some will probably tell you that it isn't all that bad. And some may tell you how good it is out in rural America.

I would hope that you would elicit from all who appear before you the meat of the subject and give us a report that will be positive for our needs, and be factual, from all the areas that will be involved.

Again, I welcome the opportunity to join you. I commend you. And I thank you for the courtesy of inviting me to initiate these hearings with you.

Senator JEPSEN. I thank you, Congressman. Senator Abdnor.

OPENING STATEMENT OF SENATOR ABDNOR

Senator ABDNOR. Thank you, Mr. Chairman. I, too, want to welcome you, Mr. Secretary, and my good friends, Mr. Mizell and Mr. Lesher. We really appreciate having our House Agriculture chairman with us today. I think this adds to the importance of this committee hearing.

Mr. Secretary, you may recall that it was just about 14 months ago that this committee, through its agricultural subcommittee, began its analysis of the economic condition and the prospects for U.S. agriculture and its search for a long-term solution to agriculture's financial depression. You were the subcommittee's first witness during the initial hearing.

Now, today, with your appearance, we really are launching what might be called Phase II of this initiative. Phase II recognizes and appreciates the overriding influence of government farm programs and policies on agricultural and food economics.

Now, during your last appearance before this committee, you emphasized that traditional measures used in the past to rejuvenate the agriculture sector have had limited success. You also cautioned that we should not follow the same farm program and policy path that has led us to our current situation. It is from this common ground that you and this committee embark on a mission to explore new and innovative farm policy options for the future.

As you recognize, Mr. Secretary, the payment-in-kind program has led to significant adjustments in supplies. However, the economic recovery of the agricultural sector is highly dependent upon the demand side of the marketplace, enhancement efforts, particularly in the export market. Obviously, if export sales fall in proportion to the reductions in supplies, there is not going to be any net gain in reducing burdensome stocks, and prices will remain depressed.

Tragically, this appears to be the very situation we now face. During the first 6 months of this fiscal year, the value of agricultural exports is down 17 percent and the volume of exports is down 7 percent from year-earlier periods. In addition, for the first half of the current fiscal year, our agricultural trade balance is down 29 percent from the same period a year earlier.

Agricultural economic recovery programs cannot be solely supply side, Mr. Secretary. To the best of my knowledge, no other agricultural exporting country is taking a whipping like we are in the international marketplace. In fact, according to your department's latest projections, the U.S. share of world grain trade will decline during 1983 and 1984 to 44.6 percent, compared to 45.6 percent last year and 47.9 percent in 1981–82.

In addition, while the U.S. grain production is projected to decline to 256 million metric tons from 337 million last year, all other world grain producers in aggregate will be increasing their production. And the 81 million metric ton U.S. reduction in grain output this year will be substantially offset by a 46 million metric ton increase in non-U.S. grain production. So we can see the picture.

Yet, I also am aware of the many innovative and aggressive export promotion programs of your department initiated under your leadership, and I commend you for them. In my judgment, the events of the last 3 years demonstrate a desperate need for a reevaluation of our domestic farm programs and a new direction must be established if U.S. agriculture is to effectively address the harsh realities of the international market.

And, Mr. Secretary, it had to be a great coincidence, but this article that appears today in the Wall Street Journal points it out much more clearly than I have stated. It says: "The United States' share of the world trade in grains, its biggest farm export by far, has fallen to about 53 percent this year from a high of 60 percent in 1980".

And it goes on to point out how this market is being taken away from us and that we do have to become competitive. I'd recommend that all of us on this committee read this article. You probably have had it pointed out to you already. But I just can't get over how timely it is; that it would appear at a time like this, on the very subject we're talking about—losing our markets. And we're going to continue losing unless we come up with some new ideas.

So I'm particularly grateful to have you here today. Thank you.

Senator JEPSEN. Senator Mattingly.

OPENING STATEMENT OF SENATOR MATTINGLY

Senator MATTINGLY. Thank you, Mr. Chairman. Mr. Secretary, I'm glad to see you here today. I compliment you on the initiation of the PIK program, and the pursuit of the long-term agreement that you are trying to secure with the Soviet Union. I think these are two areas, especially in the long-term agreement, after the disaster of the embargo of the Carter administration, that helped create a lot of problems along with the recession. But still, we're faced with the No. 1 issue in the agriculture area, which is, how are you going to allow the farmers to make a profit? I think that's the bottom line of what we're talking about.

As Senator Abdnor discussed about the trade issue, you know my interest in this issue. I think you are aware that we've got a problem in this country—where we've got the farmers and everybody else playing on a tilted playing field. There's no way that farmers or anybody else can compete in the world markets unless they've got a level playing field. They've got to be able to compete fairly and freely. And they don't have this option.

I would hope that you might address this in your remarks today, since we've got the Economic Summit coming up in the latter part of this month. From what I've read, everybody keeps talking about East-West trade, which is fine; but I'm more concerned about West-West trade. I keep seeing that everybody is concerned, as I am too, about deficits and interest rates, which they're going to talk about at the Economic Summit; but they never quite bring the trade issue up to the level that it should be. And I would hope that whatever input that you have as Secretary of Agriculture, you will make known to the White House and other people that this issue must be brought up in the Economic Summit so that we can have a resolution of some of the problems. Later on, I would like to ask you some questions. Also, I'll share some remarks that we've had from some of our western allies in reference to trade.

Once again, I thank you for being here this morning.

Senator JEPSEN. Congressman Scheuer.

OPENING STATEMENT OF REPRESENTATIVE SCHEUER

Representative SCHEUER. Thank you, Mr. Chairman. I, too, wish to thank you for appearing with us this morning, Mr. Secretary, and I look forward to hearing from you.

I am particularly interested in hearing what the Agriculture Department has in mind for the small farmers of the world; the family farmers, whom we've heard so much about in this country, and about whom so many crocodile tears have been wept. We're hoping to help the Third World achieve economic, and especially food, self-sufficiency. The overwhelming percentage of the food suppliers in the Third World are small-scale farmers. It is not agribusiness over there; it is individual family-size farmers, small-scale farmers who need help, both in science and technology and in financing. I look forward with great pleasure to hearing your testimony, with particular reference to the Department's plans for the family farmer in the United States, and to help the prototypical small-scale farmer in the developing world approach his mission of producing, of approaching self-sufficiency in food production in the Third World in a more modern, scientific and cost-effective fashion.

Thank you, Mr. Chairman.

Senator JEPSEN. Thank you, Congressman. Congresswoman Snowe.

Representative SNOWE. Thank you, Mr. Chairman. I do have an opening statement that I would like to ask unanimous consent to include in the record at this point.

I would just like to welcome Secretary Block and I want to second what the gentleman from New York, Congressman Scheuer, said. I think the small family farmer is very important to the United States and its economy. I would like to hear the Secretary's comments on the small family farm and what this administration is doing for the small farmer. Thank you.

Senator JEPSEN. Your opening statement, Congresswoman Snowe, will be entered into the record.

I would also at this time introduce and present and place in the record an opening statement by the very distinguished vice chairman of this committee, Congressman Lee Hamilton, and would advise the panel that the distinguished chairman of the Senate Agriculture Committee has a prepared statement for the record, but he hopes to personally deliver that before this hearing is over.

[The opening statements of Representatives Snowe and Hamilton follow:]

OPENING STATEMENT OF HON. OLYMPIA J. SNOWE

Welcome, Mr. Secretary, as vice chairwoman of the Agriculture and Transportation Subcommittee of the Joint Economic Committee, I am pleased to have this opportunity to join in the exploration for the next generation of farm policy.

U.S. agriculture is at a crossroads. Legislative decisions on farm policy and programs will certainly influence the future structure and character of American farming. While I have few preconceptions regarding future farm progams, I firmly believe that the family orientation of farming must be strengthened and remain the foundation of our food and fiber production system.

As you are well aware, Mr. Secretary during the last 10 years, the farm community has become extremely dependent on export sales. Our position as the world's largest and most powerful food producer has been well and hard-earned, and earned largely by the efficiency of our family-based production sector. It is a position well worth defending.

I appreciate your appearance here today and look forward to hearing your testimony.

OPENING STATEMENT OF HON. LEE H. HAMILTON, VICE CHAIRMAN

Welcome Mr. Secretary, all of us have a feeling of anticipation as we start these hearings on agricultural public policy.

Speaking for myself, I will do my best to approach these hearings without a preconceived notion of the form or content of a new farm policy. Like my colleagues, I am frustrated by the ineffectiveness of our traditional farm programs. I do not see how any of us can be satisfied with our farm policy. I do not mean that in a partisan sense. Obviously, there are many good things about agriculture and agricultural policy. But, I repeat, there are enough really serious problems on the farms today that we must try to do better.

During the last 3 years—years in which supply control programs were in operation—the public cost of farm price support activities exceeded $30 billion. During this same time period grain, cotton, and dairy stocks have soared, grain prices have declined, farm exports have dropped, farm bankruptcies have skyrocketed, and 1983 will likely mark the fourth consecutive year of Depression-level real farm net income. All of us are bothered by the fact that we stand ready to produce and deliver food to all the world, and yet much of the world still goes to bed hungry.

So I look forward to these sessions. I hope that in some measure they will help to set our farm policy on a course that will better reward our farmers for their labor, and serve the other interests of our Nation.

I look forward to your comments, Mr. Secretary.

Senator JEPSEN. Welcome, Mr. Secretary, and you now may proceed.

STATEMENT OF HON. JOHN R. BLOCK, SECRETARY OF AGRICULTURE, ACCOMPANIED BY WILLIAM LESHER, ASSISTANT SECRETARY FOR ECONOMICS; AND WILMER D. MIZELL, ASSISTANT SECRETARY FOR GOVERNMENTAL AND PUBLIC AFFAIRS

Secretary BLOCK. Thank you very much, Mr. Chairman. I am delighted to be here to have this opportunity to speak to this committee and to be a participant in the work that you are doing to put together some ideas to develop some hope for the future for agriculture. I congratulate you and the committee for holding the hearings. Also, I am honored that Congressman de la Garza is here with us today.

I have, on my left, Bill Lesher, Assistant Secretary for Economics, and on my right, Wilmer Mizell, Assistant Secretary for Governmental and Public Affairs.

Once again, as the chairman described here, we are at a crossroads in agriculture. The direction that we take during the next few years will largely determine the nature and the scope of the U.S. food and agriculture system, as well as its role in the world economy for years to come.

If I may, let's take a look at the present situation. I would characterize the present situation as a time during which we have excessive commodity supplies and a weak global demand. That's what we're facing. They've been brought about by worldwide recession, a huge debt on the part of some of our best customers, unfair trade practices that have been referred to here already, the Soviet grain embargo—we still live with the aftermath of that, but we're struggling back—a very strong U.S. dollar, which sometimes is underestimated as a deterrent to trade, high interest rates, and two consecutive bumper world harvests.

We have seen some improvement of the attitude in rural America, and we have seen some signs of reserved hope. I think you can sense that when you travel across the country. This hope has come about because inflation and interest rates have receded and the payment-in-kind program has strengthened prices somewhat.

The PIK program is expected to add $2 to $3 billion to net farm income. However, I concur with the committee, especially Senator Abdnor, that the long-range solution is not cutting back production; the long-range solution has to be strengthening demand.

We are in the business to produce in agriculture in the United States. So the PIK program is a temporary measure. I think the central question has to be, "Have we learned enough from recent experiences to adopt policies that will keep us from getting back into the same situation that we had before PIK?"

Most experts will say that even though we're seeing some recovery in the United States and world economies we are not likely to be able to find enough demand to utilize the full production potential of American agriculture, and the agriculture of some of our competing countries, for at least a few years.

The payment-in-kind program really deals with a symptom—overproduction—and not with the real source of the problem.

As is suggested here, the policymakers in this country have a very short-lived opportunity to reexamine the direction in which farm programs and policies have taken agriculture and determine what changes are necessary to keep the sector on a course toward prosperity in the future.

It's important that we review the situation. How did we get into the situation that we face today? The 1970's was geared toward expansion. During this inflationary period, exports tripled, farm production assets more than tripled, crop acreage harvested in the United States increased by 55 million acres. Livestock production made a substantial gain.

Farmers naturally responded to the signal that they saw in the marketplace. We saw strong prices, and the universities, banking institutions, and farm periodicals all were talking about the need to expand production. The question was, "Are we going to be able to raise enough to feed the world or are we looking at food shortages?" And true to its capability, American agriculture responded, responded to the so-called scarcity syndrome that was being discussed so much.

One of the major shortcomings of farm policy has been the natural tendency to allow a current situation, more or less, to dictate how we develop policy. We tend to look at the short term and not at the long term, and this is a mistake.

After farmers responded, demand collapsed. Production was exploding as we came into 1981. We were not prepared for the events that began to unfold. We failed to give farm programs the flexibility to adjust to a changing environment. We all participated in the deliberations of the 1981 farm bill. At the time, yearly increases of 4 to 5 percent in target prices seemed reasonable. We established minimum loan rates to apply for 4 years in the farm bill. Now we see that the price levels that we have established in that farm bill, in some cases, are higher than market clearing levels.

We didn't anticipate that.

Domestically, these target prices and loan-rate levels tend to encourage production. I do not believe that we can ignore that fact, especially realizing that the fertilizer costs this year are expected to decline 2 percent. Fuel prices are expected to drop 4 percent. The cost of chemicals will be up perhaps 3 percent. Overall, the inflationary increases and the costs of doing business in farming have not gone up dramatically as we anticipated when the farm bill was written by Congress.

Internationally, loan rates and target prices at levels that are unnecessarily high tend to encourage production. They put a floor under world prices and this can increase the production in other countries.

Now, we can all say, "the floors that we have are not extraordinarily high but they're higher than they appear." The reason is the strength of the dollar. If we had not seen the strength of the dollar and the change in the relationship of it to other currencies, our loan rates and our targets would not be a major problem for us. But the strength of the dollar has dramatically changed the situation. And today, even with lower farm prices than we might like to see, many countries are paying more for our farm products than they paid 3 years before when prices were higher.

So I think we have always to keep that in our minds as we look toward fashioning new farm policies. The question is where do we go from here? Let's review some alternatives for the future.

I feel that our choices fall broadly into three different approaches, the first approach being the current program—roughly what we have today. Now during the euphoria of the 1970's with the growing sales and increasing prices, our farm programs were costing a modest $3 to $4 billion a year. The fact is that this year, however, the farm program is going to cost in the range of $21 billion and there are no PIK costs involved with fiscal year 1983.

The fact is that the farm program now is more costly than we can afford. Government cannot continue to absorb tremendous expenditures in the face of large deficits. And, really, it's more than the public is going to be willing to accept for any long period of time. That's another reason why we need to be looking at better solutions to the farm problem. We cannot continue to operate a farm program that provides an incentive to overproduce while at the same time it reduces acreage.

I contend that there are incentives in our program that encourage more production, not only domestically, but abroad.

The inflexibility in the current farm program makes it an unacceptable alternative for the future.

The second approach concerns a greater commitment to market-oriented agriculture for us and for the world. Under this approach, we would continue to be a major exporter of agricultural products. To do this, we must establish policies that assure the farmer feels the market, allows the farmer to receive accurate and timely market signals and to be free to react accordingly.

Now this does not preclude farm programs that bear some of the producers' risks. As a farmer, no one in agriculture knows the risks any better than I. We all know there's a lot of risk. So we need to look ahead toward some co-responsibility.

The third alternative is to insulate American agriculture from the marketplace by maintaining artificial price levels similar, I would submit, to the dairy program that we have today. Ultimately, this would mean abandoning world markets or establishing policy similar to the common agriculture policy of the European community. It would mean permanent Government involvement in agricultural markets. Eventually, it would mean mandatory controls and high budgetary expenditures.

All of these programs that I'm talking about have some cost associated with them. They're going to cost something in one form or another.

Let's look at that third option, the one I just talked about, in a little more detail. That's the one where we have a minimum price. If you set minimum prices on farm commodities to keep more persons happy, and provide great stability in the marketplace, you are going to see expanded production—no question about that. It would signal for producers to produce more. It would require greater costs on the part of the Federal Goverment. This would be similar to the situation we have today to some extent. But the magnitude would be worse, depending on how high we put the minimum supports.

Now, I think the first thing we would have to accept is that if you're going to have higher minimum supports we couldn't afford to pay for all of it, so we'd have to have some kind of mandatory production control. That's the next obvious step. They are difficult to administer. They shelter inefficient producers, while reducing the overall competitiveness of American agriculture.

We would see less acres in production. Some of the jobs relating to agriculture would be lost. And we all know how important the agricultural industry is to this Nation. But it's only important as long as it is creating jobs and selling a product to other countries and domestically.

With the loss of jobs and a loss in acreage, pressures would be coming to subsidize exports, such as the European Community is doing. We'd be looking at marketing boards, perhaps dual pricing systems. But I would say that the EC experience serves as an example of what we might be looking toward. This policy rewards, in my opinion, inefficient producers, penalizes the efficient producers, locks in production patterns and technology, and assures that the agricultural system does not adjust to change. And we have numerous examples of industries in the United States that have done just exactly that by being insulated from the realities of world markets through import protection and other means. I think we have industries that have tolled their own death knell.

It is important to note that the United States is not the only country in the world that can produce food and fiber. We all have become more aware of this in the last few years.

Now what about a more market-oriented approach? Since the mid-1960's, we have been inching along in the direction of a more market-oriented agriculture. I personally believe that we need to stay on that course. I don't mean that overnight we need to take the giant step and completely abandon all Government support and assistance. I mean let's stay on that course and do it with care.

Certainly, the Government should not be providing absolute price protection without regard to the market. This is what we have for dairy today. So the absolute price protection there has encouraged excessive production and the dairymen just are not getting the right market signal.

If we've learned anything over the past 2 years, it must be that basing long-term policy on a particular economic scenario and locking it in, as we've done in the farm bill, is extremely risky. I know what the attitude was when I came in as the Secretary of Agriculture. I know that we just finished an outlook conference at USDA, where all the talk and concern was whether we would be able to feed a growing world of people who would want our farm commodities. And certainly, times have changed and the circumstances are different today.

I think as we're looking at a more market-oriented approach, it would be wise to take a look at the experience with our soybean program. The program does provide some support based on a moving average of market prices. I think its a pretty good example of something that might have merit as we look to the future.

We should also take a look at the target price concept and deficiency payments. Are they an appropriate tool in a market-oriented agriculture? I am of the opinion that target prices that ratchet up and become excessively high encourage overproduction, both domestically and in other countries. We see acres of land coming into production in the West, sometimes the Midwest, in the South. It, frankly, should stay in grass. But a high-target price gives a farmer an opportunity to raise wheat or some other crop, and provides a minimum cash flow. So the result is that they're apt to shoot for that target price and take advantage of it by producing more.

We need a program of income protection that does not encourage others to produce more. I think that's what it boils down to. Programs that encourage too much production are self-defeating. They are costly. And that's why this administration is proposing to freeze target prices at the 1983 level for the 1984 and 1985 crop years. And I strongly urge Congress to pass this legislation soon.

The concept of a reserve and what it should be used for is another important policy question. What objectives are we trying to achieve with a reserve? If a reserve is put there to insure that we have commodities for other countries, that's one thing. But if we allow too much crop in that reserve it can tend to depress prices.

Or, should a reserve be used to enhance prices? Well, in my view this is not the best use of a reserve. If we rely too much on a reserve to support prices, farmers are motivated to produce for a reserve.

In looking across our farm programs, I cannot help but ask how much price protection is too much? We're not in a position to charge farmers in Canada, EC, Australia, and Argentina for the benefits of U.S.-generated price protection. Certainly, as you know, one of the objectives of the European Community is to see their prices come closer to the world prices. And indeed, they will tell me now that they are coming closer. But why are they coming closer? Not because they have cut supports, but because we initiated a PIK program, an acreage reduction program, which strengthened prices and brought the world price up closer to theirs.

We cannot keep other countries from expanding their production and their share of the world market under the risk-reducing umbrella that we may create here in the United States. So what would a market-oriented agriculture get for us, and what will it cost?

Obviously, as I said earlier, any one of the alternatives costs something. Certainly, it will not keep everyone in business. There will be some come and some go. Some would prosper and some would not—depending on where we would put the support level and put the safety net.

But that's part of the American system. The American system provides an opportunity to take a risk and the opportunity to profit if successful.

Our position in world markets would be strengthened significantly. Our competitors would not gage their production based on our high targets as they are today.

A market-oriented agriculture policy would continue to insure that we have the most efficient agriculture in the world. As I mentioned previously, we have no corner on farm production in the United States. We happen to be the best and most efficient producers today. We cannot necessarily guarantee that that will be the case tomorrow. As I pointed out here, U.S. agriculture produces 3½ times more food and fiber than it did in 1960. That's a dramatic increase in production. There's no need to recite the merits of U.S. agriculture as you are well aware of them. There's no one any prouder of American agriculture than I am, no one that preaches the gospel any more than I do.

But I am concerned about the future of American agriculture, as I know you are. That's why we're talking about it here today. I am so concerned that I am calling a summit meeting on July 12 and 13 involving producers, agribusiness and industry leaders from across the United States to come and help us with policy direction. Your efforts will help with the policy direction.

Abraham Lincoln, in seeking a new direction at a key time in our Nation's history, said, "As our case is new, we must think anew and act anew."

Agriculture is in a new era of international interdependency. We must set a new course in our farm policy if we are to permit our Nation's farmers to enjoy the prosperity that they are entitled to by virtue of their productivity and their efficiency.

I urge each of you to think about the issues that I have discussed today. Help me in forging better agricultural policies that will serve all of us better in the long run. I know that it will not be easy to do this, but we must. We must all rise above the pressures of constituencies that place demands on us on a daily basis. We must do the right thing for agriculture. The stakes are too great if we do not. To preserve the most efficient agriculture in the world is our challenge.

I look forward to working with you as we try to meet that challenge.

I'd like to spend a minute or two and just discuss very briefly, because I know there will be more questions, from the remarks that were made by some of you in your opening statements.

Senator Abdnor was speaking about our export markets. What can we do to secure them to maintain our market share and hopefully expand it? I think that that's vitally important to us and one of the reasons why farm policy, domestic policy, is so important because it has a major impact on our international trade policy.

I might also say in relationship to some of the questions that Senator Mattingly brought up about the summit. I assure you that agricultural trade issues will be on the agenda. And although perhaps the centerpiece of discussion will focus more on interest rates and some of our financial relationships between countries, that has a tremendous bearing on our trade, as you well know. If we can effect eventually, through lower interest rates, a reduction in the strength of the dollar relative to other currencies, this can make a big difference in turning around the trade problems that we face today.

Frankly, in my opinion, the biggest reason that we're facing trade problems is the fact that the dollar is so exceptionally strong relative to other currencies. I'm not minimizing the other reasons that I have reiterated—unfair trade practices and so forth. But the strength of the dollar is really our biggest problem.

Concern was raised about small farms, family farms, this morning, are also my concern. You're probably aware that we are seeing an increase in small farms in the United States. I'm talking about farms where, in most cases, the producers work a second job. Their farm is not necessarily their primary source of income.

I think that this is a healthy situation. I think it's a good thing. If people, indeed, like to live in the country and be part of a rural America, I think it's fantastic and that's where we want them to be because we like them out there. And it happens to be a fact that people who fall in this category believe that they are as much a part of American agriculture as the man who farms 1,000 acres or has 1,000 head of cattle. I would be the first one to agree with that.

I think that there's going to be a good future for the small farm. I also feel that family farms have a great future. There is really no effective threat to family farms of any kind. Less than 5 percent of the farms in the country are truly large, corporate farms. Family farms throughout the United States are the mainstay of agriculture. Whether they be commercial or whether they be the small-type family farms, they'll still family and that's the way the business is run today.

It's my pleasure to appear before you, Mr. Chairman, and the committee and thank you for giving me as much time as I've taken.

[The prepared statement of Secretary Block follows:]

PREPARED STATEMENT OF HON. JOHN R. BLOCK

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you and discuss future farm policy. I believe farm policy soon will be at a crossroads. The direction we take during the next few years will largely determine the nature and scope of the U.S. food and agriculture system as well as its role in the world economy for years to come. For this reason, much thought and attention must be given to the approach we take. I commend the Committee for calling these timely hearings.

The Present Situation

We are all familiar with the circumstances that have led to the current economic condition of our farm sector. Briefly, excessive commodity supplies have accummulated during a time of weak global demand. In the past several years, a combination of world-wide recession, huge debt in a number of middle and low income countries, unfair trade practices, the Soviet grain embargo, a strengthening U.S. dollar, high interest rates and inflation, and two consecutive bumper world harvests have had a dampening effect on the farm economy.

The Administration's efforts to control inflation and reduce interest rates, combined with the Payment-In-Kind (PIK) program, are chiefly responsible for some improvement in the economic outlook in the farm sector. Since the announcement and implementation of the PIK program, farm prices for some major crops have strengthened significantly. The PIK program alone is expected to add $2 to $3 billion to net farm income and significantly reduce credit needs in 1983. This will put farmers on a sounder financial footing, which will work to benefit agriculture as a whole in the long term.

However, the PIK program was only intended to be a temporary measure to reduce excessive crop supplies. It is not and should not be construed as the final solution of the problems facing U.S. agriculture. The central question is: "Have we learned enough from recent experiences to adopt policies that will not lead us back into the same situation that we had before PIK?"

PIK was necessary, in large part, because of the magnitude of the stock imbalance and the large expense of dealing with such a situation with our more traditional policy tools. PIK will go a long way toward alleviating our current surplus stocks, but even after stock levels are reduced, we may still face the constant prospect of production once again significantly exceeding demand. Available evidence suggests that the capacity of American agriculture is more than adequate to meet the growth in demand that can be expected to accompany the economic recovery in the United States and rest of the world over the next several years. No one knows for sure--but I believe this is the predominate view of experts inside and outside of Government.

PIK is a program that deals with a symptom. It is designed to give the farmer the opportunity to stay in business as excessive supplies are reduced. At the same time, policymakers now have a very short-lived opportunity to reexamine the direction in which farm programs and policies have taken agriculture and determine what changes are necessary to keep the sector on course toward renewed prosperity. In a very real sense, the legacy of programs, policies and perceptions that were more appropriate for a past era are key factors that led to the need for a PIK program. What have we learned about past policies and actions that can apply to future programs?

The Decade of the 1970's and Its Influence on Farm Policy

Generally, farm policy during the 1970's was geared toward expansion. During this inflationary period, U.S. farm exports tripled in response to heightened world demand. Farm production assets more than tripled in this time of heavy investment. As a result, principal crop acreage harvested in the U.S. increased by about 55 million acres and livestock production made a substantial gain. In other words, our farmers responded to the signals that were sent to them by the market. But we were not alone. Other exporting, as well as importing, nations also expanded their production capacity during this period.

This period began with the Agricultural Act of 1970 that introduced the set-aside concept and suspended the restrictive marketing quotas and base acreages for wheat, feed grains and upland cotton. Then, the Agriculture and Consumer Protection Act of 1973 formalized target prices, but with the notion that income supports should not be allowed to disrupt the market. Later, the Food and Agriculture Act of 1977 provided for the implementation of the farmer-owned grain reserve to protect farmers during periods of downside price swings while ensuring adequate stocks to meet world and domestic needs.

The real worry by the end of the decade was a shortage of food--some have called it the "scarcity syndrome". The attitude was that we had to gear up to produce more food for the world and would run into natural resource constraints in doing so.

During deliberations on the Agriculture and Food Act of 1981, the events of the 1970's were fresh in all our minds. In hindsight, too much so. One of the major shortcomings of farm policy has been our tendency to allow the current situation or recent events to dictate policies for the longer term. As we reexamine agricultural programs and policies, we must not allow current conditions to overshadow the realities of the future.

There are no better examples of that than the 1981 experience. We had just come through a period of major expansion in the export earnings of the U.S. agricultural sector. It was widely believed that the United States was the only country that could produce enough food to satisfy the world's needs. Events of the 1970's were taken as precursors of things to come. Because of inflation, high and rising world oil prices, and a weak dollar, forecasts of continued strong export demand, rising production costs, and full production seemed reasonable expectations.

We all knew that there would be times when we would move off trend, due in large part to the international influence on the farm economy. International and domestic economies have become increasingly interdependent, and we have little control over some major variables such as exchange rates, growth rates, and the like. While greater volatility was a reasonable expectation in an expanding world agricultural system, we were not prepared for the events that began unfolding in 1981 and have continued through the present. Simply put, we failed to give farm programs the flexibility to adjust to a changing environment.

When Congress adopted the 1981 Act, yearly increases of 4 to 5 percent in target prices for program commodities seemed reasonable, and so did increased minimum loan rates that were to apply for four crop years. For wheat and corn, loan rates were increased by 11 percent and 6 percent respectively from the levels prevailing for the 1981 crop programs. Even then, there was grave concern over indexing our way into a position of becoming less competitive in world markets. However, inflation was running nearly 3 times the rate of increase in target prices and even the most optimistic forecasts had production costs continuing to rise as rapidly as target prices. The inflationary environment also suggested that average variable production costs for program crops would continue to increase, and it was felt such increases in target prices were needed for the coming four years.

What Happened

Our price support levels have now become higher than market-clearing levels. Our fear of indexing our way out of world markets has become a reality to a certain extent for some commodities. International effects and the inflexibility in farm policy have led to an incentive to produce more, a position of being less competitive in world markets and, consequently, a buildup of stocks.

In a truly market-oriented agriculture, the loan rate cannot be allowed to interfere with the market or be the market price. With per unit production costs stabilizing or declining in some cases, inflation rates reduced, and the dollar strengthening internationally--the rigid programs we thought so appropriate only a few years ago are now threatening the economic viability of U.S. agriculture in the international marketplace and causing large budgetary outlays.

Present loan rates apparently are now attractive enough to induce increases in production each year, domestically. This is especially true now since the costs of inputs used in farming, as a whole, are projected to be up only sightly in 1983 and, in fact, the cost of some inputs may even show a decline. Fertilizer costs this year are expected to decline 2 percent and fuel costs 4 percent, while the costs of farm chemicals should rise less than 3 percent. With a decline in the rate of increase in farm machinery costs and lower interest rates, the costs of producing some major crops are expected to be steady or only slightly higher than in 1982.

Moreover, the world price floors, heavily influenced by the U.S. loan rate, have increased sharply in terms of other currencies. Thus, a major incentive also was created internationally for many to produce more for the marketplace when less was needed. This led to excessive stock levels and the need for a PIK program. And while we are cutting back, others are producing more. Where do we go from here?

Alternatives For The Future

We can and we must learn from the past. Our agricultural sector is too important and too efficient to let this happen. It seems to me that our choices fall broadly into three different approaches to solving our agricultural problems.

We could continue with our current programs which have led to enormous Government outlays in recent times. In the decade of the 1970's, the cost of farm programs generally ranged between $3 and $4 billion. But Federal outlays for fiscal year 1983 alone are expected to be about $21 billion. This followed outlays of $12 billion in FY 1982, double the $6 billion outlays in FY 1981.

The Government cannot afford to continue to absorb these tremendous expenditures in the face of large deficits. At the present time, Government outlays are nearly equal to net farm income. We cannot continue to operate a farm program with an incentive to overproduce, both here and abroad, while the Government shoulders the entire burden of the overproduction. For this reason, the inflexibility in the current farm program makes it, it would seem, an unacceptable alternative for the future.

The second approach concerns a greater commitment to a market-oriented agriculture for us and the world. Under this approach, we would continue to be a major exporter of agricultural products. To do this we have to establish policies that assure the farmer "feels the market." In other words, allow farmers to receive accurate and timely market signals and be free to react accordingly. This does not preclude farm programs that bear some of the producers' risks, but it does mean that programs must be flexible in order to adjust to market conditions so unwarranted levels of stocks do not build.

The third alternative is to insulate American agriculture from the market by maintaining artifical price levels, similar to the current dairy situation. Ultimately, this would mean abandoning world markets or establishing a policy not unlike the Common Agricultural Policy of the European Community. It would mean a permanent and major government role in agricultural markets with even larger budgetary expenditures without mandatory production and marketing controls.

No approach is costless. Those who would bear the costs differ somewhat according to the policy. However, in no case do farmers escape a major share of the adjustment burden. Let us consider more thoroughly the consequences of the two approaches I have outlined that differ from current programs.

The Minimum Price Approach

The minimum price policy would generally set a floor under agricultural prices well above prevailing world prices and in excess of the cost of producing most of our output or what others are willing to produce it for. There are several variations on this theme. Let us begin with the one I suspect would appear most popular, for at least a short time--high price supports with limited or no supply controls.

In its purest form, this proposal would legislate that farm products be sold for not less than some legally mandated price. With such an approach, we initially would expect farmers to respond to the higher price incentives by expanding production. However, the marketplace could not be expected to support both higher prices and expanded production in domestic markets--let alone world markets. The higher minimum price would also signal producers in the rest of the world that the U.S. was no longer willing to compete in world markets at price levels consistent with our farmers' comparative advantage in productivity and efficiency. As a result, other countries could be expected to increase production with the full knowledge that they would be protected by our price umbrella while they captured larger shares of world trade as they are partially doing right now. These market reactions would soon lead to a large expansion of stocks and increased Federal budget outlays as the Goverment would be forced to purchase the surpluses. This is very similar to our current situation; only the magnitude would be worse.

Although farm income would rise in the short run, the higher prices and incomes would be bid into higher land prices, more inputs would be used, higher production costs would result, and ultimately we would have a less efficient agricultural sector, perhaps not unlike that in parts of the European Community. Uncontrolled supply would not be viable over a long period of time as taxpayer support and sympathy for the need for farm programs would undoubtedly wane and pressures would mount to reduce stocks.

Proposals to legislate mandatory production controls, such as marketing quotas, would crop up as a means of reducing the surplus and the attendant budget costs to maintain the high support prices. But such a program would be difficult to administer and police, and it would result in the continued sheltering of inefficient producers while further reducing the overall competitiveness of American agriculture. Also, there would be less acreage in production, and jobs relating to agriculture would be lost.

As a result of lost markets to our competitors and less economic activity associated with agriculture, pressure would then mount for subsidizing exports. To accomplish this, some have suggested segmenting the U.S. and world markets. Marketing boards or dual pricing systems are often touted as the means for accomplishing price and income objectives. Under some of these plans domestic prices would be set higher than world prices, and either direct government subsidy or revenues earned through domestic sales would be used to buy down the price of commodities entering foreign markets. One only has to study the European Community (EC) system to understand how cumbersome and extremely costly such a scheme would be.

The EC experience serves as as an example of such a policy, a policy that rewards the inefficient and penalizes the efficient, locks in production patterns and technology, and assures that the agricultural system does not adjust to change. We have numerous examples of industries in the United States that have done just that by being insulated from the realities of world markets through import protection or other means. In the longer context, it has not been a favor to those industries, and agriculture would be no different.

The More Market-Oriented Approach

Now let us turn to the market-oriented option. Since the mid-1960's we have been inching along in the direction of a more market-oriented agriculture. We have abandoned quotas and allotments for most crops. We have increasingly recognized the need for program features that minimize market interference. I believe we have a much stronger agriculture today as a result.

What would a return to a more market-oriented agriculture mean? Some might interpret it to mean that Government would totally abandon agriculture. I do not believe that would be appropriate. We all recognize the inherent volatility faced in agriculture that is beyond anyone's control, particularly due to weather and world economic situations. And, we have long recognized an appropriate role for a responsible public to share part of that risk with the farmer. But that role cannot extend to providing absolute price protection without regard to the market. This is what we have now for dairy, and we are fast approaching it for grains and cotton...and it doesn't work. Also, the policy instruments used for risk sharing cannot be rigid or calibrated by law at absolute levels. It is simply not possible to fully anticipate inflation or changes in costs, exchange rates, and world economic conditions with sufficient precision.

If we have learned anything over the past two years, it is that basing long-term policy on a particular economic scenario is extremely risky. Instead, our tools must be flexible and they must reflect market conditions. I think our experience with loan rates for soybeans, based on a moving average, as provided for in the 1981 Farm Bill should be studied carefully. Such a mechanism, if set at an appropriate percentage of past market prices, could serve to reduce farmers' risk while not seriously interfering with the signals that the market must send. Soybean exports have risen, even in the face of a stronger dollar, while exports for other commodities have stabilized or dropped.

I also believe the public will continue to support a role for the Government in assuring that some appropriate level of income protection is provided for our farmers. But, we must reexamine the tools of providing income protection and the level of protection. Whether target prices and deficiency payments are the appropriate tools in a market-oriented agriculture is a valid question that should be addressed.

While it is often assumed that target prices have no impact on markets, there is a growing concern that they remove risks and therefore affect domestic as well as foreign producers' supply decisions--at least indirectly. For instance, I suspect that the Canadians, Argentines and others have expanded grain production after knowing we have provided a target price significantly above market-clearing levels. These countries know that the budget exposure is great and that we will attempt to move farm prices up towards these targeted levels as we face severe budgetary constraints. And we have confirmed their beliefs as we implemented PIK. Given this, perhaps we should explore some other ways of providing some level of income protection. It seems that a program of income protection should not encourage others to produce more. It is self-defeating and costly. That is why the Administration has proposed to freeze target prices at the 1983 level for the 1984 and 1985 crops, and I strongly urge the Congress to pass legislation to that effect.

The concept of a reserve, owned by farmers, is one that some argue makes sense. But what objectives we seek to achieve and how we operate the reserve, are very important questions. If we are to be major partners in world markets, we must be able to assure a reliable supply to all of our customers, both domestic and foreign. The reserve is a logical vehicle to provide that assurance.

A legitimate problem to be addressed through public policy is extreme price instability--price movements too fast and too large to permit farmers or buyers to respond efficiently. In an unstable world, we need to have a mechanism like the reserve that moderates the extreme peaks and valleys to dampen uncertainty. Over the long run, we all benefit from that. While farmers never like to see the peaks moderated, they also realize that the false signals generated by unsustainable prices often lead to uneconomic investment and production responses that exacerbate the downturn in prices, and generate cash-flow squeezes.

We also need to examine carefully how much price protection we can afford, how much we desire and for whom. The answers to these questions will help us determine how large our reserve must be as well as when and how it will be released. In the past, the reserve has often been used as a mechanism to enhance prices rather than to assure our buyers we will be reliable suppliers. I think we should examine the extent to which we should use the reserve to protect our farmers from downside price swings and when we should turn to other policy tools. If we rely too much on a reserve to support prices, farmers are motivated to produce for the reserve, and it can then become too large, as it has recently. When that happens, the reserve becomes less useful as a price enhancement tool, and large programs must be employed to reduce burdensome stocks.

In looking across our farm programs, I cannot help but ask how much price protection is too much? We are not in a position to charge farmers in Canada, the EC, Australia, and Argentina for the benefits of U.S.-generated price protection. Nor can we keep these and other countries from expanding production and their share of the world market under any risk-reducing umbrella that we create. The effect of this on our own farmers' ability to compete must be taken into account when we address the question of how much financial protection is enough.

What will a more market-oriented agriculture get for us, and what will it cost? It will, I think, assure that American agriculture remains strong because the strongest, most efficient producers will survive and prosper. Certainly some will fail, but some will also enter. In any healthy, progressive economic sector there is always a continuous sorting out process which favors efficient and competitive firms--and these are not always the largest ones. Those who cannot adapt to emerging technologies and reduced costs will not remain viable over time, unless we assure it artificially through government programs that insulate farmers from the realities of markets. Our position in world markets will be strengthened, and our ability and willingness to compete can only bring more sanity to international markets. The more market-oriented our agriculture, the more expensive it becomes for our competitors, particularly the EC, to insulate their farmers from the marketplace. Market insulation policies on the part of the United States would only prolong the adversarial relationship that is brewing and could lead to trade wars and widespread use of subsidies. A clear signal that the United States is moving down the road to freer markets will hasten the return to more rational trade policies the world over.

I believe that a market-oriented agricultural policy will continue to ensure that we have the most efficient agriculture in the world. On average, today's farmer in the United States produces enough food for about 80 people, far better than farmers in any other country in the world. U.S. farmers now produce nearly three and one-half times more food and fiber than in 1960, and the rate of increase in productivity continues to outpace that of the nonfarm sector. This is principally why Americans spend a smaller portion of their income on food than people in any other country.

There exists on the horizon an even greater potential for increasing productivity. Current research with growth hormones indicates a tremendous potential for increasing milk and meat animal production. Research in genetic engineering and cloning in the crops area has also revealed the possibility of much higher yields. A more market-oriented farm policy would allow us to assimilate such new technologies without major changes in farm policy. One thing I have learned as Secretary of Agriculture is that it takes a long time to get the necessary legislative changes to respond to current conditions: PIK legislation, dairy, and target price freezes are examples.

Agriculture showed a favorable trade balance of nearly $24 billion in fiscal year 1982, which helps compensate for our deficits in industrial trade. Our strong favorable balance in agricultural trade benefits every American who uses petroleum or imports consumer goods. Also, every $1 billion in agricultural trade creates an additional $1 billion in U.S. economic activity; that means jobs--nearly 35,000 jobs for each additional $1 billion in exports.

Agriculture is our largest industry, accounting for about 20 percent of the entire Gross National Product. Our food and fiber system also employs about 20 percent of the Nation's workforce, more than any other industry. This is why we must be careful not to stifle the viability of our leading industry with a farm policy containing too many Government controls. Instead, we must pursue a market-oriented farm policy in the future with a minimum of Government intervention. This will allow agriculture to grow and let our farmers respond to market signals. Also, we must be careful not to set farm policy that precludes the advances in technology and, consequently, gains in productivity.

We are so concerned about future farm policy that we have planned to hold a summit meeting this summer; July 12-13. The purpose of this meeting will be to establish a dialogue between agricultural leaders, producers and industry representatives which will foster discussion that will lead to effective farm policy in the future.

Abraham Lincoln, in seeking a new direction at a key time in our Nation's history said, "As our case is new we must think anew and act anew." Agriculture is in a new era of international interdependency, and we must set a new course in farm policy if we are to permit our Nation's farmers to enjoy the prosperity that they are entitled to by virtue of their productivity and efficiency.

I urge each of you to think about the issues I have discussed today, and help me in forging better agricultural policies that will serve all of us better in the long run. I know that it will not be easy to do--but we must. We must all rise above the pressures our constituents place on us daily and do the right thing for agriculture. The stakes are too great if we do not--to preserve the most efficient agriculture in the world is the challenge. Please help me meet it.

Thank you. I will now be happy to entertain any questions you may have.

Senator JEPSEN. In keeping with the theme that you endorsed in your second approach of your prepared statement this morning, where you indicated that one of the things that you wanted to do was to establish policies that assure the farmer "feels the market." In other words, allow farmers to receive accurate and timely market signals. Not exactly along those lines, but paralleling those lines, we always have had some criticism from time to time, and justifiably so, as to the announcement of whatever programs there were going to be by the Agriculture Department. I remember 1 year, some years ago, when the farm program was actually announced in April while the farmers were in the fields planting.

Along these lines, what are your current intentions regarding the 1984 payment-in-kind program, Mr. Secretary?

Secretary BLOCK. In the case of wheat, I think that the predictions are pretty accurate, and there's a good chance that we will have some kind of acreage reduction. It's likely that this acreage reduction will have some payment-in-kind component, but I'm not prepared to delineate just what it might be or how it might be structured.

Furthermore, we will be looking to have a timely announcement on this. Hopefully, we can have, at the latest, an announcement by the end of June.

In the case of feed grains, which certainly is of concern to you in your State and throughout much of the country, it's just too soon to make a decision on that because some of the crop is not even planted yet.

Senator JEPSEN. I understand that, Mr. Secretary. I have as you know, written you with regard to the necessity for making timely announcements, urging you to set up a timetable on the PIK program or any other crop program so that both farmers and agribusiness people can plan ahead. It will not be too long, sometime in July and August, before farmers start making plans for planting and purchasing decisions for the 1984 crop year, as you know. And, hopefully, we'll be able to look at the feed grain timetable or program projections for 1984, sometime before the end of the summer.

Is that a timetable that will be within the ball park?

Secretary BLOCK. I would say that our announcement probably would not be until sometime in September, probably toward the end of September or the first of October. But I would suggest that producers will be looking at the crop production prospects through July and into August and, having seen what is done in the case of wheat, they probably will do a lot of speculating and guessing. I think they can probably have an idea which direction we're taking by then.

Senator JEPSEN. We look forward to working with you on that. Mr. Secretary, what are the prospects, in your opinion, for signing a long-term grain agreement with the Soviets?

Secretary BLOCK. Well, Mr. Chairman, as you know, and as you have worked diligently to turn things around from the time when we were living under a grain embargo condition, it's been a long road back. We're not there yet, but the offer by the President and the decision by the Soviet Union to sit down and negotiate toward a new long-term agreement is a milestone that we've all been working toward. It's an exciting occasion for me to look to the future with optimism that we will be able to write one.

I'm convinced that we can get that job done. The greatest advantage of having an agreement is the psychology of that agreement—that we are back to a normalized agricultural trading relationship with the Soviet Union. To me, that is the most important product of a new long-term agreement.

Senator JEPSEN. The psychology of being looked to and at as a reliable supplier, with some evidence of that with the long-term agreements; is that it?

Secretary BLOCK. That's absolutely right.

Senator JEPSEN. Is that how you see the Soviet Union fitting into the long-term U.S. agriculture trade picture? Is that one of the primary——

Secretary BLOCK. Yes, sir, historically, we have damaged our reputation on more than one occasion. The most serious blow, of course, was the embargo to the Soviet Union in 1980. But this is going to afford us the opportunity to make some more steps along the difficult road back. We are not going to suddenly recapture 70 percent of that market. But we will be positioned to where we can maintain the share that we have, which is around 30 percent now, and hopefully, work our way back, over a period of time.

Senator JEPSEN. Along those lines, Mr. Secretary, do you have any reservations regarding the legislative proposal to create a Department of Trade?

Secretary BLOCK. I have no reservations, realizing that agricultural trade would still be a function of the U.S. Department of Agriculture under my jurisdiction, and that is the plan in the case of a new Department of Trade. As Secretary Baldrige said, there's no intention to put a foreign agricultural service or our trade functions under the new department because we're doing quite a good job of it right now. And I feel that we are.

Senator JEPSEN. I'm not belaboring the point with you, Mr. Secretary, but if we were truly to have a centralized, coordinated Department of Trade, then doesn't it seem logical that, if it is going to be effective, we do have the State Department, the Commerce Department, the U.S. Department of Agriculture, and others joining in to facilitate and centralize this effort on this very important subject of trade?

Secretary BLOCK. Certainly, that's a debatable subject.

However, the fact that the policymaking and the implementation for agricultural trade is all in one shop, in the Department of Agriculture, is a great asset for us.

Senator JEPSEN. The Secretary of State has not had anything to do with the USDA's trade in the past, Mr. Secretary?

Secretary BLOCK. I can't recall very much interference from the State Department recently.

Senator JEPSEN. Recently?

Secretary BLOCK. No. [Laughter.]

Senator MATTINGLY. This week.

Secretary BLOCK. The fact is, seriously, on that subject we have had good support from the State Department. And if you're going to put agricultural trade into a new trade department and leave agricultural policy in USDA, realizing how much domestic policy affects trade policy, I think you're creating a problem that is going to make it more difficult to get the needed job done.

Furthermore, from our vantage point within the U.S. Department of Agriculture, agricultural trade is of the highest priority. If you put agricultural trade into the Trade Department, then agricultural trade probably would lose its priority.

I think we have it where we want it right now.

Senator JEPSEN. Very interesting. I think that this is an example of the discussions that we will have over the next few months with regard to this particular department, and it is something that I think is one of the most important things that we have facing us in this country, and I think most of my colleagues share that opinion.

Mr. Secretary, there are several proposals legislatively before the Congress addressing the problems that we have encountered relative to the dairy program. I understand that your Department has been involved in negotiations. What's your administration's position at this time?

Secretary BLOCK. Our position is that, from the best I can tell, we probably have an understanding on what could be accepted in the way of dairy legislation providing we can tie to that a freeze on target prices. Put the two together and we're going to have a deal. Without it, the cost of the proposed dairy program would be more than current law, and there's no way to make up that savings without freezing the target prices.

Senator JEPSEN. Well, is it accurate and fair to summarize your vision of, say, future farm programs as less of the same; that is, maybe a freezing of target prices, lowering of loan rates and smaller Government-supported grain reserves?

Secretary BLOCK. I would not necessarily predict that it would be necessary to lower the loan rates. I think that that has to be considered on a case-by-case basis. I think that some kind of floating loan rates with some formula like we have for soybeans might make sense.

I've never been a fan of target prices. I've always disliked target prices, since the day I testified before I was sworn in. I don't know what we do with them, but I do know that they should not be at the level that they are today, ratcheting up each year, even though the cost of production is not ratcheting up. That does not make any sense and it is not good policy. And that's one reason why they should be frozen for 1984 and 1985.

Senator JEPSEN. Along those lines, Mr. Secretary, I understand that you recently defended, within the administration, the continuation of marketing orders as a farm program. Is that correct?

Secretary BLOCK. Yes, sir. I support the marketing order concept.

Senator JEPSEN. Some say marketing orders are the most anticompetitive devices condoned by government. What rationale do you use in defending the marketing orders?

Secretary BLOCK. I don't concur in your statement, Mr. Chairman. I feel that marketing orders serve an effective purpose for both producers and consumers and that, properly utilized, marketing orders provide some stability, though not complete stability, in the production and sale of some commodities that are not under a farm program.

I am very much opposed to marketing orders that would restrict entry into a business. Everyone has a right to raise a commodity—whether it's oranges or something else.

So I think that the marketing orders serve a purpose, if implemented under the proper guidelines and that is what I intend to do.

Senator JEPSEN. What role do you see for marketing orders in the future farm programs, then?

Secretary BLOCK. I can't say that I necessarily visualize a greater role than we're looking at today. I guess I'm not sure. I'm not looking to see them necessarily expanded into more products or more commodities. They have served a purpose to date for the commodities that they support.

Senator JEPSEN. Finally—my time is up, Mr. Secretary, but one last question—because of economic pressures and restrictions at the individual farm level, water and soil conservation practices have become viewed as luxuries. I can't help but note, as chairman of the soil conservation subcommittee, that there was no mention of soil conservation in your remarks today with regard to where we are going with farm policy in this country.

What role do you see the Department of Agriculture playing in encouraging, or perhaps even requiring, the application of conservation practices? And what is your feeling about requiring farmers to comply with some level of minimum conservation standards if they receive Federal assistance for their farming operations?

Secretary BLOCK. Mr. Chairman, I am a great advocate of soil and water conservation.

Senator JEPSEN. I know you are.

Secretary BLOCK. And I do believe that we are making much progress in rural America on soil and water conservation. It is my personal feeling that farmers should comply with some minimum soil conservation standards on their farm if they benefit from Federal farm programs. I have felt that for some time. I'm not firmly convinced that the time is right for that to be implemented, nor am I convinced that we have the legal authority to do it—however, I have asked my attorneys that I want to know if we have that kind of statutory authority.

I am pleased that you are holding hearings and that you are addressing that issue in your hearings. I am going to be interested in what you learn from those hearings.

Senator JEPSEN. Thank you. Senator Abdnor.

Senator ABDNOR. Well, thank you, Mr. Chairman. Mr. Secretary, first let me commend you for your fine statement. I think that you have pretty well stated the problems and where we are in agriculture, the crossroads here, and brought up some suggestions of where we might be going. Again, let me refer back to this article that has me so enraptured this morning here in the Wall Street Journal, because I do think that exports and foreign trade have got to play a key part in any future, at least successful, farm program that we end up with.

The gentleman, an agricultural economist at Wharton, said, "World Grain Trade is Changing Dynamically," "The United States is going to face increased competition for some time to come. The slippage hurts the whole economy. Agriculture is the Nation's biggest business, and farm products are the Nation's biggest export category, accounting for 18 percent of all U.S. exports. Of last year's $39.1 billion in farm exports, the State Department estimated that each $1 billion provided 30,000 jobs off the farm."

Now how are we going to get this message across that even though exports, under the circumstances, may cost us some money, it's good for this country. We are trying to put people to work and I see us pass these—some of them are almost, I think, outrageous programs supposedly to put people to work on Government-created jobs, and here's an opportunity to do something about it. There is the program that you carried through, you and Ambassador Brock, on selling wheat flour to Egypt. Someone told me that created something like 8,000 or 10,000 jobs from your negotiations, and I commend you for it.

When are we going to start thinking in that direction? We're losing these markets and the Journal article says that in the future, they're going to get more competitive and tougher for us to hold.

Mr. Secretary, in a more market-oriented U.S. agriculture, you know, as well as I do, that the market can hardly be termed freely competitive. It isn't free today to go out and try to sell grain. It's government versus government in the international agricultural marketplace. Sales are not so much made on world prices, but government-sponsored price discounts, subsidies, and cheap credit terms.

Now by asking our farmers to become more market-oriented, you're asking them to take on the French Government, the Canadian Government, the Australian Wheat Board, and it's grossly unfair.

I commend you. I know in your own Cabinet meetings you are fighting and getting that story told and you've got to keep working at it. How are we going to get that message across, because it's very difficult—I'm going to jump here for a second.

I remember in a meeting here with Mr. Stockman, where he made the comment that we're spending more for farm subsidies than we are for welfare for the entire poverty population of this country.

Now, I've got to believe in your opinion. This is not really an accurate and fair statement.

But I'd like to hear your comments on this whole situation.

Secretary Block. Senator Abdnor, in terms of expanding these exports, the subsidized sale of wheat flour to Egypt did provide more jobs. It did provide us with a market that we would not have had otherwise. And we're certainly not ruling out the use of some kind of export PIK, to get another market back because of what we feel have been unfair trade practices and subsidized challenges to our markets.

We're going to do this on a selective basis. We don't feel that it's right, though, to just go around the world and pick off markets indiscriminately.

I do believe that several countries basically are playing the game fair with us. For example, I feel that Australia and Canada are playing the game fair most of the time. On occasion I think they take some advantage of us. They don't use big export subsidies to stimulate sales as others do. We're challenging the most flagrant violations that we know of—in particular, those that use heavy export subsidies such as the EC, and those that restrict entry in their markets, such as Japan. I'm hopeful that we could make at least some progress with the EC and Japan on these issues.

The President has said that we are going to be competitive. So I will commit that we're going to continue to challenge those countries that are playing the game unfairly. But we're just not going to do it in a wild and indiscriminate way. We are going to be challenging them, but in a fair way.

Concerning your question about the cost of our farm programs relative to the welfare programs. I don't have all the details on Mr. Stockman's statement but I would guess that he may be including all kinds of programs that we may administer, not just the farm commodity programs. For example, he must be including the Farmers Home Administration in addition to a whole series of other programs.

Senator ABDNOR. I'm concerned that he might have included farm grain loans.

Secretary BLOCK. Well, my guess is that he's including all the loans, including those for rural housing and everything else.

Senator ABDNOR. That's not a cost to the Federal Government. I mean, I'm not saying that they may not lose something on it, but nothing like what he must be——

Secretary BLOCK. He is including the loans. And it's a matter of interpretation. One can look at it that way if you want to, but I don't. I look at the net rather than the gross cost. And if you're looking at net cost, one would say that in 1982, it was about $7.5 billion, in 1983, about $16.8 billion, and in 1984 it will probably be below $11 billion. That's quite a far cry from the larger figures mentioned today.

So it is just a matter of interpretation. In the case of the welfare programs, I'm not sure which figures were included there. Perhaps the medicaid was left out of it, which is a very big figure. I just don't know for sure.

Senator ABDNOR. Well, I think he used the figure of $38 billion and I think that that is grossly unfair. It bothered me. It brings me down to another point. I noticed last night again, and I looked at the Wall Street Journal—I'm not plugging for them here today, but I looked at the grain market. I happen to have a little grain to sell. Grain took quite a jump. apparently, the day before yesterday because of the report we might carry on additional trade with Russia. Wheat went up—I forget exactly how much. But isn't that a question that arose again that this is going to make the price of food go up? I certainly know that other administrations showed a greater concern for what would happen to the consumer if the farm prices were to go up.

They're more concerned about what happens to the consumer. Now don't you really find that down deep? I wonder about our own group in Congress. Sometimes the concern is, "Gee, we can't make our constituents back home pay another nickel for a loaf of bread because wheat went up a dollar." But isn't it true that if we're going to get these farmers on their feet and supposedly off of Government supports, we're going to have to get the market price up and people are going to have to start to be willing to pay a little more for their food? It is the best bargain in the whole world right here in this country and they can't go on expecting to get it cheap like that forever.

Am I making false assumptions here?

Secretary BLOCK. No. It's a fact that we need stronger prices to restore health and prosperity to rural America. But the beauty of it is that the consumer is not going to have to pay very much for that because most of the cost of food, two-thirds of it, is cost that accrues after the product leaves the farm gate.

So, some improvement in prices to farmers would mean minimal increases in food costs to consumers. But I don't think that anyone should be alarmed about that. We need a strong and prosperous agriculture to insure the continuation, for the people of this country and other countries, of the largest supply of food and fiber at reasonable prices.

We must be in a position to do that.

Senator ABDNOR. Well, I appreciate you saying that and I hope the news media recognizes that sometime and makes a big point out of it. We might well convince the Members in Congress that it's really a healthy thing to let the farm prices go up, even though it does mean a few extra cents for the food basket purchases by the people.

Going back to the trade issue again, how are we going to attack this? I was over in the European Economic Community visiting with these people and I got in a shouting match with the gentleman who heads the agriculture department of England. I almost shocked the people who were taking me over there from the embassy. [Laughter.]

But, this is ridiculous. I mean, how much longer are we going to put up with this? Each year, they're getting a greater share of the market. And that's fine if they were doing it fair and square. But if they're going to keep underselling us, offering lower interest rates and we've got to say "Well, we'll turn the other cheek," pretty soon we're going to get pretty beat up on that cheek and we're losing that market forever.

What are you going to do about it? What is the administration going to do?

Secretary BLOCK. They are buying the market through their treasury.

Senator ABDNOR. Yes, they are.

Secretary BLOCK. As you are quite aware, our blended credit program has garnered a number of sales for us, so has the sale of wheat flour to Egypt. And we're not through challenging their practices because they are just plain unfair.

Senator ABDNOR. You would think that there was a breaking point with the European countries as to how much they can keep putting in. Didn't they raise their price supports another 4½ or 5 percent this year? And they're producing more all the time. It must be a costly program. I recognize that we're paying for a little of it by the products that we ship into their country, which bothers me to no end. But, of course, I keep thinking that maybe Russia is going to go broke building defense, too, with the large share that they are putting in. They seem to hang on.

But is there a point where the European Common Market is going to have to stop doing this? I haven't followed that situation. I know that you have talked to these people over there. Do you see a time that they are going to have to level off on this? I know the people in England are getting pretty unhappy with it.

Secretary BLOCK. Well, it's been suggested for several years that they might be reaching the breaking point, but they haven't reached it yet, obviously.

Let me say this much about this issue. Realizing that we haven't successfully stopped their export subsidy program at this point in time, we have had what we think are somewhat successful talks with EC officials while they have been reasonably constructive, there has not been any definitive solution to date. But look back where we were a little over a year ago. At that time, agricultural trade and the trade challenge from the EC really was not even on the agenda, at least not on their agenda. It has been on my agenda since I came here, but it was not on theirs.

But within the last year, we have put it at the top of their agenda within the European Community. It's also important here in the United States, because you're reading about it in the Wall Street Journal, and you can see it in paper after paper, big and small. You don't have to read a farm paper to know about this issue.

So we have the issue right up front and you have European papers writing about it, too. Now all of this is bringing their export subsidies out into the open. It now can be properly scrutinized and seen for what it is. Consequently, we're going to have a chance of seeing some progress made eventually. There was never going to be any progress as long as it was able to continue to move ahead without anyone challenging it.

Senator ABDNOR. Well, thank you.

Secretary BLOCK. I thank you for your efforts especially you and others on the Committee such as Senator Mattingly. Senator Mattingly was at the talks in Geneva. He certainly was supporting our position here in the United States, but it's not something that any one of us can solve alone. There must be a very strong collective effort which has come to pass.

Senator ABDNOR. Well, let me say this, Mr. Secretary. Again, I thank you for the effort that you are making in that direction. Someone had to bring this to the front. And I know that you're constantly battling this particular problem. And I'm very grateful that you are.

Thank you.

Senator JEPSEN. Congressman Scheuer.

Representative SCHEUER. Thank you very much, Mr. Chairman. Mr. Secretary, I appreciate your opening remarks—your closing remarks of your opening remarks about my concern with the small farmer. [Laughter.]

I note in your prepared statement, you say, "In any healthy, progressive economic sector, there's always a continuous sorting out process which favor efficient and competitive farms and these aren't always the largest ones."

I take it that you feel there is a role for the family-size farmer in this country.

Secretary BLOCK. Oh, yes, Congressman, I firmly believe that. In fact, it depends on which farmers you're talking about. If you're talking about the farmers who have outside family income, they're the toughest and most resilient.

Representative SCHEUER. Well, let's talk about the guy that has 50 or 100 acres and that that is his livelihood, or 200 acres.

Secretary BLOCK. Well, it depends on the crops he raises. If he raises vegetables, he might make it on 50 or 100 acres. But if he doesn't have any other livelihood, and he doesn't have intensive agriculture, there certainly is advantage to having more acreage and gross receipts.

Representative SCHEUER. Let me ask you that.

Secretary BLOCK. Yes.

Representative SCHEUER. When you say that there is an advantage in having more gross. Do you think that this process is going to drive us inexorably toward an almost exclusive model of farming by agribusiness, by industrial farms? In another 20 or 30 or 40 years, will the family farm, the guy with a couple of hundred acres and a mule, a tractor or a couple of tractors, a harvester, will he be driven out? Will he become an economic anachronism?

Secretary BLOCK. I don't believe that he will. Frankly, today many of your larger commercial farms are family operations. In the past, a family composed of the husband, wife, and their children would farm 160 acres or so. Today, you probably have the father, son, and maybe a brother or some combination of two or three families involved and they effectively will farm 1,000 acres or more. But it is still a family farm. There are families operating the farm. The farms are owned by families, and not by some big corporation. And that is primarily what agriculture is like today. Agriculture in the United States is basically comprised of larger family farms, larger than in years past because there is some economy in size. They use bigger machinery and equipment that is more efficient by bringing more than one family together to create that family farm unit.

Representative SCHEUER. I'm chairman of a subcommittee of the Science Committee that has jurisdiction over agricultural research in the Department of Agriculture. We have concurrent research with Congressman George Brown's subcommittee of the Agriculture Committee. We had several days of hearings last year which produced a great deal of criticism of the Agriculture Department for not doing more to help the family farmer make it. Witness after witness after witness, and these were professionals, these were professors and academics, as well as practitioners, expressed the view that the efforts of the Agriculture Department were aimed at very high capital intensive procedures, mechanisms, systems, and so forth, that required large inputs of capital, large inputs of fertilizer, large inputs of pesticides, large inputs of irrigation.

The little guy who wanted to farm a couple of hundred acres with his sons and maybe his brother—I'm not sure they had in mind 1,000 acres, but what we think of as the family farm, and it's probably not 1,000 acres. It's probably a few hundred or less—he wasn't getting very much attention or concern from the Department of Agriculture.

Let me give you what the twin problem is. The global population has about 4.4 billion and it's expected to go up to about 6.5 billion by the end of the century. There's no way on Earth that they can feed themselves with their present technology. If we're going to feed them, we're going to have to give it to them. And I'm not sure that the taxpayers of America want to do that.

There seems to be a real need for us to help the family farmer in India, Pakistan, Bangladesh, Columbia, Venezuela, sub-Saharan Africa, the Sahill, to also make it with, let us call it intermediate technology. He doesn't need an elaborate computer-driven tractor with elaborate, sophisticated telecommunications. He needs something less capital intensive. He needs seeds, for example, plants and fibers that are drought-resistant, that are disease-resistant, that don't require high inputs of irrigation, of chemicals, of pesticides, and that are labor intensive in the general approach to the help that we give him and not capital intensive.

So my question to you is, do you plan to enhance your research capability and your research concern with the needs both of the family farmer in the United States and, as part of our aid program, let us say, the need of the family farmer around the world, farming on small plots with a lot of mouths to feed, to become more cost effective and more efficient and more productive with comparatively very small inputs of capital, fertilizer, energy, chemicals, and the like?

Secretary BLOCK. There is a difference of opinion as to the kind of effort that we're making. Perhaps in some specific areas more could be done. I would concede that and would welcome your advice and counsel.

But we do have resources today in the USDA devoted to research on all kinds of problems. We also have farm advisers in almost every county, people that are ready and available to help family farms, large and small, become successful. I can speak from experience. I know that they're out there helping farmers in county after county because I've lived with the system we have.

Representative SCHEUER. Mr. Secretary, I'm not talking about a county agent. Of course, you have county agents out there. I'm talking about the research that you do in Washington, the USDA does and that they contract out for, sophisticated research done at the great American agricultural colleges that do research.

What are you doing to develop new processes, new techniques, new seeds, new fibers, new systems, that will help make the family farmer more efficient and will help make this little guy we're talking about around the world more efficient, trying to eke something better than a subsistence livelihood out of a very small plot with an exploding population that you find prototypical in the developing world?

Secretary BLOCK. Well, at the moment I can't point to many specific examples that you are referring to in your question. But we are doing research on all kinds of seeds at the land grant universities and our own research facilities. I've been to some of them. I've seen some of the research that they're doing. Some is for production research. Some is utilization of our products. Much of it is basic type of research, but it encompasses all facts of research.

An example that I know Senator Jepsen is vitally interested in is the soil and water conservation research at Purdue University. Experiment stations in most every State are also researching new techniques. Many of them are studying different kinds of no till methods. Many of these techniques apply to small farms.

We've got research stations in Puerto Rico specifically designed to do research on tropical agriculture which can help the Mediterranean countries and we make that information freely available. It's my sincere belief that American agriculture needs to be two things. First, American agriculture must be a reliable supplier of food and fiber to countries around the world. And second, we need to be totally unselfish in sharing our agricultural technology with other countries. I firmly believe in this.

Representative SCHEUER. Now let me just react to that and let's try and fine tune the focus of my concern.

The Office of Technology Assessment, in January 1982, issued a report on the Department of Agriculture research and development in which they said, "The lack of well-defined, achievable national goals for U.S. agriculture is a major deterrent to the formulation of a national policy that guides the research community in planning its agenda."

In other words, you haven't sent out—I don't mean you, I mean your predecessors, really—haven't sent out a clear signal of what you want, of what you see down the pike a decade or two decades as to the role that American agriculture should be playing, and perhaps the role of the small farmer, the family-size farmer in American agriculture.

So maybe you haven't clarified sufficiently in your public policy statements your concern for the medium-size farmer and your interest and your intended involvement in producing systems and plants and fibers and whatnot based on appropriate technology, getting away from the preoccupation with high capital inputs and high energy inputs and high fertilizer inputs and high irrigation inputs that have characterized our efforts to date.

That's problem No. 1.

Problem No. 2—I have in my hand, to quote a familiar phrase, your 6-year implementation plan, 1984 to 1990, dated February 1983. On page 21, the very bottom of the page, integration of systems, section A is emphasis and section B is deemphasis. And I'm quoting. You're going to deemphasize "small-scale farming, organic farming, tropical agriculture systems and energy."

Now it seems to me that these are exactly the kinds of targets of opportunity that you ought to be emphasizing and enhancing to help small farmers here and especially small farmers in the developing world.

When you're talking about deemphasizing small farmers, organic, farming, and tropical agricultural systems, you are really describing the small farmer in the developing world. The Department of Agriculture is spending less on its research budget than any other agency of Government, and our country is spending less on Third World-directed agricultural research than any other developed country.

Now that ought to give you a little concern. It gives me concern. Especially in the somewhat demagogic environment of, let us say, the general assembly, and to say "somewhat" is being very gentlemanly about it, the totally demagogic environment of the general assembly where, traditionally, they hold us responsible for all the world's ills. They hold us responsible for feeding the world, for clothing the world, for employing the world. This demagogy isn't going to get any less. It's only going to get worse as the population explosion in the Third World accelerates.

It seems to me that as a matter of urgent national policy, we ought to come up with some answers for the Third World. We ought to be able to say to them, well, look, we've spent *x* hundred million dollars showing you how, with limited capital, limited size of plots, limited water availability, limited energy, limited chemical inputs, you can make a go of it. Here are some innovative new techniques, innovative new seeds, fibers, foods, and whatnot, and if you apply yourselves, you can become food self-sufficient.

It seems to me that 5, 10, 15 years down the pike, it would behoove us to be in this moral posture. I hope that you will give some consideration to reversing this deemphasis on the very things, the very focuses, the very foci, that the developing world needs from us to survive.

Secretary BLOCK. I cannot concur in that view. I have signed a number of joint science and technological exchanges agreements with many developing countries. I have been in their countries. They are delighted with the efforts we are making and with the assistance that we are providing.

I would not agree in the least that we are not doing very much. I think that we're doing a great deal. Maybe we can do more, but I can't imagine that other countries are doing as much as we are doing. For the countries that I have been in, we have been the focal point of the agricultural technology that they are looking toward. We're doing quite a lot. I'm sure we could do more and I wouldn't argue with that.

Representative SCHEUER. Mr. Secretary, my time is up and I don't want to impose on your patience any further. But when I quoted about the deemphasis on small-scale farming, organic farming, tropical agriculture and energy, I was quoting from your own Department of Agriculture report. This is in your long-term research plan from 1984 to 1990 and I think it's the wrong emphasis and I hope that that will be reversed. I'd be happy to be in touch with you on that.

Secretary BLOCK. Thank you.

Representative SCHEUER. Thank you very much, Mr. Secretary. Thank you, Mr. Chairman.

Senator JEPSEN. Senator Mattingly.

Senator MATTINGLY. Thank you very much. Mr. Secretary, I just looked at my card and found out that I was supposed to be in my office at 11. I thought it was supposed to be 11:30, so I've got a whole group of people in there.

But, first off, I'd just like to make one comment. I'd like to just get back to the trade issue, which I'm sure that you want to discuss some more. But in reference to the dollar which you spoke about, about the high value of the American dollar, I'm on the Banking Committee and I understand that issue. But that's not the issue that I want to address as far as trade because that's two separate issues, the dollar value itself. But, really, I just want to get on the tilted rule business that we're facing.

You had mentioned about foreign policy that we had sort of been living with like a live-for-today type of policy that we've had. And to go on further quoting you, you said, instead, we must pursue a market-oriented farm policy in the future with a minimum amount of Government intervention, with which I agree. And there are two basic problems. One is with our own Government and one is with the other government.

Now, I think in our own Government, where we have got trade is a problem because the people who are sent by our country don't know how to deal with it. Now I think that you and the Department of

Agriculture have done a good job. The problem is that the criteria and the road map that you use, nobody else uses.

I think, whether it be the State Department or the National Security Adviser, the White House or Treasury or whoever it may be, that we don't have a common understandable policy, but rather, it's an inconsistent, unreliable policy that, when you make a decision, we're not quite sure if anybody else is going to also go with that decision.

So what I'm talking about is strictly in the arena of fairness for the agriculture area. You made the comment that we "need to do the right thing for agriculture," and I agree. But I think when we're talking about doing the right thing, trying to create profit, which is going to create more jobs, the only way that that is going to happen, and the main way, is through the increase of trade. We're going to have to get a whole lot tougher than we've been.

I have been accused by some of our foreign friends, "Mattingly is the one that wants to use the hammer." That may be true. I think maybe I want to use a hammer not only on some of the inequities that we are facing from other countries, but also the inequities that we face here at home. And they're equal.

Now, I spent 40 minutes last Friday afternoon with the President of the United States talking about trade and the budget, predominantly about the trade issue. The day before, Sir Roy Denman was in my office, who happens to be the Ambassador from the European Community to the United States. And just to make one quote from Sir Roy Denman in reference to CAP, the Commission's agricultural policies, he said that those subsidies were nonnegotiable, which sort of flies in the face of everybody saying, we're making headway.

I will tell you that we're not making any headway. I think when the economic summit is over, we're not going to be making any more headway. And when they go to Brussels on June 3, I believe we're going to send more people back to Brussels, Sir Roy and the rest of them are still going to say that those policies are nonnegotiable.

So what I'm getting to, if we're going to try to do the right thing for agriculture, what I'm asking you is—and I commend you for holding the summit in July—but where do you see us getting by this impasse in our own Government, of them not understanding what you understand and what I understand, and the rest of the people on this committee understand, that we have to have a common policy that everybody abides by in our own Government.

Secretary Block. Well, Senator, I do feel that we have substantial unanimity within the administration on how we challenge the European Community and the Japanese to freer trade. If we didn't have support, we wouldn't have had a wheat-flour sale to Egypt. We wouldn't have made an offer of some dairy products to Egypt that they are considering. We certainly wouldn't be positioned to take further action at the appropriate time, as I believe we now are.

I'm not discouraged at all by the support that I get from other departments. I've had tremendous support from Ambassador Brock and Secretary Shultz. Certainly, the decision to move forward on writing a new, long-term agreement demonstrates some willingness to work together on issues that you and I feel are vitally important to American agriculture.

So I'm not discouraged. I know that it seems like it takes an unearthly amount of time to get anything done in Government. While I get frustrated, I have a little more patience than I used to have. We just must continue to challenge their policies.

Senator MATTINGLY. I guess I don't have the same amount of patience. To use your quote there about an "unearthly" amount of time, I think is a very appropriate comment—unearthly. It happens to do with something in agriculture. [Laughter.]

But don't you agree that what we need to do is to continue to force this trade issue up to the same level in our country that we've got from budget policy, tax policy, and regulatory policy? I mean, to bring it to the same level. And I think, after talking to the President last Friday, that he has also seen this, but it has to be brought to that same level.

Secretary BLOCK. It needs to be at a high level. And, as I said earlier, it is at a very high level. When we met with Prime Minister Nakasone of Japan a while back, the first issue on the table that the President and I put forward was our entry into that market for citrus and beef. It was not defense or high technology. It was citrus and beef. And certainly, the fact that we had five Cabinet officers that went to Brussels to preach the party line together to the EC is an indication that agricultural trade is at a high level and considered very important. In fact, I can't think when we've had five Cabinet officers address another subject simultaneously, pounding on the table in unison.

Senator MATTINGLY. I would commend you and Secretary Bill Brock for being the two outstanding members as far as bringing it to that high a level. And I think the results that you have gotten so far have been commendable. But I think the way we're going to measure what happens in the trade area will be by results. In other words, we can't just rest upon the good intentions, supposedly, of our own Government and other governments and maintain the status quo, but we have to make movement in those areas where we've had this massive inequity that we weren't aware of for so many years, that were taking our farmers and agriculture to the cleaners, so to speak.

And I commend you for it. Where will you hold your summit that you're referring to?

Secretary BLOCK. It will be in Washington, D.C.

Senator MATTINGLY. And you're going to invite whom to it, again?

Secretary BLOCK. We will be inviting presidents of commodity organizations, farm organizations, farm implement manufacturers, fertilizer and seed companies, grain trading and food companies—in the range of 60 to 80 leaders in agriculture. And when I talk about agriculture, I mean the 23 million people that owe their jobs to the agricultural industry.

Senator MATTINGLY. I can tell you one thing. The farmers from Georgia are liking you real well now.

Thank you. [Laughter.]

Senator ABDNOR. Can I interrupt just one second? I hope you'll make it a point to invite our agricultural economist from this committee there. I'd like to have him sit in on those because I think it will tie in very closely with what we're trying to do here.

Secretary BLOCK. Thank you.

Senator JEPSEN. Congresswoman Snowe.

Representative SNOWE. I'd like to follow up with some comments that have been made by several here this morning concerning trade problems with other nations. I know you're familiar with the Maine potato industry because you visited northern Maine last summer; am I correct?

Secretary BLOCK. Yes, you're right.

Representative SNOWE. So you understand the problems that we've been facing with the Canadians and, without getting into the specifics of that problem, you do know that they have filed an antidumping petition. But I see the Maine potato industry's problem illustrative of the problems that so many agricultural commodities are facing across the country with our trading partners.

It doesn't seem to me that the situation is getting any better in terms of impressing upon other nations to ease up on their own subsidies. It seems that they're not even willing to discuss the issue. I just wonder how we are going to make any headway in the future. We've seen agricultural trade drop off in the past few years. I just wonder how we're going to be persuasive with those nations. They're increasing their export subsidies. We've seen that. They're subsidizing their industries. I know, I'm familiar with the Canadian issue very well and I know that they have increased their subsidization of their own commodities.

I just wanted to know from you what yardstick do we use to measure the unfair competition? At what point do we take action against a nation? And does your Department make up a list of nontariff restrictions by other nations? Do we know which markets we've lost as a result of unfair competition by other nations?

Secretary BLOCK. We have a fairly good idea of the markets we have lost and the reasons why. Now, we don't have all the answers because many of these countries don't make all of their deals public as we do in the United States. But most of their deals eventually leak out. So, in the end, we have a pretty good understanding of the deals that are made. We can document those practices that we feel are clearly unfair.

Sometimes it's hard to find just where a subsidy is, and consequently, we do have processes where we can go through and analyze it. We have tried to keep up with this issue. There are certainly many commodities and many countries involved. And some violations are more flagrant than others, too. This is certainly taken into consideration, because you can't fight on every front at once and be successful.

We have chosen a few examples that we feel are the most obvious violations of reasonable trade practices, and we have put forth most of our energy there, while at the same time trying not to neglect some of the other trade practices that are about as unfair.

Representative SNOWE. But are the other nations getting the message? I mean, I know in the November talks of last year, they were not really willing to discuss the U.S. proposal concerning the subsidies of various commodities. I know you mentioned in your prepared statement that we need to send a clear signal that the United States is moving down the road to freer markets so that it will hasten a return to more rational trade policies the world over.

Yet, I'm not convinced that that's the case.

Secretary BLOCK. Well, that's only part of the case. In bringing about movement toward freer marketing systems, we must continue to use some leverage on countries that we feel are employing unfair practices. At the same time, however, we must make sure that we do not provide for excessive supports for our farm commodities. The reason is that it makes it that much costlier for other countries to subsidize in the world markets if we do not hold world prices up artificially. They just try to slip in underneath us, just barely, and make the sale. The higher our loan rates, the easier and less costly that is.

So, they won't find it quite as easy to do if we are a little more elusive about it and our loan rates are not the absolute sale price. The sale price would be more of a moving target for them to try to shoot at.

Representative SNOWE. How have they reacted, how have other nations reacted in the European Community about our export subsidies to various programs?

Secretary BLOCK. Well, the wheat flour sale to Egypt was an action to take back a market that had been stolen from us. I have to conclude that they were probably surprised that we were willing to challenge them in that way. That action probably got their attention more than anything else that we have done.

Some of our blended credit sales have also assisted in getting their attention, but not nearly as much as the wheat flour sale to Egypt.

Representative SNOWE. On several other matters, Mr. Secretary, one concerns the Cooperative Extension Service field offices, and they're very important, I think, in assisting the small family farmer with technical assistance. I know there's been a recommendation to close three of the five cooperative extension service offices throughout the United States. One happens to be in the State of Maine that services New England.

Can you tell me why the administration has decided to do that, because it seems to me that that does weaken the support of the small farmer who is trying to make some headway and to gain some expertise in more efficient methods of farming.

Secretary BLOCK. Well, I can't speak to the issue directly except to say that it's a regional office. I would expect that this regional office probably doesn't have direct contact with farmers. We have a farm adviser in virtually every county in the United States, or most every county, anyway. And the farm advisers are the ones that have the direct contact and really provide the support. If we were to close a few regional offices, that probably means that the county officials would be working with our office here in Washington, and with communications as rapid and effective as they are today, some of these regional offices may not be essential.

We are also closing some offices down in some other areas of the USDA in order to save some money. We're trying to prioritize to save money. And, of course, the highest priority is to have these farm advisers directly where the people are in the county.

Representative SNOWE. Well, it happens to work very well in the State and it also does service the other areas. We do have, you know, the local officials as well, as you mentioned. But the cooperative extension office has worked very well in Maine and has assisted the small farmer. I think it may be penny-wise and pound-foolish because you are giving them more expertise through the cooperative extension offices. I know that there was a lot of concern in the agricultural community in Maine and in New England that this office was closing.

That's just a point that I wanted to make with you.

Finally, on the dairy assessment, I guess it's been reinstated last month, the 50-cent dairy assessment. I guess I'll ask you the same question that my Maine dairy farmers ask me, that is the question of fairness in the imposition of the 50-cent assessment.

The dairy farmers in Maine and the Northeast contribute very little to the surplus of dairy products in the United States. The increase in their levels of production is like 2 percent compared to the Midwest and the Western farmers, who have increased their production on the average of 20 percent. There is very little bought in return by the Commodity Credit Corporation of surplus from the Northeast. And yet, the imposition of this 50-cent dairy assessment is across the board for every farmer, regardless of their contribution to the surplus.

I do think that there's a basic unfairness involved in that assessment. I would like to have you comment on that.

Secretary BLOCK. That dairy assessment program enacted by Congress last year is despised by the dairy industry across the land. It certainly is not a favorite program of mine as the Secretary of Agriculture, but, by law, I have the obligation to administer the program. There is a 50-cent assessment in place now. There may be an additional 50-cent assessment going in place this fall, providing we are unable to get new legislation that's better.

I would encourage the Congress to help us get that legislation through. Tying it with a freeze to target prices is essential to insure administration support for that legislation. I think everyone will be better off—both dairy and grain producers—with such improved policy in place.

That's the message I would give.

Representative SNOWE. OK. So, then, you would support or be interested in an alternative to this 50-cent assessment.

Secretary BLOCK. Yes.

Representative SNOWE. OK.

Secretary BLOCK. I definitely am, because this is a better solution.

Representative SNOWE. OK. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Senator JEPSEN. Mr. Secretary, Chairman Helms of the Senate Agriculture Committee has been detained at the Foreign Relations Committee and regrets that he cannot attend this hearing. He does extend his thanks to you and expresses his appreciation to you and your staff and also to the Joint Economic Committee for the initiative that we've taken.

He has submitted a prepared statement which will be put into the record at this point.

[The prepared statement of Senator Helms follows:]

PREPARED STATEMENT OF HON. JESSE HELMS

MR. CHAIRMAN: IT IS INDEED A PLEASURE FOR ME TO APPEAR BEFORE YOUR COMMITTEE TODAY TO DISCUSS THE FUTURE OF FARMING AND AGRICULTURAL POLICY IN THIS COUNTRY. AS CHAIRMAN OF THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY, I WANT TO TELL YOU THAT WE ON THAT COMMITTEE APPRECIATE YOUR INPUT AS WE LOOK AHEAD TO THE 1985 FARM BILL.

CONGRESSIONAL CONSIDERATION OF THE 1985 FARM BILL IS STILL TWO YEARS AWAY, BUT THE FACT THAT WE ARE STARTING TO TALK ABOUT THAT BILL DEMONSTRATES ITS IMPORTANCE. THE 1985 FARM BILL WILL REAUTHORIZE MOST OF THE MAJOR FARM PROGRAMS FOR THE REMAINDER OF THIS DECADE, AND, AS A RESULT, WILL HAVE AN IMPORTANT IMPACT UPON PRODUCERS, CONSUMERS AND THE AMERICAN ECONOMY NOT ONLY FOR THE REST OF THE 1980'S, BUT INTO THE 1990'S AS WELL.

I SHOULD ALSO POINT OUT THAT OUR DISCUSSIONS HERE TODAY AND THE ACTIONS ALREADY TAKEN BY THE AGRICULTURE COMMITTEE ARE ONLY THE FIRST STEPS IN A LONG PROCESS. TODAY, WE ARE NOT ACTUALLY WRITING THE BILL. WE ARE TRYING TO SET IN MOTION THE LONG PROCESS OF RESEARCH AND STUDY BY FARM GROUPS, AGRIBUSINESSES AND LAND-GRANT UNIVERSITIES THAT WILL PROVIDE THE NECESSARY DATA WHEN WE DO BEGIN DRAFTING THE BILL.

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MR. CHAIRMAN, WE NEED TO EVALUATE WHERE WE ARE IN AGRICULTURE, WHERE WE NEED TO GO, AND HOW TO GET THERE. I THINK FARMERS HAVE MORE REASON FOR OPTIMISM RIGHT NOW THAN THEY HAVE HAD FOR NUMBER OF YEARS. BUT THE JOB STILL ISN'T COMPLETED.

THE GOAL THAT I THINK ALL FARMERS SHARE WITH ME IS THAT WE MUST CREATE A SITUATION WHERE FARMERS CAN APPLY THEIR INGENUITY AND HARD WORK AND BE REWARDED WITH PROFITS IN THE MARKETPLACE. OVER THE LAST DECADE, A NUMBER OF ACTIONS HAVE BEEN TAKEN, MOSTLY BY THE FEDERAL GOVERNMENT, WHICH HAVE DIRECTLY OR INDIRECTLY ROBBED FARMERS OF PROFITS. ROARING INFLATION OF THE LATE 1970'S CAUSED HIGHER PRODUCTION COSTS WHICH CUT FARMERS' PROFITS. HUGE SURPLUSES CREATED BY THE WRONG INCENTIVES SENT FARM PRICES PLUMMETING. AND LET'S NOT FORGET THE BURDENS PLACED ON FARMERS BY THOSE WHO PURSUED EXCESSIVE AND UNNECESSARY REGULATIONS OF THE FOOD INDUSTRY. UNFAIR COMPETITION FROM ABROAD CONTINUES TO ROB FARMERS OF THEIR NATURAL AND DESERVED MARKETS.

PROBABLY TOPPING THE LIST OF GOVERNMENT-INDUCED PROBLEMS IS THE 1980 EMBARGO. SUDDENLY, U.S. FARMERS WERE DEPRIVED OF A HUGE GRAIN MARKET, SURPLUSES MOUNTED, PRICES DROPPED, AND THIS COUNTRY LOST ITS REPUTATION AS A RELIABLE SUPPLIER OF FOOD.

BUT THE LAST TWO YEARS HAVE BROUGHT SOME REAL IMPROVEMENT IN THE FARMERS' SITUATION. ONE OF PRESIDENT REAGAN'S FIRST ACTIONS WAS TO LIFT THE EMBARGO. AS WE ALL KNOW, THE EFFECTS OF THE EMBARGO ARE STILL WITH US AND WILL BE FOR SOME TIME, BUT WE ARE SLOWLY TRYING TO REGAIN AND REPLACE THOSE MARKETS AND REESTABLISH

THE U.S. REPUTATION AS A RELIABLE SUPPLIER. JUST THIS WEEK THE SOVIET UNION ACCEPTED PRESIDENT REAGAN'S INVITATION TO BEGIN NEGOTIATIONS ON A LONG-TERM AGREEMENT. WE ARE PLEASED THAT THE PRESIDENT HAS TAKEN THIS ACTION, AND WE HAVE EVERY REASON TO BELIEVE THAT THE SOVIETS ARE READY AND WILLING TO BUY MORE GRAIN FROM US.

MORE THAN ANY FARM PROGRAM, FARMERS HAVE BEEN AIDED BY IMPROVED ECONOMIC CONDITIONS. SINCE JANUARY, 1981, INFLATION HAS DROPPED FROM NEARLY 13 PERCENT TO RIGHT AROUND 3 PERCENT. THIS HAS BEEN A BIG FACTOR IN REDUCING FARM COSTS. IN LIGHT OF THE PRESENT DEBATE ON THE BUDGET RESOLUTION, IT IS IMPORTANT TO NOTE THAT WE CANNOT GO BACK TO THE "BUSINESS AS USUAL" POLICIES THAT WILL TOUCH OFF ANOTHER ROUND OF INFLATION IF WE ARE TO CONTINUE THE PROGRESS IN FARM INCOME.

PRIME INTEREST RATES HAVE COME DOWN IN THE LAST TWO YEARS FROM 21 1/2 PERCENT TO 10 1/2 PERCENT. THAT IS STILL TOO HIGH, BUT WE HAVE MADE TREMENDOUS PROGRESS. FARMING REQUIRES A GREAT DEAL OF ANNUAL CAPITAL INVESTMENT, AND IT IS NECESSARY THAT FARMERS BE ABLE TO BORROW AT REASONABLE INTEREST RATES TO KEEP THEIR COSTS DOWN. IT IS SAID BY MANY THAT THE FIRST STEP TOWARD REDUCING INTEREST RATES IS FOR CONGRESS TO ACT ON A BUDGET THAT IS FISCALLY RESPONSIBLE AND TO QUIT ALL THE HAGGLING FOR PARTISAN ADVANTAGE. I HOPE THAT WILL HAPPEN, AND THAT INTEREST RATES WILL BE REDUCED.

THIS ADMINISTRATION HAS ALSO CUT COSTLY REGULATIONS WHICH STIFLE ECONOMIC GROWTH. PERSONAL AND BUSINESS TAXES WHICH WERE REDUCED IN 1981 HAVE STIMULATED SAVINGS, INVESTMENT, WORK EFFORT AND PRODUCTIVITY. THE TAX REDUCTION PACKAGE ALSO INCLUDED THE INCREASE IN THE ESTATE TAX EXEMPTION SO IMPORTANT TO FARMERS WHO WISH TO SEE THEIR LIFELONG EFFORTS PASSED ALONG IN SOME TANGIBLE WAY TO THEIR SURVIVORS. IN FACT, I AM AN ORIGINAL COSPONSOR OF S. 1250, WHICH WOULD REPEAL THE ESTATE AND GIFT TAXES WHICH NOW BURDEN OUR FARM FAMILIES AT THEIR MOST DIFFICULT TIME.

WE HAVE ALSO SEEN A COMMITMENT ON THE PART OF THE ADMINISTRATION TO EXPAND FARM EXPORTS. AS I MENTIONED, THE PRESIDENT IS SEEKING TO NEGOTIATE ANOTHER LONG-TERM AGREEMENT. LAST YEAR, SECRETARY BLOCK IMPLEMENTED THE BLENDED CREDIT PROGRAM, AIMED AT EXPANDING EXPORTS BY PROVIDING LOANS FOR EXPORTS AT COMPETITIVE INTEREST RATES. SECRETARY BLOCK AND U.S. TRADE REPRESENTATIVE BROCK HAVE SPOKEN OUT FORCEFULLY ON BEHALF OF OUR FARMERS, WHERE U.S. PRODUCTS HAVE BEEN UNFAIRLY CROWDED OUT BY THE PREDATORY TRADE PRACTICES OF OTHER COUNTRIES.

PERHAPS THE BIGGEST SINGLE FARM ISSUE OF THE REAGAN ADMINISTRATION IS THE PAYMENT-IN-KIND PROGRAM. THE PRESIDENT AND SECRETARY BLOCK IMPLEMENTED THIS PROGRAM IN AN EFFORT TO DEAL WITH OUR MASSIVE GRAIN SURPLUS AND SAGGING FARM PRICES. THEN THE FARMERS STEPPED IN AND DID THEIR PART BY SIGNING UP FOR THE PROGRAM IN NUMBERS BEYOND ALL EXPECTATIONS. THE PIK PROGRAM SHOULD SIGNIFICANTLY REDUCE OUR SURPLUS AND GET US BACK TO A

MARKET SITUATION WHERE FARMERS WILL BE ABLE TO SELL THEIR CROPS FOR A PROFIT. I COMMEND THE PRESIDENT AND THE SECRETARY OF AGRICULTURE FOR THEIR BOLD INITIATIVE.

THAT, THEN IS THE ENVIRONMENT IN WHICH WE TURN OUR ATTENTION TO THE 1985 FARM BILL. AS I SAID, IT IS NOT TOO EARLY TO BEGIN THE STUDY AND RESEARCH THAT WILL GIVE US THE INFORMATION AND POLICY BASE FOR DRAFTING THAT BILL. TOO OFTEN THE UNITED STATES CONGRESS PLAYS "LEGISLATIVE FIREMAN" WITH THE FIRES THAT FLARE UP ALMOST DAILY. WE CANNOT WAIT UNTIL THE LAST MINUTE AND PLAY LEGISLATIVE FIREMAN WITH THE FARM BILL. I THINK YOU WILL ALL AGREE THAT THE AGRICULTURAL SECTOR OF OUR COUNTRY IS FAR TOO IMPORTANT FOR US TO LET THAT HAPPEN.

MR. CHAIRMAN, THE AGRICULTURE COMMITTEE HAS ALREADY BEGUN WORKING ON THE 1985 FARM BILL. LAST WEEK I SENT OUT HUNDREDS OF LETTERS TO FARM GROUPS, AGRIBUSINESSESS AND LAND-GRANT UNIVERSITIES, ASKING THEM TO CONDUCT SEMINARS AND POLICY STUDIES OVER THE NEXT TWO YEARS ON A RANGE OF AGRICULTURAL TOPICS. IN FACT, WITHIN THE NEXT YEAR, I INTEND THAT A NUMBER OF STUDIES AND PAPERS RESULTING FROM THIS EFFORT WILL BE PUT TOGETHER IN A COMMITTEE PRINT.

IN SOLICITING THESE POLICY STUDIES, I HAVE REQUESTED THESE PARTIES TO CONCENTRATE ON EIGHT GENERAL TOPICS THAT WILL BE OF INTEREST TO THE CONGRESS IN THE FARM BILL DEBATE. THESE COMMENTS APPLY TO THOSE COMMODITY PROGRAMS WHICH EXPIRE IN 1985, AND WHICH NEED TO BE RE-AUTHORIZED.

FIRST IS THE ROLE OF THE FEDERAL GOVERNMENT IN THE AGRICULTURAL SECTOR. THE GOVERNMENT OPERATES A SERIES OF PROGRAMS OF DIRECT AND INDIRECT ASSISTANCE TO AGRICULTURE. WHILE MOST AGREE THAT THE GOVERNMENT SHOULD BE INVOLVED TO SOME DEGREE, THERE IS GREAT DEBATE ON HOW EXTENSIVE THAT INVOLVEMENT SHOULD BE AND WHAT FORM THAT ASSISTANCE SHOULD TAKE. BOTH GOVERNMENT AND FARMING HAVE CHANGED DRAMATICALLY IN THE PAST DECADES, AND WE MUST SERIOUSLY CONSIDER WHAT FUNCTIONS THE GOVERNMENT SHOULD PERFORM IN ORDER TO MEET THE GENUINE NEEDS OF FARMERS AND THE CONSUMING PUBLIC FOR THE REST OF THIS DECADE AND INTO THE NEXT.

THEN THERE IS THE QUESTION OF WHO SHOULD BE RESPONSIBLE FOR SPECIFIC PROGRAMS OPERATED BY THE GOVERNMENT, AS OPPOSED TO ESTABLISHING GENERAL POLICY PARAMETERS. BOTH THE CONGRESS AND THE EXECUTIVE BRANCH HAVE IN THE PAST TAKEN RESPONSIBILITY FOR IMPLEMENTING FARM POLICY, AND RECENTLY CONGRESS HAS MANDATED MORE SPECFIC PROGRAMS RATHER THAN PROVIDING BROAD PARAMETERS IN WHICH THE EXECUTIVE BRANCH CAN OPERATE. FOR THE 1985 FARM BILL, WE MUST EXAMINE THE ROLE OF EACH BRANCH IN FARM POLICY, AND THE APPROPRIATE BALANCE OF POWER BETWEEN THE TWO.

WE ALSO NEED TO ESTABLISH BROAD AGRICULTURAL GOALS AND PRIORITIES IN THE NEXT FARM BILL. IN THE TWO YEARS SINCE THE LAST FARM BILL IN 1981, A NUMBER OF NEW PROGRAMS AND INITIATIVES, INCLUDING THE PIK PROGRAM, HAVE HELPED RESHAPE THE ECONOMIC FUNDAMENTALS OF THE AGRICULTURAL SECTOR. GIVEN THOSE CHANGES, IT IS IMPORTANT TO ESTABLISH BROAD POLICY OBJECTIVES IN THE FARM

BILL DEBATE, AND TO CONSIDER THE DIRECTION WHICH POLICY SHOULD TAKE FROM THIS POINT.

A HIGHLY CONTROVERSIAL PART OF FARM PROGRAM OPERATION IS THE COST. RECORD COSTS FOR COMMODITY CREDIT CORPORATION FARM PROGRAMS, ALONG WITH PERSISTENTLY LOW CROP PRICES AND NET FARM INCOME, HAVE RAISED CRITICAL QUESTIONS ABOUT THE COST-EFFECTIVENESS OF FEDERAL COMMODITY PROGRAMS. IN THIS AGE OF BURDENSOME DEFICITS, FARM PROGRAMS SIMPLY MUST BE COST EFFECTIVE AND FISCALLY RESPONSIBLE IN ORDER TO BE PALATABLE TO THE TAXPAYER AND CONGRESS. WE MUST QUESTION IF THERE ARE MORE COST-EFFECTIVE YET VIABLE APPROACHES TO FARM PROGRAMS.

ALSO, IN THE WAKE OF THE PIK PROGRAM, WE MUST SERIOUSLY EVALUATE OUR PRODUCTION CONTROL PROGRAMS. IN THE PAST, OUR PRODUCTION CONTROL PROGRAMS HAVE BEEN VERY ERRATIC, AND THEY HAVE BEEN OFFSET BY EXPANDED PRODUCTION IN OTHER COUNTRIES. WE NEED TO EVALUATE PRODUCTION CONTROL ALTERNATIVES, AND EVALUATE WHETHER SUCH EFFORTS AND PROGRAMS ARE EFFECTIVE OR EVEN DESIRABLE.

AS OUR FARMERS HAVE BECOME MORE PRODUCTIVE, THEY HAVE ALSO BECOME MORE DEPENDENT UPON FOREIGN MARKETS. OUR DOMESTIC FARM PROGRAMS ARE NOW PREDICATED ON HIGH AGRICULTURAL EXPORT LEVELS. SINCE THE EXPORT MARKETS ARE NECESSARY TO OUR FARMERS, WE SHOULD ASK IF WE CAN INTEGRATE AGRICULTURAL EXPORT POLICY INTO TRADITIONAL DOMESTIC AGRICULTURAL POLICY, OR MUST WE COMPLETELY REVISE OUR DOMESTIC FARM PROGRAMS TO COMPENSATE FOR THE INCREASE EFFECT OF UNSTABLE WORLD MARKETS ON THE U.S. FARM SECTOR.

TRADE IS CURRENTLY THE TOP PRIORITY FOR THE AGRICULTURE COMMITTEE BECAUSE OF THE MANY PROBLEMS OUR FARMERS ARE FACING IN THIS AREA. THE COMMITTEE RECENTLY REPORTED AND IS HOPING TO BRING TO THE FLOOR FOR ACTION S. 822, THE AGRICULTURAL EXPORT EQUITY AND MARKET EXPANSION ACT. MR. CHAIRMAN, OUR IMPORTANT EXPORT MARKETS ARE BEING LIMITED AND LOST DUE TO THE PREDATORY PRACTICES OF OTHER COUNTRIES, AND WE MUST DEVISE A SUITABLE RESPONSE TO THIS CHALLENGE. THE 1985 FARM BILL DEBATE MUST CONTAIN DISCUSSION ON WHAT OUR RESPONSE SHOULD BE TO THESE TRADE-LIMITING BARRIERS.

FINALLY, WE MUST EXAMINE THE EFFECT OF AND RESPONSE TO THE RAPIDLY CHANGING TECHNOLOGY AND RESOURCES OF OUR AGRICULTURAL SECTOR. THE NEW TECHNOLOGY THAT IS EMERGING COULD OUTSTRIP THE IMPACT OF HYBRID CORN AND POSSIBLY EVEN THE INTERNAL COMBUSTION ENGINE. THESE INNOVATIONS INCLUDE COMPUTER ELECTRONICS, BIOGENETICS AND PLANT PROTEIN RESEARCH. AT THE SAME TIME, WE MUST CONSIDER WHAT WILL HAPPEN TO AGRICULTURE IF OUR NATURAL RESOURCES OF SOIL AND WATER BECOME DEPLETED.

MR. CHAIRMAN, THERE ARE MANY WHO BELIEVE THAT OUR AGRICULTURAL SECTOR IS THE KEY TO OUR GENERAL ECONOMIC WELL-BEING. THE CONTRIBUTIONS OF AGRICULTURE TO EMPLOYMENT, GROSS NATIONAL PRODUCT AND TRADE ARE INDISPENSABLE. SO IT IS FAIR TO SAY THAT THE 1985 FARM BILL IS IMPORTANT NOT ONLY TO OUR AGRICULTURAL CONSTITUENCY, BUT TO EVERYONE IN THIS COUNTRY. WE MUST BEGIN EXAMINING THE CONDITIONS AND ALTERNATIVES FOR THIS

IMPORTANT PIECE OF LEGISLATION SO THAT WE CAN CRAFT A BILL THAT WILL ACCOMPLISH THE GOALS WE SET. GENERALLY, OUR GOALS ARE THESE: WE WANT TO PROVIDE AN ENVIRONMENT IN WHICH FARMERS CAN EARN PROFITS IN THE MARKETPLACE, WHICH WILL THEN ASSURE CONSUMERS A CONTINUING, ABUNDANT SUPPLY OF FOOD. OUR PROGRAMS SHOULD BE MARKET-ORIENTED AND FISCALLY RESPONSIBLE. LET US WORK TOGETHER TO ACCOMPLISH THOSE GOALS.

MR. CHAIRMAN, THE AGRICULTURE COMMITTEE HAS ALREADY BEGUN WORK ON THE 1985 FARM BILL. I SINCERELY APPRECIATE THE WORK YOUR COMMITTEE IS DOING BY HOLDING THESE HEARINGS, AND THE CONTRIBUTION YOU WILL MAKE TO THIS AREA OF DEBATE. I LOOK FORWARD TO SEEING THE TESTIMONY YOU WILL RECEIVE, AND AGAIN THANK YOU FOR THE OPPORTUNITY TO TESTIFY TODAY.

Senator JEPSEN. Mr. Secretary, we are about to conclude the first in a series of eight Washington hearings, starting today and ending on June 23, hearings that will set some of the foundation for determining the next generation of farm policy.

I would report that our next hearing will be on May 25, and it will be entitled, "Farm Policy in the Post-PIK Era." Mr. Robert Delano, president, American Farm Bureau Federation; Robert Mullins, of the National Farmers Union; Wayne Boutwell, president, National Council of Farmers Cooperatives; and Wayne Nelson, who is the chairman of the National Farm Coalition will be with us.

Then, the following day, on May 26, we will have "Future Directions in Farm Policy," with Mr Schuh from the University of Minnesota; John Schnittker of the Schnittker Associates; Dennis Steadman of Chase Econometrics; and Emery Castle, from Resources for the Future.

Mr. Secretary, in closing, I wish to commend you for your commitment to agriculture. Your vision, coupled with your resolve and your energy, serves American agriculture with distinction and credibility. And I predict that history will record you as the leader that provided our Nation with the blueprint for world leadership in agriculture.

Again, in closing, for the record, this is the first in a series of eight hearings to be held between now and June 23, followed by five, possibly seven, field hearings to be held throughout the Nation, to ascertain what direction and what steps should be taken to develop the next generation of farm policy of this country. The origin of the current farm policy is the Agriculture Adjustment Act of 1933, signed by Franklin Delano Roosevelt 50 years ago this month, and I think it's most appropriate that we now move out toward the next generation of farm policy.

I thank you for the role that you're playing, the role you will play, for your leadership. Thank you for your attendance here this morning.

Senator Abdnor, do you have a closing statement?

Senator ABDNOR. I've just got to make this comment. I've got to believe that this is the first time in a long time, and I guess I'll go back to the last several years since you've been chairman and vice chairman of this committee, that agriculture has taken its proper role in the Joint Economic Committee. I think it's a great day. We now are paying the proper attention and concern that rightfully belongs to it and I think it's wonderful because it is bringing the problems to the front. Much of the credit, I think, comes from the fine cooperation we had with you, Mr. Secretary, and we are looking forward to continuing working with you because what we do here we want to closely tie to the work you're doing in the Department of Agriculture. Thank you.

Senator JEPSEN. Mr. Secretary, do you have any final remarks?

Secretary BLOCK. No, sir. I just once again compliment you for your effort. I look forward to working with you and your great committee. Thank you very much for your time.

Senator JEPSEN. Mr. Secretary, thank you for coming. This meeting is adjourned.

[Whereupon, at 11:35 a.m., the committee adjourned, subject to the call of the Chair.]

TOWARD THE NEXT GENERATION OF FARM POLICY

WEDNESDAY, MAY 25, 1983

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

The subcommittee met, pursuant to notice, at 10:15 a.m., in room SD-124, Dirksen Senate Office Building, Hon. James Abdnor (chairman of the subcommittee) presiding.

Present: Senators Abdnor and Jepsen.

Also present: Robert J. Tosterud, professional staff member.

OPENING STATEMENT OF SENATOR ABDNOR, CHAIRMAN

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

I welcome everyone to this second in a series of hearings addressing the theme "Toward the Next Generation of Farm Policy."

As you are aware, the Joint Economic Committee and the Agriculture Subcommittee have initiated these hearings for the purpose of promoting public thought and debate regarding the direction of future farm policy; specifically, farm policy in the post-PIK era.

Farm organizations, especially those represented here today, have always held a leadership position in the development of farm programs and policy, and have made valuable contributions to our mutual cause. Never before, in my judgment, has the agricultural community been more in need of your ideas and leadership as we begin to shape the next generation of farm policy. The primary obligation for the development of effective and responsible farm programs rests with farm advocates like you and me—I should say and our distinguished chairman.

Last week before the full committee, in reference to the $21 billion Federal outlay for farm programs in fiscal year 1983, Secretary Block stated that the Government cannot afford to continue to absorb these tremendous expenditures and warned that taxpayer support and sympathy for the need for farm programs is waning.

We must gain and maintain control of the agricultural policy agenda, but we can only do this if we make the commitment to the taxpayer that we will place our own house in order; if we don't clean our house, they will "clean our clock," gentlemen. So I think it's time we get on with this.

There is tragic irony in this, of course. U.S. farmers, who are supposedly the beneficiaries of this tremendous public assistance, hardly resemble the robber-barons in bib overalls as they are often depicted.

The fact is that U.S. agriculture in 1983 will suffer its fourth consecutive year of Great Depression-level real net income. And, if one were to adjust today's commodity loan rates for inflation, you would find their value to the farmer is roughly 50 to 60 percent of the loan rates offered to farmers 25 years ago.

Traditional farm programs have failed farmers as much as they've failed the taxpayers. Perhaps others can gain pleasure from beating a dying horse—but I cannot.

I want to remind our national public radio audience that they can participate in these hearings by sending their comments and ideas on future farm policy to Box A, Joint Economic Committee, Washington, D.C. 20510.

We're looking forward to hearing from you but before we do I want to call upon our distinguished chairman of the Joint Economic Committee, Senator Jepsen, and we're really happy that he's also a member of the authorizing committee on agriculture. Senator Jepsen.

OPENING STATEMENT OF SENATOR JEPSEN

Senator JEPSEN. Thank you, Senator Abdnor.

The challenge before the Joint Economic Committee and the farming community today is great, but it is one that none of us can shy away from. The debate on what form farm policy should take in the post-PIK era will certainly be controversial, but it also must be constructive.

Because of the complexity and difficulty of the task, we cannot expect consensus even among organizations as concerned about, and dedicated to, the interests of farmers as yours. Our objective must not be to force a consensus, but rather to broaden, intensify, and strengthen the farm policymaking process.

Events have clearly overcome farm policy and programs. At a time when agriculture faces its most difficult challenges, we find ourselves disarmed and disadvantaged.

Future farm policy must address the question: How do we demonstrate the full clout of our farmers' competitiveness within the international marketplace?

It is a travesty that the most efficient and progressive food production and delivery system in the world is in jeopardy. We're managing to turn a silk purse into a sow's ear.

I look forward to hearing your thoughts and suggestions as we begin this second in a series of hearings to formulate the next generation of farm policy.

Before I conclude, I want to take this opportunity as chairman of the Joint Economic Committee, to express on behalf of the full committee, our recognition and appreciation to Senator Jim Abdnor for his agricultural initiative on the committee.

As you can readily tell, he's very persistent. It's not difficult to understand what his feelings are about what the farmers need by way of representation and by way of need of improvement in their fair share of the economy. So, I'm pleased and proud to offer the attention of the full committee to this historic investigation and share with Senator Abdnor the challenges that lie ahead as we proceed toward the next generation of farm policy.

So, welcome, gentlemen, and I look forward to your testimony.

Senator ABDNOR. Well, thank you, Senator Jepsen. I thank you for those words. I just want to say that I think we have made some progress on the Joint Economic Committee on the subject of agriculture. I like to think that 2½ years ago when I started out on this committee, agriculture was almost a forgotten word; but we've come a long way and we've generated a lot of interest. We're not trying to supersede anyone, but I'm pleased that the House Agriculture Committee and the Senate Agriculture Committee have taken a like interest in this and, hopefully, we can come up with something they can use.

With that, we'll get on with our program today. I'm just as delighted as can be that we can attract the kind of people that we have here today to testify—people who are so knowledgeable in agriculture and who play such an important part in agriculture. We have asked the leaders of some of our farm organizations to come before us today, and at this time I'm going to call the panel of Robert Delano, president of the American Farm Bureau Federation; Mr. Mullins, director of legislative services for the National Farmers Union; and Wayne Boutwell, president of the National Council of Farmer Cooperatives; and Wayne Nelson, chairman of the National Farm Coalition. I can't tell you how much we appreciate the National Farm Coalition's supporting us and helping us carry this out. I don't see Mr. Nelson here. Is anyone here with the Coalition?

[No response.]

Senator ABDNOR. Well, if he comes later we'll certainly add him to the panel. We'll just ask you to proceed, gentlemen. Start on the left and work right. We call on Mr. Delano.

STATEMENT OF ROBERT B. DELANO, PRESIDENT, AMERICAN FARM BUREAU FEDERATION

Mr. DELANO. Thank you, Senator Abdnor and Senator Jepsen. It's a pleasure for me to have the opportunity of visiting with you concerning farm policy in the post-PIK era.

Farm Bureau leaders believe that to develop the right policy solutions for farm and ranch problems, we must first ask the right questions and examine all of the logical answers.

Questions need to be raised about farm program effects on the long-term economic health of agriculture and on the national economy, and the proper role of Government in dealing with private farming and ranching.

Since these hearings are aimed at considering the next generation of farm policy, it is well to first consider the nature and wisdom of current farm programs.

We need to recognize that PIK—the payment-in-kind program—is at best, a temporary, short-term measure designed to de certain limited things.

It is not a program designed to raise farm prices this year. Rather, PIK was designed to reduce future Government farm program costs; to improve net farm income by reducing production expense; and to allow the market to operate by reducing burdensome stocks of farm commodities.

Said simply, the purpose of PIK has been to allow markets to operate so that farmers and ranchers may receive adequate income from the market, rather than from Government.

The conditions that created a need for PIK have caused Farm Bureau members and leaders to seriously ask where current farm policies have gone so wrong that an extensive production control program is necessary.

To us it has long been obvious that current farm programs have been out of touch with market reality—that they have been encouraged production completely out of line with market demand.

Farm Bureau has introduced legislation—"The Agricultural Recovery Act of 1983"—that is market-oriented in dealing with basic economic farm program issues.

Few of us realized the economic pressures that would be generated as inflation was brought down almost solely by improvement in national monetary policies—rather than by substantial reduction in Government spending, taxation, and regulatory burden.

These economic pressures will continue as the Federal Reserve largely stands alone in its commitment to the anti-inflation battle—a battle, which Farm Bureau member families strongly support.

Inflation still remains agriculture's No. 1 worry.

Congress has not made essential domestic spending reductions that are necessary if inflationary expectations are to be eliminated. Instead, Federal nondefense expenditures are rising this fiscal year at a rate of 12 to 13 percent—in a time when the inflation rate is under 4 percent.

Until uncertainties about future economic policies are eliminated we will have a difficult time writing sound future farm programs, which currently are geared to the expectation of ever-higher inflation and a weak dollar.

If the country becomes committed to a long-term, stable economic policy, we must take a long hard look at basic provisions of current farm programs.

If Congress become committed to long-term policies that reduce taxes, encourage savings and investment, allow private sector creation of more jobs and trade to produce lower inflation and high living standards, then we must recognize that current farm programs are out of step with these overall objectives.

The need for a PIK program shows that present inflexible Federal farm programs are incapable of dealing with changing United States and world production, marketing, and economic conditions.

The PIK program has bought time, but it has not bought prosperity for agriculture. With PIK we have gained a little breathing space for a couple of years, but the real debate on farm programs has just begun.

This debate should be aimed at forcing Federal farm programs to stand or fall on their own merit.

It is natural to blame our problems in agriculture on such things as the weak world economy, or unfair trade practices and the stronger dollar, or to point to embargoes and the recession, or to blame our present difficulties in agriculture on a long list of other factors.

Before we get entangled in these problems we must ask ourselves: What have we done in all farm program areas in the name of helping farmers, to needlessly encourage excess production and substantially discourage consumption by our price, income and credit programs and our policies of stockpiling commodities to support political, not market, clearing prices?

Nobel Award winning economist Milton Friedman once observed that economists do not know much, but they do know that when government guarantees prices above the market to help producers, stocks accumulate.

Wheat, feedgrains, cotton, rice, tobacco, peanuts, and dairy are all, one way or the other, in this overproduction category.

And when Government holds prices down below the market to help consumers, shortages develop.

Soybeans have been about the only crop that has had good economic health over the years. Soybeans have been closely tied to real markets—and have enjoyed continued market expansion.

It should be remembered that in 1969 the loan rate on soybeans was lowered from $2.50 to $2.25 per bushel to assure continued world market competitiveness.

The dairy industry was healthier when dairy price supports were flexible and were allowed to move up and down with market demand.

Government-set prices at ever-higher levels have given efficient producers clear signals to increase production.

At the same time, equally clear signals to cut usage and to look for substitutes have gone to those who buy U.S. farm products.

As stocks have built to burdensome levels, the message is clear. To reduce taxpayer costs and improve farm income, we must once again learn to produce for consumption, not for storage.

During the years of high inflation and inflationary expectations, when credit was cheap, farmers made major investments in technology which substantially improved yields and total output.

At the same time, exports of major commodities increased dramatically. But much of the U.S. domestic and export demand was based on inflationary, not real, economic growth.

By the end of the 1970's, inflation cut deeply into farmers' incomes by sharply increasing production expenses and reducing purchasing power.

As production costs increased, so did the political pressure on Congress to help farmers "keep up with inflation." These political pressures caused farm price and income supports to be raised and the farmer-held reserve to be operated without regard to market realities.

We are all familiar with the lower market prices that have resulted.

In 1979, the Federal Reserve changed its monetary policies to fight inflation. As interest rates rose, farmland values declined, and equity gains diminished as a source of annual borrowed operating capital for many producers.

As the U.S. dollar strengthened, foreign buyers made downward adjustments reflecting their reduced purchasing power.

Farm production continued to increase. U.S. farm commodity stocks grew because farm program reserve policies were designed to hold farm prices up to legislated income-support levels without regard to long-term market damage.

With inflation on a downtrend, it has become difficult for Government to maintain these higher Government-set prices in the face of budget restraints.

Farm program support and related activities have risen in cost from $2.8 billion in fiscal year 1980 to $4 billion in fiscal year 1981, to $11.7 billion in fiscal year 1982.

And, these same farm program support and related activities will cost an estimated $20 billion or more in fiscal 1983—almost 10 percent of the projected total 1983 deficit.

These programs have generally been viewed as an economic safety net—with market forces ultimately determining profit and loss—and guiding investment in additional resources.

Some would argue that the economic safety net has become a permanent cushion that protects farmers at the expense of the rest of the economy.

Agricultural entitlement programs with open-ended guarantees cannot escape the spending restraints that must ultimately be imposed on all entitlement programs if we are to gain control of runaway Federal spending.

PIK is the latest effort to deal with the twin problems of large stocks of major commodities and the burgeoning costs of Federal farm programs.

PIK is a voluntary program. If it does not work, the next administration action will most likely be some form of mandatory production controls.

PIK is not a new idea, and the circumstances of large stocks and high Government cost are not new. Similar circumstances and similar programs prevailed in the early 1960's.

What is new is that U.S. agriculture has changed dramatically. In 1960 the farm economy relied primarily on domestic markets for its output. It now depends heavily on export markets for much of its income.

Our need to remain internationally competitive must not be overlooked in writing and administering new U.S. farm programs.

Much of our loss of export market share has been due to our diminished price competitiveness with other major exporters.

Subsidized competition generally receives a lot of blame, but USDA studies show that only about $1 billion of exports have been lost due to subsidies over the last 2 years, while yearly U.S. exports have declined by over $7 billion.

What are our choices beyond PIK?

There are two paths we can take. One leads to using our production and market advantages to the fullest extent, the other leads to shutting down the U.S. farm production plant and, eventually, to public utility status for producers.

The first option requires that future farm programs be keyed to the world market and world market prices much as Argentina did in the late 1970's when it pegged its government support prices at 80 percent of the world price for corn. As a result, Argentina's export market share stopped withering and began to grow.

To a large extent, U.S. cotton has adapted its price support program to the world market price. It is significant that cotton does not have a farmer-held reserve.

True, cotton has market difficulties and program cost problems, but in recent years cotton policies have moved generally in the right direction.

Keying U.S. farm program policy to world market prices would assure other advantages. It would require U.S. producers and farm program policymakers to pay close attention to world market prices first, rather than last, as is often the case.

This approach demands that producers work aggressively to reduce costs and to become more price competitive.

It recognizes that there is a tremendous food and fiber productive capacity in the world because of modern technology and production techniques—with more on the way.

We need only to look to the rising production of the European Economic Community to see this potential, or to consider importers' use of feed-grain substitutes when price supports and other incentives keep our prices high.

To choose the second general policy direction, in which we attempt to live with present programs and the problems they have created, means still more options.

We can continue to spend $20 billion per year on a complex set of programs of stock accumulation, followed by programs of stock disposal similar to PIK, and eventually move into direct export subsidies; or, go for mandatory acreage reductions of 40 to 50 percent as we seek to maintain farm prices at levels above world-market prices; or, some combination of these options.

Obviously, the domestic and international implications of these possibilities are serious.

Farm Bureau's support for a market-oriented agriculture hinges on the belief that all future farm programs must do three things: Allow farmers to take maximum advantage of market opportunities at home and abroad without Government interference; encourage needed adjustments in resource use; and, reduce the need for future Government intervention.

Present programs clearly violate these fundamental objectives.

Without basic reforms, U.S. agriculture is headed in the same direction as the common agricultural policies of the European Economic Community. These are farm polices of high, guaranteed prices and with excess production siphoned into world markets through export subsidies.

Each year farm prices are decided at political sessions in Brussels—not in the marketplace—through a system that treats farmers as workers in a public utility.

U.S. farmers and ranchers refuse to be led down this path. Instead, we must move in the direction of clearer market signals to assure efficient production and increased trade.

This country has not reached its farm export limits as some now suggest.

Before we can reach our export potential, we must freeze farm program target prices and loan rates to signal our competitors that we have adjusted U.S. farm policies to the realities of changing world conditions.

With a domestic market for agricultural products that is, at best, growing only slowly, U.S. agriculture must look to export markets if we are to grow as an industry.

Other countries have also chosen to compete for these markets. The bottom line is that supplies available for export are greater than what the importers can pay for with the inflation rate down and the cost of credit up.

U.S. agriculture can grow to the extent the world economy grows and more people have money to spend on more food.

The world economy will grow only to the extent credit is available to efficient borrowers—and if markets are accessible to world trade.

Credit unwisely used to prop up bankrupt nonmarket economies is credit not available to those who have the market incentives needed to produce what the world would like to buy.

Protectionism in industrial goods and the service industries must be repelled. Without access to our markets, potential food importers will not have the hard currency they need to buy from us.

The need will continue for humanitarian food aid—which can help develop new friends and new markets—although paying customers are our only long-term hope for increased net farm income.

A sound domestic economic and monetary policy is essential if U.S. farmers and ranchers are to benefit from our comparative advantage in rapid food production.

Rapid inflation that encourages speculative land investments does not allow the growth in productive investment that is necessary to keep U.S. agriculture modern, highly efficient, and price competitive.

Taxes on petroleum products that raise the cost of producing food hurt U.S. farmers' competitive advantage, as do cargo preference rules and similar regulatory obstacles.

These include environmental actions that needlessly limit farmer access to new pesticides and restrict efficient farming practices to lessen our competitive position.

The bottom line is that U.S. agriculture must become "lean and mean" if it is to prosper in the rest of the 1980's and into the 1990's.

This will not occur if Government is allowed to constantly interfere in producer decisionmaking by inflating our cost of production while at the same time creating farm programs that price us out of the market and encourage other countries to increase production.

In 1945, Prof. Theodore Schultz, a noted agricultural economist at the University of Chicago, wrote a book called "Agriculture in an Unstable Economy." Schultz stressed that U.S. agriculture had to enter the export market on the supposition that we had a comparative advantage in production due to our technology.

The alternative, he said, was to attempt to solve our problems by curtailing acreage. Schultz said that problems did not lie in volume, but in price. We had to adjust to market reality since the United States had an important production advantage due to technology.

Unfortunately, the advice of Professor Schultz was not taken. U.S. agriculture was left to wander in the wilderness of acreage reduction programs for the next 25 years, while farm income and farm numbers continued to decline.

If we choose, we can make those same mistakes again.

Thank you, Mr. Chairman.

Senator ABDNOR. Thank you, Mr. Delano.

We're happy to welcome our next witness, Robert Mullins, of the National Farmers Union.

STATEMENT OF ROBERT J. MILLINS, DIRECTOR, LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

Mr. MULLINS. Thank you, Mr. Chairman. I appreciate the opportunity to appear today on behalf of the National Farmers Union and I want to express the apologies of our national president for not being able to be here today. He does send his best regards to you.

Senator ABDNOR. Thank you.

Mr. MULLINS. These hearings being held by the Joint Economic Committee are of extreme importance, particularly at this time, far enough in advance of the Congress consideration of new agriculture legislation in the next couple of years. I think the dialog that will come out of this series of hearings will prove productive for debates as we design American farm policy for the remainder of the 1980's, and in fact for the remainder of this century.

These hearings are also timely because, by any account, the current payment-in-kind program is nothing more than a stopgap measure. What comes after PIK of course is of interest to all agricultural producers and all who are concerned with the economy in general.

Federal farm programs over the past 50 years now have used several mechanisms to stabilize market prices and to assure adequate supplies for consumers. Among these have been the commodity loan and purchase programs, storage and reserve programs, acreage allotment and marketing quota measures, set aside and acreage diversion programs, and a variety of payments to producers, identified at times as parity payments, deficiency payments, incentive payments, and target payments.

The commodity loan and purchase programs directly aim for an increase in the market price of a particular supported commodity. The acreage retirement programs are also aimed at price improvement, but by an indirect route, through reducing production and the volume which is available to the market. The payment programs are designed to let the market seek its own level and to compensate producers to the extent which market prices are short of a targeted level.

The questions to be considered are related to the degree to which Americans, both producers and consumers, would find themselves better off by having a stable and predictable supply of food.

The weakening of farm programs in the 1970's exposed both farmers and consumers to greater instability and variability in supplies and prices.

Therefore, economic security for farmers and food security for consumers need to be the twin goals of agricultural policy.

As we noted, a variety of mechanisms have been utilized over the years in an attempt to stabilize the agricultural economy. The success or failure of farm stabilization programs has lain in the administration's and the Congress use of the various tools available to them.

The direction of future farm policy, we believe, is clear. Either we rely on the marketplace with its inherent peaks and valleys in prices and supply; or we adopt a rational, coherent supply-management program. It is our opinion that the latter choice offers greater stability to both producers and consumers. I think everyone in the agricultural community would agree that the current "band-aid" approach to farm programs and farm problems has to be abandoned.

Structurally, an effective agricultural program need not be unduly complex. In fact, an effective farm program could be implemented using the following three basic components: An adequate minimum loan rate—or purchase price—related to a specific percentage of parity; a reserve program with entry rates sufficiently high to attract the needed quantity and release levels sufficiently high so as not to unduly depress market prices; and the authority for land diversion programs, both long term, to remove fragile and less productive land from production, and short term, for adjustments to reflect immediate changes in either domestic or foreign demand for specific agricultural commodities.

In the dairy industry, we are facing a problem today. It is our contention that the basic price support mechanism for dairy as written in the 1949 act has worked well for both the producers and the consumers. The one thing that lacks in that dairy program is the ability when necessary to provide for supply management provisions.

For some commodities which are not produced nationwide, producers have sought over the years to develop other means to counterbalance the dominant power of the handlers and processors. These strategies have included such self-help measures as the Agricultural Marketing Agreement Act of 1937 and collective bargaining between producers and handlers, either under that act or other authority.

Some limited authority is available to farmers to engage in collective bargaining under the Capper-Volstead Act and the Agricultural Fair Practices Act.

Farmers can participate in bargaining associations or cooperatives without being subject to antitrust law, but, unfortunately, there is nothing to require the buyers of agricultural products to bargain in good faith.

If there is any legitimate criticism of Federal market orders, it would be, in our opinion, that they do too little, and not too much, to improve market prices.

The Federal market orders are self-imposed regulations, voluntarily chosen by producers and the industry, with the Secretary of Agriculture charged with the responsibility to see that the terms of those orders serve the public interest.

The Agricultural Marketing Agreements Act could be of more help to farmers if they were amended to make the system available to producers of any commodity who wish to use it and to use market flow measures freely to bring producer returns up to parity but not beyond. No Federal market order has ever been used to achieve full parity prices, a fact which clearly refutes recent claims that they have been used to the detriment of American consumers.

American farmers today live and sell their products in a global food and agricultural economy. The prices they receive domestically are dependent to an important degree upon what their commodities will bring in world trade. Such prices, in turn, are destined to be weak unless there are cooperative efforts among nations to maintain prices for raw commodities at fair levels and provide for orderly conduct of commerce.

Rather than cut back on domestic production, it has usually been the strategy to try to maximize the volume that can be moved to markets abroad.

There is a limit, however, to how much can be achieved by such efforts. Even under ideal conditions, perhaps only half of our surplus could be exported on a commercial basis.

The difficulty with agricultural trade is that it is as unfavorable to the interests of producers as the old domestic free market system was. The world grain market is dominated by the multinational grain trading corporations at the expense of both the producing and importing nations.

There are difficult questions associated with the goal of enhancing farm exports. Should farm goods be exported below the cost of production? Should confrontational tactics be used to win export markets, risking trade wars which would be disastrous to our farmers? Should politics be involved in determining to whom we sell, or political conditions be set on such commerce? Should exports be subsidized by price cutting or by credit subsidies? How far should we go in risking major present markets for our farm products by allowing our credibility as suppliers to be in question?

Farmers certainly need and deserve to be assured that they will have the right to sell their products in world markets if we are to maintain our productive capacity to serve that market. We are greatly concerned over the numerous embargoes, suspensions, and other interruptions of trade in agricultural commodities that have taken place over the past 17 years. One of the greatest threats to our losing ground in the international marketplace is the reputation this Nation has gained as an unreliable supplier.

Access to world markets is important, but if there are to be future gains in export earnings, they will more likely have to come from higher prices on those exported commodities. Therefore, we believe it imperative for the United States to take the lead in attempting to negotiate a new international grains agreement which would include both the importing and exporting countries of the world. The culmination of such an agreement would return stability to the international marketplace.

Mr. Chairman, we have presented little that is new in this presentation. I, quite frankly, don't believe that we have to reinvent the wheel. What is important is the extent to which the Congress will use the existing mechanisms that we have to positively direct agricultural policy in the decades ahead. Certainly, there are many, many more questions that have to be dealt with as we design an overall food and agricultural policy should be for the future, Mr. Chairman, I would best preserve our natural resources, water and land? How do we use our abundance to make sure that hungry people both here and abroad have enough to eat? These are very serious policy questions that must be answered; however, I submit that they can only be addressed after we decide the basic direction of our national agricultural policy.

If I could sum up in one word what the goal of America's food and agricultural policy should be for the future, Mr. Chairman, I would submit that that word would be stability. Thank you.

[The prepared statement of Mr. Mullins follows:]

Prepared Statement of Robert J. Mullins

Members of the Joint Economic Committee:

On behalf of the National Farmers Union, I appreciate the opportunity to appear before the Committee today to share with you some of our organization's thoughts on "Farm Policy in the Post-PIK Era." We commend the Committee for holding this series of hearings far enough in advance of the Congress' consideration of new agricultural legislation to allow for serious consideration of new directions for American farm policy.

These hearings are also timely because, by any account, the current "payment-in-kind" program can be considered no more than a stop-gap measure. What comes after PIK is of great concern to all of us.

PRICE AND INCOME IMPROVEMENT MECHANISMS

Federal farm programs to stabilize markets and prices, to assure adequate supplies and to improve economic returns to producers have incorporated a number of basic approaches, some of them more direct than others in impact.

Among these are commodity loan and purchase programs; storage and reserve programs; acreage allotment and marketing quota measures; set-aside and acreage diversion programs, and a variety of payments to producers, identified at times as parity payments, deficiency, incentive or target payments.

The commodity loan and purchase programs directly aim for an increase in the market price of a particular supported commodity. The acreage retirement programs are also aimed at price improvement, but by an indirect route, through reducing production and the volume which is available to the market. The payment programs are designed to let the market seek its own level and to compensate producers for the extent to which market prices are short of a targetted level.

The questions to be considered are related to the degree to which Americans would find themselves better off by having a stable and predictable supply of food.

History shows that stable and fair prices have been good both for farmers and consumers. During the eleven years from 1942 through 1952, when farm prices were constantly at or above 100% of parity levels, the advance of food prices was a modest 3.5% a year. When the shift to a "market-oriented" price policy began in 1973, retail food prices went through the roof.

For the period from 1973 through 1976, food prices went up a cumulative 40%. While there was a small Treasury saving as a result of reduced farm support levels, the trade-off in the market place was devastating. Consumers as taxpayers may have saved a billion dollars in farm program costs, but over the four-year period they paid $35 billion more in the market place than if the price pattern of the immediately preceding years had been maintained.

The weakening of the farm programs in the 1970s exposed both farmers and consumers to greater instability and variability in supplies and prices.

Therefore, economic security for farmers and food security for consumers need to be the twin goals of agricultural policy.

As we have noted, a variety of mechanisms have been utilized over the years in an attempt to stabilize the agricultural economy. The success or failure of farm stabilization programs has lain in the Administration's and Congress' use of the tools available to them.

The direction of future farm policy is clear: either we rely on the "market place" with its inherent peaks and valleys in prices and supply; or we adopt a rational, coherent supply/management program. It is our opinion that the latter choice offers greater stability to both producers and consumers. The current "band-aid" approach must be abandoned.

Structurally, an effective agricultural program need not be unduly complex. In fact, an effective farm program could be implemented using the following three basic components: an adequate minimum loan rate (or purchase price) related to a specific percentage of parity; a reserve program with entry rates sufficient to attract the needed quantity and release levels sufficiently high so as not to unduly depress market prices; and the authority for land diversion programs, both long term, to remove fragile or less productive land from production, and short term, for adjustments to reflect immediate changes in either domestic or foreign demand for specific agricultural commodities.

For dairy, it is our contention that the basic dairy price support program which has been in effect since 1949 has worked to the advantage of both the producer and consumer. We would recommend only one basic change in the program: that it should provide a supply/management program should we again find ourselves in a situation where domestic production outpaces domestic consumption.

EQUALIZATION OF MARKET POWER

For some commodities not produced nationwide, producers have sought over the years to develop other means to counterbalance the dominant power of the handlers and processors. These strategies have included self-help measures under the authority of the Agricultural Marketing Agreement Act of 1937 and collective bargaining between producers and handlers, either under that Act or other authority.

Some limited authority is available to farmers to engage in collective bargaining under the Capper-Volstead Act and the Agricultural Fair Practices Act.

Farmers can participate in bargaining associations or cooperatives without being subject to antitrust law, but there is nothing to require buyers of agricultural products to bargain in good faith. Thus farmers are not in as strong a position as organized labor to make bargaining work effectively enough to meaningfully improve the prices they receive.

Organized workers have been successful in winning wage rates well above the minimum rates specified in the Fair Labor Standards Act. It is unusual for wage contracts to call for as little as twice the national minimum wage.

But farmers who use the federal marketing orders or agreements are fortunate to obtain prices equal to 50% of parity even though the basic law itself has the specific goal of achieving parity prices.

If there is any legitimate criticism of federal market orders, it would be that they do too little, not too much, to improve prices.

Yet, even at this modest level, the federal market orders are under constant attack in this Administration, particularly from the Office of Management and Budget, which is attempting to determine policy, the prerogative of the Department of Agriculture.

The federal market orders are self-imposed regulations, voluntarily chosen by producers and the industry, with the Secretary of Agriculture charged with seeing that the terms of the orders serve the public interest. Producers do not need the help of the OMB in protecting them from the market order system. Producers can terminate an order any time they wish.

The Agricultural Marketing Agreements Act could be of more help to farmers if it were amended to make the system available to producers of any commodity who wish to use it and to use market flow measures freely to bring producer returns up to parity but not beyond. No federal market order has ever been used to achieve full parity prices, a fact which clearly refutes any claim that they have been used to rip-off consumers.

INTERNATIONAL COOPERATION IN TRADE

American farmers today live and sell their products in a global food and agricultural economy. The prices they receive domestically are dependent to an important degree upon what their commodities will bring in world trade. Such prices, in turn, are destined to be weak unless there are cooperative efforts among nations to maintain prices for raw commodities at fair levels and provide for orderly conduct of commerce.

Rather than cut back on domestic production, it has usually been the strategy to try to maximize the volume that can be moved to markets abroad.

There is a limit, however, to how much can be achieved by such efforts. Even under ideal conditions, perhaps only half of our surplus problem could be exported on a commercial basis.

However, conditions now are not ideal. World stocks are usually more than adequate to meet demand and if they fall short, it is usually because of crop disaster in major production areas.

The difficulty with agricultural trade is that it is as unfavorable to the interests of producers as the old domestic free market was. The world grain market is dominated by the multinational grain trading corporations at the expense of both the exporting and importing nations.

In the years from 1949 through 1967, International Wheat agreements set a price range or corridor within which prices would move. The price range was negotiated between the exporting and importing nations. Since 1967, the economic provisions have been eliminated and there has been no world floor price. As a result, grain prices in the world market have drifted below the cost of production in even the most efficient producing countries.

During the years from 1949 to 1967, the U.S. enlarged its share of world wheat trade, doubling its bushel volume and its share of the market. Without such wheat pacts, the U.S. tends to be the residual supplier in the world market.

Difficult questions are associated with the goal of enhancing farm exports:

* Should farm goods be exported at below the cost of production?

* Should confrontational tactics be used to win export markets, risking trade wars which would be disastrous for our farmers?

* Should politics be involved in determining to whom we sell, or political conditions be set on such commerce?

* Should exports be subsidized by price cutting or by credit subsidies, which are another form of price reduction, when the selling price is already unreasonably low?

* How far should we go in risking major present markets for our farm products by allowing our credibility as suppliers to be in question?

Farmers need and deserve to be assured that they will have the right to sell their products in world markets if they are to maintain their productive capacity to serve the world market. We are greatly concerned over the numerous embargoes, suspensions, and other interruptions of trade in agricultural commodities that have taken place over the past seventeen years. The greatest threat to our losing ground in the international market place is the reputation we have gained as unreliable suppliers.

Access to world markets is important but, if there are to be future gains in export earnings, they will more likely have to come from higher prices on those exported commodities. Therefore, we believe it imperative for the United States to take the lead in attempting to negotiate a new international grains agreements which would include both the importing and exporting countries of the world. The culmination of such an agreement would return stability to the international market place.

CONCLUSION

We have presented little that is new in this presentation. I quite frankly do not believe it is that important to "re-invent the wheel." What is important is the extent to which the Congress will use the existing tools that we have to positively direct agricultural policy in the decades ahead. Certainly, there are many more details which must be addressed in our overall food and agricultural policy than I have discussed in this brief presentation: do we target farm program benefits; how do we best preserve our natural resources, water and soil; how do we best use our abundance to make sure hungry people both here and abroad have enough to eat? These are serious policy questions that must be answered; however, they can only be addressed after we decide the basic direction of our national agricultural and food policy.

If I could sum up in one word what the goal of America's food and farm policy should be for the future that word would be STABILITY.

Senator ABDNOR. Thank you, Mr. Mullins. We appreciate that testimony and we are anxious to ask both of you gentlemen questions as well as the others.

While you were speaking, the gentleman I spoke about earlier has arrived, Mr. Nelson, chairman of the National Farm Coalition. Mr. Nelson, would you come up to the table. At this time we call on Mr. Boutwell, who is the president of the National Council or Farmer Cooperatives.

Before you start, I just want to tell Mr. Mullins and the other gentlemen that your entire prepared statements will be made a part of the record. We thank you for summarizing.

STATEMENT OF WAYNE A. BOUTWELL, PRESIDENT, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. BOUTWELL. Thank you very much, Mr. Chairman. I appreciate the opportunity to be here and present the views of the National Council of Farmer Cooperatives.

While a large portion of our membership has experienced a dramatic decline in farm sales as a result of the PIK program, it continues to have widespread support among our membership. They recognize that before we experience any appreciable increase in market prices, that a substantial reduction in carryover stocks must take place.

Given the budgetary circumstances facing the administration this past year, PIK was the only game in town.

In order for us to look beyond the PIK program, it is imperative for us to examine the factors which lead to its implementation. However, before doing so, we need to address the very fundamental policy question: Are we currently faced with a structural problem in American agriculture? That is, do we currently have an excess capacity in the farm sector? The answer to that question, Mr. Chairman, is very critical for it will dictate the types of policies which we will pursue over the next 5 years.

Let's look and see what history tells us about the current situation agriculture finds itself in today.

We export about 60 percent of our wheat, cotton, and rice, 50 percent of our soybeans, and 35 percent of our corn production each year. Most of this growth occurred during the decade of the seventies. In the early 1970's, American agriculture found itself in a market dominated by a sharp reduction in farm production and a weak dollar. These factors, along with opening up of new markets, increased export demand for agricultural products.

At the same time, the United States was faced with reduced production because of poor weather. The combination of higher demand and lower domestic supply caused sharp increases in market prices. At that time, this was interpreted as a structural shift in the world agricultural economy. The result was heavy capital investment in agriculture with expanded production.

The situation we find ourselves in today is exactly the reverse of the 1970's. The dollar is strong, while production in the United States has been at record levels. To make matters worse, we are in the midst of a worldwide recession, international credit problems and subsidies by our competitors. This combination of reduced demand and increased supply has resulted in accumulated stocks, low prices, and low farm income.

It has been estimated that the combination of above average yields for the past 2 years and reduced exports has resulted in stocks in excess of normal carryover by the equivalent production on 30 million acres.

We took last fall to see whether or not the acres we had in production would be about right if in fact we had normal yields and normal exports that we experienced over the decade of the seventies. If you take average yields in the United States and normal exports, the acreage in production this past year without the PIK program would be about right to meet that demand. The problem, as we see it, has been the combination of back-to-back record yields in this country and a combination of factors that have put the world economy in the doldrums.

So, Mr. Chairman, while I would not characterize the curent excess stock situation as a structural problem, it is clear that given the magnitude of the surplus stocks, continued efforts need to be made to hold down production and probably will be needed over the next couple years for some commodities, of course, barring any weather problems.

With the implementation of the acreage reduction and PIK programs, the administration has addressed the problem from the supply side. However, our analysis shows that nearly one-half of the problem has occurred because of a decline in exports.

Also, USDA studies have shown that export demand is appreciably more volatile than domestic production or consumption and is the major source of fluctuation in farm income. Therefore, I would like to spend just a few minutes looking at the trade sector.

The gross value of U.S. agricultural exports in 1982 was $39 billion, a $4 billion decline from the 1981 level and the first year-to-year decline in the gross value of our agricultural exports since 1969. Looking ahead to 1983, USDA is currently projecting a further decline of almost $3 billion. A number of important factors have led to this dramatic change in the export picture.

First, foreign production is up. Foreign production is up some 22 million metric tons. In economic terms, that simply means, Mr. Chairman, that the excess supply curve overseas in reality is a mirror image of our demand curve. So clearly, the larger foreign production has had a negative impact on our export demand.

It seems to me that one of the things we have to be careful about with the PIK program is that we do not posture ourselves in a position of retrenchment in terms of our own production while our foreign competitors continue to expand theirs. By doing so we lose our export markets in the process. We need to guard against that.

Second, worldwide recession. In the 1970's the developing countries grew at a growth rate of 4.5 percent. In 1982 it was 0.6 percent.

Third, exchange rates are having a major impact on our trade. As I said, in the early 1970's the situation was reversed. The exchange rates at that time resulted in U.S. agricultural products being a good buy and we moved into additional markets. The situation is reversed now. On a trade-weighted basis, we're looking at a 20-percent impact by the exchange rate on the cost of U.S. farm products in foreign markets.

For some individual commodities, depending on the markets they go into, the percentage is much higher than that. It's been estimated that the changes in the exchange rates have resulted in a loss of export value of some $6.7 billion.

Fourth, the financial credit difficulties. Many of the countries currently experiencing creditworthiness problems represent some of our most important markets. USDA recently estimated that the severe credit problems of many of our foreign customers have caused wheat, feedgrain, and soybean meal exports alone to decline some 15.4 metric tons over the last 2 years.

We've already heard mentioned this morning the Soviet grain embargo. We represented 62 percent of that market back in the late seventies. We now represent 20 percent of that market, a very substantial reduction in terms of exports to that country.

Finally, of course, the impact of export subsidies. The European Community's high support prices, aggressive export policies with regard to things like wheat-flour exports and broilers, have had a negative impact on our exports. For example, they moved into the Middle Eastern markets with subsidized broiler sales and have taken that market away from the United States.

So what does this tell us about the agricultural policy for the eighties? During the decade of the 1970's, farmers will continue to be vulnerable to market variability. In fact, the impact will be compounded because of the increased importance of exports over the last decade.

Thus, programs which provide a safety net for producers and adjust supply and demand during periods of imbalance will continue to be needed in the years ahead.

However, over the longer run a healthy agriculture will depend upon our ability to stabilize and expand our export markets. Therefore, increased emphasis needs to be put on providing credit in a way that importing countries can use that credit to buy U.S. farm products. Our export credit programs have become a major tool for expanding agricultural exports worldwide. However, we need to redirect our credit programs in order to meet the individual needs of individual countries. The implementation of the blended credit program last year has allowed many of our foreign competitors to increase their exports in key markets.

Additionally, we feel that the export PIK program is a good concept, both to move additional volume as well as meet some of the competition we're facing in international markets. Under such a program the Secretary can make available to U.S. exporters, processors, and foreign customers, bonus stocks from the Commodity Credit Corporation in order to encourage the sale of U.S. farm products.

It's interesting that our competitors spend some 39 cents per dollar product exported, while the United States at the same time invests about 11 cents per dollar.

In summary, we believe that we should take a look at our entire export development program. For example, we spend roughly a billion and a half dollars in the Public Law 480 program. That program was put in place in the 1950's and you can tell many success stories about it. There are other efforts in the market development arena. We feel that these should all be looked at in the context of where we are in the

1980's with regard to the world and international markets. They need to be thoroughly reviewed to be sure that we get the most for the dollars spent.

Finally, we believe that you can't blame the entire problem of surplus on the existing farm programs. Perhaps we should take a look at the process by which these programs are implemented. First of all, USDA does not have the final say as to whether or not to implement an acreage adjustment or demand enhancement program. Other agencies get involved, such as the State Department, Treasury, Commerce, OMB, the Council of Economic Advisers, STR, and others. Each of these have their own agenda which may or may not have the best interests of agriculture at heart. In the past these have led policymakers to react in an untimely fashion relative to changes in supply and demand. This often results in the need for expensive programs because of the magnitude of the problem once it is addressed. The PIK program is a good example.

In summary, very quickly, we believe that farm policy should have the following:

One, safety net to protect producers during periods of low prices; two, stable growth of export markets on a competitive basis; and three, supply and demand adjustors to help keep the system in balance when uncontrollable factors create shortages and surpluses.

Thank you, Mr. Chairman, for allowing us to present our views.

[The prepared statement of Mr. Boutwell follows:]

Prepared Statement of Wayne A. Boutwell

Mr. Chairman, my name is Wayne Boutwell and I am President of the National Council of Farmer Cooperatives. The National Council is an association of cooperative businesses which are owned and controlled by farmers. Our membership includes 116 regional marketing and farm supply cooperatives, the 37 banks of the cooperative Farm Credit System, and 31 state councils of farmer cooperatives. The National Council represents about 90 percent of the more than 6,400 local farmer cooperatives in the nation, with a combined membership of nearly 2 million farmers.

I appreciate the opportunity to come before the Committee this morning in order to discuss agricultural policy following the implementation of the "PIK" program. While a large portion of our membership has experienced a dramatic decline in farm supply sales this year with the advent of the PIK program, it continues to have widespread support. Our membership recognizes that before we experience any appreciable increase in market prices, a substantial reduction in carryover stocks must take place. Therefore it was necessary for a strong acreage reduction program such as PIK.

In order for us to look beyond the PIK program, it is imperative for us to examine the factors which led to its implementation. However, before doing so, we need to address a fundamental policy question. Is the U.S. currently facing a major structural problem in U.S. agriculture? That is, do we currently have an excess capacity in the farm sector? The answer to this question is critical -- for it will dictate the types of policies which should be pursued over the next five years.

Let's look at history to see what it tells us about the current situation agriculture finds itself in.

In 1950, the U.S. imported $3.9 billion of agricultural products while exporting only $2.8 billion, leaving a negative agricultural trade balance of $1.1 billion. Net farm income in 1950 was $13.6 billion, with the export-related portion of farm income accounting for 24 percent. Exports accounted for only 7% of the total marketings of U.S. agricultural products.

In 1981, the U.S. exported $43.3 billion of agricultural commodities while importing $16.8 billion leaving a positive agricultural trade balance of $26.5 billion. Net farm income in 1981 was $25.1 billion, with the exports accounting for $14.5 billion or 58% of this total. Exports accounted for almost one-quarter of all the marketings of U.S. agricultural products that year. Today, we export about 60% of the wheat, cotton and rice, 50% of the soybeans, and 35% of the corn produced each year.

Most of this increase occurred during the decade of the 1970's. In the early 1970's U.S. agriculture found itself in a market dominated by sharp reductions in foreign production and a weak dollar. These factors, along with the opening of new markets, increased our export demand. At the same time the U.S. was faced with reduced production because of poor weather. The combination of higher demand and lower domestic supply caused sharp increases in market prices.

At the time, this was interpreted as a structural shift in the world agricultural economy. The result was heavy capital investment in agriculture and expanded production.

The situation we find ourselves in today is exactly the reverse of the events of the early 1970's. Foreign production is up and the dollar is strong while U.S. production has been at record levels. To make matters worse we are in the midst of a worldwide recession, international credit problems and subsidies by many of our competitors. This combination of reduced demand and increased supply has resulted in accumulated stocks, low prices and low farm income.

It has been estimated the combination of above acreage yields for the past two years and reduced export demand has resulted in this accumulation of stocks in excess of normal carryover by the equivalent production on 30 million acres.

Mr. Chairman, while I would not characterize the current excess stock situation as a structural problem, it is clear that given the magnitude of the surplus stocks, continued efforts to hold down production will likely be needed for the next two years for some crops, barring any weather problems.

With the implementation of the acreage reduction and PIK programs, the Administration has addressed the problem from the supply side. However, our analysis shows that nearly one-half of the problem has occurred because of a decline in exports.

Also, USDA studies show that export demand is appreciably more volatile than domestic production or consumption and is the major source of fluctuation in farm income -- going from 10% of the variability during the 1950's and 1960's to 27% in the 1970's. Therefore, I would like to spend a few minutes looking at the export situation.

Export Demand

The gross value of U.S. agricultural exports in FY'82 was $39 billion, a decline of over $4 billion from the FY'81 level. This represented the first year-to-year decline in the gross value of our agricultural exports since 1969. Looking ahead to FY'83, USDA is currently projecting a further decline of almost $3 billion. A number of important factors have led to this dramatic change in the export picture:

- Foreign Production -- Over the 2-year period 1980/81 to 1982/83 harvested acreage outside the U.S. for wheat, feedgrains, and soybeans decreased 8.2 million acres. However, due to increases in yields, foreign production for all of these commodities rose almost 22 million metric tons. The major increase in foreign production over this period took place in wheat, increasing 17 m.m.t. followed by soybeans which increased almost 4 m.m.t. Foreign production of feedgrains remained virtually unchanged.

  In economic terms the excess supply curve overseas is the demand curve for U.S. exports. In other words, the larger the foreign supply, the lower the demand for U.S. exports.

- Worldwide Recession -- The depressed world economy has dampened growth in the demand for agricultural products, particularly in the high and middle income countries. As an example, during the 1970's the developed countries experienced a real economic growth rate of 4.5%, compared to just .6% in 1982.

- Exchange Rate Effects -- Over the past two years, the value of the dollar against other major currencies has increased by roughly 20%. USDA's index of trade weighted dollar exchange rates show that during this period the index has increased 20% for wheat, 29% for feedgrains and 32% for soybean meal. It is estimated that these increases have caused a loss in exports valued at $6.7 billion.

- Financial/Credit Difficulties -- Many of the countries currently experiencing creditworthiness problems represent some of our most important markets. For example, Mexico and Brazil are each facing foreign debts totaling $80 billion, while Venezula and Poland face debts approaching $30 billion. The debt burden in developing countries alone currently exceeds $600 billion, more than half of which is owed to commercial banks in the West. In Central and South America alone, the accumulated foreign debts approach a staggering $240 billion. USDA recently estimated that the severe credit problems of many of our foreign customers have caused wheat, feedgrain and soybeans/ meal exports alone to decline a total of 15.4 m.m.t. over the last two years.

- Soviet Grain Imports -- The Soviet embargo has had a devasting effect on the U.S. grain exports. Prior to the embargo in 1980, the U.S. share of the Soviet grain imports averaged 62% during the years 1977/78-1979/80. However, last year the U.S. share fell to just under 20%.

  In addition, the Soviets have achieved considerable savings since 1980 in grain by substituting domestically grown feeds for grain and by improving overall feeding efficiencies. USDA estimates that the Soviets have saved 12 m.m.t. of wheat and 19 m.m.t. of feedgrains since 1980 because of the new feeding efficiencies.

- EC Policy Impacts -- The EC's aggressive use of export subsidies since 1976 to dispose of surplus stocks, generated by their high internal support prices, has made the Community a major contender for world markets. Exports of wheat have increased almost 2 m.m.t. over the last two years, primarily due to larger domestic production. Also, through the use of export subsidies, the EC has captured a major portion of the Middle Eastern broiler market.

Policy for the 80's

During the decade of the 1980's farmers will continue to be vulnerable to market variability. In fact the impact will be compounded because of the increased importance of exports.

Thus, programs which provide a safety net for producers and adjust supply and demand during periods of excess supply will continue to be needed.

However, over the longer run a healthy agriculture will depend on our ability to expand our export markets. Therefore increased emphasis needs to be put on:

1. Providing Additional Credit for Expanding Agricultural Exports.

   Credit has become a major tool for expanding agricultural exports worldwide. Even with the implementation of the blended credit program last year, many of our foreign competitors have been able to increase their exports in key markets by providing more favorable credit. The U.S. needs to develop more flexible export credit programs with emphasis towards meeting the credit needs of developing and Eastern Bloc countries.

2. Additional Export "PIK" Sales

   Given the declining export demand and with the large build-up in stocks we currently face, USDA should implement additional export "PIK" initiatives, similar to the wheat flour sale recently completed with Egypt. Under the export "PIK" program, the Secretary of Agriculture makes available to U.S. exporters, U.S.

processors, or foreign customers bonus stocks from the Commodity Credit Corporation (CCC) in order to encourage the sale of U.S. farm products. The export "PIK" program should be used in markets where additional export sales can be attained or where bonus stocks can offset subsidies provided by our competitors.

3. Conducting a Major Review of USDA's Export Programs

   We are currently spending approximately $1.5 billion per year in an effort to expand U.S. agricultural exports through programs such as P.L. 480. The P.L. 480 program was developed during the 1950's when worldwide economic conditions were considerably different than they are today.

   A full scale evaluation should be made of USDA's export programs, including their market development efforts. Over the last three years our major competitors in the agricultural export market have spent an average of 39¢ for every dollar of product exported. The U.S., over the same period, has averaged only 11¢ for every dollar in value exported. It is critical for USDA to make a stronger commitment to these programs which create new demand for U.S. agricultural products overseas.

We should not place all the blame for the current surpluses on our existing farm program. Perhaps we should take a closer look at the process by which those programs are implemented. First of all, USDA does not have the final say on whether or not to implement an acreage adjustment or demand enhancement program. Other agencies such as the Department of State, Treasury, Commerce, OMB, and the Council of Economic Advisors all get involved. Each of these have their own agenda which may or may not have the best interest of agriculture at heart. In the past this has led policy-makers to react in an untimely fashion relative to changes in supply and demand.

In summary, we believe that our future agricultural policy should have the following characteristics:

1. Safety net to protect producers in periods of low prices.
2. Stable growth of export markets; and
3. Supply and demand adjustors to help keep the system in equilibrium.

Senator ABDNOR. Thank you, Mr. Boutwell. We appreciate that fine statement.

We have worked very closely with our last witness, and we are very happy to have Mr. Nelson, chairman of the National Farm Coalition, here. Mr. Nelson, we await your statement.

STATEMENT OF WAYNE K. NELSON, CHAIRMAN, NATIONAL FARM COALITION

Mr. NELSON. Thank you.

Mr. Chairman and members of the subcommittee; it's certainly a pleasure to be here and we appreciate the opportunity to share some of our thoughts from the Coalition. I would really like to commend the chairman for having the foresight to get this hearing together to look at the future of agriculture, especially looking at the new farm bill coming up only a year and a half off. So I think it's very timely to get started on it as quickly as possible.

Certainly on our farm in South Dakota we have to look at both the short range and the long range and I think that it's applicable to farm legislation as well.

From its inception in the early 1960's, the primary objective of the National Farm Coalition has been to provide agricultural producers an opportunity to meet to discuss their common goal of increased net farm income. An integral function of the coalition is to bring unity to agricultural producers on legislative efforts that are of mutual concern to agriculture.

Membership in the coalition is open to all general farm, commodity, or cooperative organizations that have as their objective the improvement in the economic opportunity of the Nation's producers and are willing to cooperate with other organizations in reaching a consensus to bring a more unified voice to American agriculture.

The fundamental question which must be answered in setting long-range farm policy is: What is Government's proper role in profitable market stability in this most basic of industries? Throughout the Nation's history, the Federal Government has acted to strengthen agricultural production. Assistance in the construction of roads, canals, and then railroads to move a growing population into interior regions came early. The Homestead Act and related legislation made land available to settlers free or at low prices. These actions were geared to settlement of the land and the development of its agricultural potential.

The establishment of the system of land grant universities provided the foundation for the agricultural education and research which has made American agriculture the most productive in the world. The Agricultural Extension Service has provided the means of disseminating the work of the laboratories, test plots, breeding and feeding trials to the farmer and rancher. Establishment of the Bureau of Reclamation and the Soil Conservation Service addressed the need to bring marginal lands into production and to conserve the basic soil and water resources to assure productive capacity for future generations.

In the 1920's and 1930's the policy direction shifted to economic issues in the form of marketing assistance. The Capper-Volstead Act, the Agricultural Marketing Act, the original Agricultural Adjustment Act and subsequent enactments have provided a foundation on which to build.

We do face a changed situation in major segments of agriculture today. But the idea that the proper course for Government is a withdrawal from agriculture is not the answer.

Looking ahead to the balance of the 1980's and into the 1990's, we can see a growing world population which must be fed and clothed. Marketing opportunities for the American farmer will abound.

At the same time, work is now underway in the laboratories and research stations that would radically alter the ability to produce. Fifty years ago 100 bushel corn was almost a dream. Today 200 bushel yields are a fact, and in certain trials 300 bushels has been achieved. Thirty years ago, a dairy cow producing 6,000 pounds of milk was a pretty good animal. Today, a 12,000-pound animal is a prime candidate for slaughter. And the geneticists tell us we have the capability now to breed cows producing 45,000 pounds of milk a year.

The capability to meet the needs of the market are there or will be there. Farmers and ranchers will be able to make use of the technology as it emerges if a reasonable stability can be maintained in agriculture. This, coupled with Government policies encouraging and assisting the marketing efforts of farmers, should form the basis for national food policy in the years ahead.

The preservation of a system of individually owned and operated farms must be defined as the guiding principle of Government farm policies. A great deal of equivocation exists among policymakers concerning this issue, and is reflected in the following excerpts from two separate studies. In the 10-year-old publication "A New U.S. Farm Policy for Changing World Food Needs," prepared by the Research and Policy Committee of the Committee for Economic Development, we find this conclusion:

> Agriculture represents an important economic asset for the future. Output per man-hour has grown much more rapidly in agriculture than it has in manufacturing, and this increase is likely to continue. Food supplies in the United States have grown far more rapidly than the growth in domestic demand has required, and will probably continue to do so . . . . To cut back farm production would waste real resources, impose substantial tax burdens, and create serious welfare problems in rural areas.

This view is typical of the rather conservative concept that assumes a continuing loss of individually owned and operated farms is acceptable as a matter of national policy. That view also customarily assumes that change is inevitable and that the agricultural industry in this country should reflect the consequences of increased technology, higher costs of production, and higher prices at the retail level.

In contrast, the following statement from a staff study prepared for the Joint Economic Committee in December 1982, entitled "The Changing Economics of Agriculture: Challenge and Preparation for the 1980's" seems to assume that it is in our best national interests to preserve the independent ownership and operation of farming units that has always been a part of our national heritage:

> * * * the U.S. farming industry exists in an almost perfectly competitive market structure, and it is the only major industry to have this distinction. Farmers are faced with the classical element of competition: they are price takers. The in-

dividual farm business is simply too small, relative to the size of its industry, to influence the price of either inputs or outputs * * *

Second, declining federal support has made agriculture compete more directly for national economic resources.

In order to counterbalance these disadvantages of an ultimately desirable system of independently controlled farms, an optimum farm policy would assume that it is necessary for agricultural producers and the Federal Government to be involved in some form of partnership that influences levels of production, the retention of reserves to protect the public interests, and a price stabilization scheme for our major commodities.

PRODUCTION CONTROLS

We need a very aggressive supply management system. The coalition firmly believes that production controls for surplus commodities should be tightened in order to reduce carryover levels and strengthen farm income. Voluntary programs, implemented at the discretion of the Secretary of Agriculture, have not been effective tools of supply management, and have only caused uncertainty for producers. A multiyear production stabilization plan should be devised which would adjust stocks to targeted ending carryover levels.

A system of farmer-held reserves, while an essential marketing tool for grain farmers, is not the total answer to supply management. Wheat and feedgrain holdings in the FOR have nearly doubled in a year's time, in spite of acreage reduction programs operated for all grains. No wheat or feedgrains have been released into the market in over 2 years due to low average market prices. Carrying charges for the grain have been mounting with no relief in sight, as production gains have been increasing year by year. The farmer-owned reserve, in fact, has not been allowed to function as a market stabilizer, since prices have not made sustained, long-term gains since its establishment. Government policymakers have ignored clear signals that strong acreage cutbacks would be necessary for price growth, until finally a tardily announced program was put into effect for the 1983 crop year. In spite of this program, stock buildups occurred across the board. And, even with the enthusiastic response of producers to the 1983 PIK program, which must be viewed as an emergency effort only, wheat stocks will only decline by about 4 million bushels. The feedgrain sector will make much better progress toward an acceptable carryover level, yet average farm prices could improve as little as 5 cents per bushel over last year, according to USDA statistics.

The coalition members are very, very frustrated over this traditional oversupply situation and have looked strongly—have not adopted, but have looked strongly in discussion at mandatory programs or at some minimum price level in order to try to get something done and we'll continue to look at these things in the future in order to look at a future farm program, but something certainly needs to be done.

PRICE STABILIZATION

Under price stabilization, central to any future farm program must be a system of price and income protection to avoid disaster for the Nation's agricultural producers. The coalition endorses the continuation of the regular 9-month long program for grains, rice, and cotton, to be set at a level at least equal to the 1983 loan level. In conjunction with the loan, a minimum income target should be established by the Congress to reflect changes in the cost of production for the major commodities. The coalition also goes on record against any freezing of target prices at the current levels in this present year.

Mr. Chairman, we are fully aware of the fact that farm program spending has reached historic levels this year. We believe, however, that a major part of these costs could have been avoided through more prudent utilization of acreage controls and other authorities available to the Secretary of Agriculture. Loan forfeitures and target outlays should only be necessary if the market proves too weak to cover production costs. There is some degree of predictability to market forces produced by oversupply, and once again, we stress the importance of acreage cutbacks when inventory buildups occur.

For a wide variety of specialty crops, the marketing order system has proven effective in maintaining market stability. The Federal milk marketing order program and the dairy price support program have provided stability to a segment of agriculture that would, in the absence of these programs, be marked by extreme instability. Current problems in the dairy sector should not—cannot—be taken as a mark of failure of these programs. They are, in large measure, a reflection of the problems in the rest of agriculture. Adjustments are necessary and will be made. But maintenance of the basic programs that have served well is an essential.

Beyond this, the ability of the farmer to represent himself in the market must be maintained. One of the shortest but perhaps the most essential of all agriculturally related statutes ever enacted is the Capper-Volstead Act. It provides the basis for joint marketing efforts of farmers. This authority must be maintained. Increased emphasis must be placed on assisting farmers in their marketing efforts.

EXPORT POLICY

The easy optimism of the 1970's which grew from rapidly expanding exports into the Soviet and other markets renewed the faith of many in the free market philosophy for agriculture. But the free market of the 1970's was the embargoed market of the 1980's, and complications arising from a worldwide recession provide clear evidence that export markets do not currently have the necessary absorption capacity to rid American producers of their excess grain and other commodities. As higher and higher percentages of American agricultural production are exported, the level of volatility which is introduced into the marketplace increases. Domestic policy must be designed to ease the effects of price volatility which results from swings in world demand for U.S. products. Farmers, as "price-takers," are only able to protect themselves during periods of declining prices through the use of marketing tools such as the regular and reserve loans. They must be able to rely on the firm assumption of a minimum per bushel income in order to make planting decisions for markets which may not materialize.

Most economists agree that a large part of slackened world demand for U.S. agricultural commodities stems from inflated exchange rates of the U.S. dollar, the unwieldy debt load of developing countries, which are important markets for our products, and other macroeconomic factors which have nothing to do with loan rates and targets. Furthermore, we believe that too much emphasis has been placed on the influence of U.S. farm-supported programs and, in particular, the loan level, on production increases by our major competitors, and a resulting loss of market shares by the United States. This view ignores the fact that through ill-advised foreign policy embargoes and other trade sanctions we have allowed our competitors to assume substantial shares of the world's largest grain markets, at our expense. These suppliers are not responding to domestic farm policy but, rather, are taking advantage of dislocations created by bad foreign-policy decisions.

Polices must be implemented to build and protect our agricultural markets over the long term. Key programs designed to expand U.S. exports must be sustained in order to counterbalance the effects of slow economic growth in importing nations. The Public Law 480 food-for-peace program proved to be a very effective tool in the late 1950's and 1960's to provide needed foreign assistance while developing long-term markets for U.S. farmers. Now we feel that Public Law 480 should once again serve this purpose, and we urge Congress to increase funding for the program to boost the flow of commodities that can be channeled to needy nations. Increasing Public Law 480 volume will raise the value of all U.S. farm exports, boost domestic prices, and reduce Government farm-program costs, and the investment will pay off handsomely in terms of future markets for U.S. products.

Funding for direct credits should also be strengthened, as well as credit guarantees, to be used separately or in conjunction with direct credits to buy down the effective interest rate on export packages. The use of CCC-owned stocks, combined with commercial exports, is also encouraged as a means of countering subsidized wheat and other products of the European Community. At the same time, the coalition encourages aggressive diplomatic initiatives to prevent U.S.-EEC trade relations to deteriorate to the status of a trade war. Neither side has adequate resources to undertake a full-scale confrontation, and producers would not benefit from heightened conflict.

Several producer groups, including members of the coalition, have been working to limit the President's authority to impose embargoes and other trade sanctions against agricultural commodities. The 1980 embargo, as well as previous embargoes during the 1970's, have proven devastating for U.S. agriculture, while accomplishing very little, or nothing, toward achieving the foreign policy objectives of the embargo. For this reason, we believe that the Export Administration Act should be amended to exempt agricultural commodities from any foreign-policy embargoes. The President's assurances that any future embargo would be total, and would not single out agricultural commodities, is of little comfort. Nearly 80 percent of United States trade with the Soviet Union is agricultural, and any general trade suspension would obviously impact farmers more than any other sector of the economy.

As an additional safeguard, the coalition recommends reauthorization of embargo protection provisions adopted in the 1981 farm bill. We are very pleased with the new consultations that will be going on for trying to get a new LTA with the Russians. We did go in favor of making it a 5-year agreement, to have increased minimums. We would like to see a 50–50 blend in wheat and corn and, with the addition of other crops as is possible, and we'd also like to have it not encumbered with the maritime agreement that could come up at the same time.

SUMMARY

In summary, Mr. Chairman, it is apparent that in recent times the Federal Government has played many different and sometimes conflicting roles in the Nation's agricultural industry. On the one hand, Government-sponsored research has formed the foundations for phenomenal productivity gains in all major commodities. But on the other hand, ill-conceived trade sanctions abruptly ended growing trade prospects in the world's most important grain market, the Soviet Union, and have undermined the good reputation of the United States as a reliable supplier of grain to other markets as well. Farmers have suffered severe economic consequences resulting from these lost markets, and many of the fitted will not survive.

In order to avoid the mistakes of the past, every potential means of fostering cooperation between Government and private industry must be explored. Agriculture can never be entirely independent of Government and, at the same time, Government decisionmakers must be made more aware of and must be made answerable to the impact of their policies on the agricultural economy.

Thank you very much, Mr. Chairman, for taking the views of the National Farm Coalition into consideration. I will be pleased to respond to any questions you may have.

Senator ABDNOR. Thank you, Mr. Nelson. I commend all four of you gentlemen for your excellent statements. You each represent a large block of people involved with agriculture and they're going to be playing a very important and key part in the farm program for the future; one that's acceptable and well received.

The idea is to get everybody together, or as close as possible. As we heard from the testimony this morning, we aren't as far apart as we might be.

For the record, I'm going to ask this brief question of each of you. As a quick summary—and you have your statements to back up what you're saying—just describe briefly your recommendations for a 1984 farm program. That is, should we have a PIK program? Should target prices be frozen? I guess many of you have said this in your prepared statements. Let's start with you, Mr. Delano.

Mr. DELANO. I think I indicated in the prepared statement, on the latter part of the question first, that we feel that to adjust to reality, we should have some mid-term adjustments in the present farm act. We should freeze target prices. What should be done is they should be lowered, but we have to look at it from a political standpoint of what is practical. The freeze is the best you could do politically, we think.

Now the first part of the question relative to the PIK program—and again I don't have statistics in front of me and I don't include this in my prepared statement, but I'm sure that in 1984 in order to accomplish what PIK was intended to accomplish—and this is to reduce stock—I think we will have to have a PIK program for wheat.

I think we'll have to wait and look for the figures for the feedgrains and corn particularly and we have to wait and look at the figures to see whether it would be necessary to have a PIK program for corn in 1984.

Senator ABDNOR. Mr. Mullins.

Mr. MULLINS. I would agree with Mr. Delano. Any PIK program in 1984 would have to be related to a specific commodity. At this point, I would say the only one that may well need one would be the wheat program. We'll have to wait and see what the weather impact on this year's feedgrains production will be. I think the rains took care of our need for a PIK for cotton for 1984, seeing as how most of it is still under water.

Under the 1981 act the Secretary does not have to increase the loan rate. In fact, in examining the possible market price for wheat this year, he may be able to invoke the section that allows him to decrease the loan rate for 1984; the provision that if the market price does not exceed 105 percent of the loan, then he has the authority to reduce the loan level, and that level would be at $3.29. The Department of Agriculture is now predicting the average market price someplace between $3.60 and $3.90 I believe. So that mechanism may be triggered with this year's wheat crop.

We do not believe that target prices should be frozen, that the statutory increase should be allowed to go into effect.

Senator ABDNOR. Thank you. Mr. Nelson, I realize your summary pretty well says some of this.

Mr. NELSON. Basically the coalition is very much opposed to any freeze in the target prices. We feel that the levels of increment that were set up in the 1981 farm bill were adequate then to cover, and I think that we should keep those levels and keep the increments where they're at and not try to lower net farm income by freezing targets now.

As far as the PIK program, certainly in the case of wheat, there will be some acreage reduction program needed or some other diversion program or even a set-aside, and probably in other crops as well, the coalition feels that there will be some acreage reduction program needed.

Senator ABDNOR. Mr. Boutwell.

Mr. BOUTWELL. Six feet of water is a rough way to adjust cotton acreage, I might add. But that being beside the point, I think it's indicative of the type of environment that American agriculture has to operate in. We find ourselves now in a tremendous surplus situation, but I dare say that if you wait a little while you might find agriculture in the years ahead in maybe a shortage situation because of things like weather and economic conditions that it has to operate in.

That tells you something about the types of programs that American agriculture needs in the decades ahead to try to help make it through those cycles of surpluses and shortages. That's the reason that the council feels that you're going to continue to need those kind of programs that provide the mechanism to make adjustments either in supply and demand or to help keep the system better in balance as these uncontrollable factors impact the system perhaps much greater than the system impacts itself. So we need to continue the types of safety nets to protect against low prices. Stable and expanding export markets are very, very important to the growth of American agriculture in the years ahead.

If you take a look at the need, there's a tremendous need for food and fiber in the world. The difficulty is going to be to translate that need into demand, commercial demand. That seems to be the real challenge in the years ahead for American agriculture; how do we transfer a need into a commercial demand? I think there are some opportunities there and that's the reason we were stressing that we need to take a whole look at our export market development type programs and try to capture that need that's out there.

As far as the immediate concerns of what we see as kind of a temporary imbalance, it's like I think I agree with the rest of the panel—it's clear that unless we have something drastic happen that wheat is probably going to need another PIK program. We'll need to wait and see on the weather on the rest of them.

As far as target prices are concerned, as far as a freeze, we're not in favor of freezing target prices.

Senator ABDNOR. Thank you.

Gentlemen, the next question I'm going to ask you is not directed just at 1984. I'm going to talk about 1985 and on from that point. I'd like each of you to provide your recommendations relative to several key elements in the next generation of farm policy because the way you feel about PIK today may not be the way you feel in the years ahead.

I'm going to sound like a teacher asking questions here, but target prices, nonrecourse loans, paid land diversion and PIK, farmer-owned reserves, loan repayment moratoriums, marketing orders, and export subsidies. I went too fast. They were target prices, nonrecourse loans, paid land diversion and PIK, farmer-owned reserves, loan repayment moratorium, marketing orders, and export subsidy. You can take them one at a time or you can weave it all together. I want a short answer so we know where we're at and what we're talking about. Those are the key parts of past farm programs and I'm asking you how do you see them for 1985 on? Mr. Dalano.

Mr. DELANO. I'll try to cover all five unless I missed one. We're talking about any farm program from 1985 on?

Senator ABDNOR. Any new program.

Mr. DELANO. We question the need for target prices. We think that loans should be tied to the market price. Take the 5-year average of the market price, take the three highest of those years, take the high and low off, and average the 3 years. and relate the loan price somehow to the market price, which gives the flexibility for the rise and fall as the market moves.

The farmer-owned reserve, we think when the farmer-owned reserve was conceived it was used as a marketing tool, but in order for the farmer-owned reserve to be used as a marketing tool the products must move both ways. They must move both in and out. And that has not been the case in recent years. It's only moved one way and consequently we're building up the surpluses we have. And I think the release price is too high and I think this must be considered in a new farm act.

Moratorium; we have not seen any sense for a moratorium on farm debt mainly because we think it's unfair to those people who are making their payments on time and we never know from 1 year to the next whether the next year will be any better than the present year we operate in. We think the agencies, particularly Farmers Home, has the authority to make adjustments with the individual farmer to extend his debt or restructure his loans sufficient to the point where credit can be handled properly.

Export subsidies; we were in favor of export subsidies to the point of getting the attention of the European Community to counter some of the practices that they have been using in recent years. We've been supportive of that. I think we have to look long term at the disaster of continuing the path of export subsidies and what it will do to the market and also to the world and maybe cause some problems in our general agreement on tariff and trade that we now operate under. I think I covered those five points.

Senator ABDNOR. I guess you said it earlier, but the paid diversion, PIK and marketing orders?

Mr. DELANO. I missed those two points. I'm sorry. The paid diversion on PIK, I think the Secretary should have the authority to operate a paid-diversion program. I hope the new legislation will allow that to give some opportunity if we get into a situation such as we are in now.

Senator ABDNOR. Marketing orders?

Mr. DELANO. The marketing orders—we have been favorable to marketing orders. We think they have served an excellent purpose over the years and we hope that the authority will still be present that will allow commodities to work marketing orders into the future.

Senator ABDNOR. Thank you. I appreciate those comments.

Quickly, one last thing. In your prepared statement you said you had a figure from a USDA study that showed that only about $1 billion of exports have been lost due to subsidies over the last 2 years?

Mr. DELANO. Yes, sir, solely upon the subsidy itself. There have been other factors involved in the rest of the losses.

Senator ABDNOR. OK. Mr. Mullins, do you want to try these?

Mr. MULLINS. Thank you, Mr. Chairman. I would advocate in the long run that we can do away with the target-price approach to agricultural programs. No. 1, I think it could end up as a budgetary savings. You have no direct outlays. But, in turn for that, I would suggest that the loan program be established at an adequate level.

As far as the farmer-held reserve program, I think it's absolutely necessary to, No. 1, cushion the effects of any shortfalls that we have in this Nation, not only to protect ourselves domestically, but also to protect ourselves in the international marketplace.

Marketing orders, as I mentioned in my prepared statement, we think they have proved a worthwhile tool for those producers who have the authority to utilize them. We do not think they have been in any way misused or used to a point that they have had any negative impact on consumers. In fact, I would suggest that the authority under the marketing orders be expanded.

The loan moratorium, I think we're looking at a very short—hopefully, a very short-term situation here and I will agree that the Department of Agriculture has virtually all the authority that they need under existing law. The emphasis of the legislation both on the House and Senate side is simply, I think, been to force the administration to use the authority that is already there. I think that's been the driving force behind that. Hopefully, in a very short period of time, as I said, this will not be an issue.

Export subsidies, I think are a dangerous approach to agricultural policy. I think not only on our behalf but in the whole world economy, I think, it's something that can lead to a trade war eventually and the American farmer is going to be the ultimate loser in that.

Senator ABDNOR. If the other countries persist in doing it, then what do we do?

Mr. MULLINS. That was the point I was going to make.

Senator ABDNOR. I'm sorry.

Mr. MULLINS. I think that we have to take the lead in the world in trying to sit down and negotiate some international agreements amongst both the exporting and importing countries of the world. As I pointed out in my prepared statement, I think the thing we need more than anything else in the world economy today is stability, and I think progress along those lines would go a long ways to solving a lot of the problems that we have. That's a long-term goal, I agree. There are many obstacles to overcome.

In the short term, between now and the day that the time comes when we can have these types of international agreements between both importing and exporting nations, I think we have got to aggressively pursue bilateral agreements. All of our competitors are doing it. At this point we only have, if I'm not mistaken, two bilateral agreements in effect. If we're going to preserve, under the current situation, our markets, I think this is the short term.

PIK and diversion, the PIK program is hopefully again for all practical purposes a very short-term approach. The long-term approach of diversion programs, I think the Secretary has to have the authority to adjust supply and demand through some sort of production controls. However, I would suggest that rather than continuing the current diversion programs which have relied specifically on acreage controls, that if we have a diversion program in the future, that it be tied to volume. We have seen that we have had set-asides, we've had diversion programs, we've had everything else, and with very limited success.

As a farmer, you know the first acre that you're going to take out is your least productive acre. And, on the other hand, you're going to put a little more fertilizer on your most productive acre and, in effect, you are negating the whole purpose of the program.

If we want to have effective production controls, I think they've got to go back to some sort of a volume, a bushel, a poundage, some sort of a control that can get at the real supply question and not this program which is almost self-defeating.

Senator ABDNOR. Thank you. Mr. Nelson.

Mr. NELSON. Thank you, Mr. Chairman.

As far as target prices and loans are concerned, certainly if these are continued into the 1985 farm bill, we would be looking at target prices or some sort of income protection of at least the current level with the increments included at the level that will be reached by that time, and we'd like to see loan rates no lower than what they are at the present time in the 1983 farm program. But there has been much discussion and as a coalition we obviously don't agree with everything—we try to stress the points that we do agree on, but I should have included in my statement that there has been quite a bit of discussion on mandatory programs or looking to some sort of minimum pricing program, and it depends on what happens in the 1984 crop and the 1985 crop leading up to this new farm bill whether or not the coalition will go in favor of something like this. But right now, we would favor target prices of at least the current levels and loans at the current levels.

The farmer-owned reserve, as long as it will work and is allowed to work, I think it can be a very important tool, but not if it's going to have a lot of grain just sitting there and not be allowed to function.

As far as PIK and pay diversion, I feel that the PIK is a short-range program and pay diversion might be a longer range program, but we need to have some sort of trigger point probably. First of all, with a multiyear program, the concept that a farmer could be looking at maybe 3 or 4 years and have trigger points put in there—it might be a pay diversion or some sort of an acreage reduction program—that he could know in advance that this would take place.

As far as marketing orders are concerned, we are certainly favorable and hopeful that they will be used in the future.

Export subsidies is another discussion point that we've had in the last few days in our meetings and it's a tightrope you have to walk between trying to carry a big stick but yet not getting into a trade war. We feel that through an increase in Public Law 480 and using the blended credit and the direct credit programs and even into the new farm bill, that we can try to really keep going with a strong export policy.

No. 1, probably, is that we be viewed as a reliable supplier, and I think that that's going to be the important point coming out of the 1985 farm bill.

As far as a loan moratorium is concerned, again, I'm hopeful that it won't be needed in the near future and we'll have to look at the bills that are in the House and Senate now as to something, as Bob says, that will allow the administration or the USDA and the FMHA to look at it on an individual basis, but at least do the looking and try to use the authority they have to some extent.

Senator ABDNOR. Do you think farmers, if they had to vote today on a lottery system or something, would vote it down like they have in the past? Are they willing to think about cutting back or are we talking about the other guy cutting back?

Mr. NELSON. That's a hard question to answer, Senator. It's certainly one that I think we'll probably have to confront in the next couple years. I suppose that it would depend on the crop. If you went over all the crops that are included in the farm bill now, probably the referendum would not pass. But if you looked at certain crops or looked at certain regions, then I think you could probably have a referendum pass.

But certainly one thing is clear, and that is that farmers are more willing now than they were even a year ago to take some drastic measures to try to help them out of this surplus situation.

Senator ABDNOR. Thank you. Mr. Boutwell.

Mr. BOUTWELL. With regard to the target prices and loan rates, it might be helpful to go back and talk a little bit about the history of why we have target prices and loan rates.

In the 1960's, we only had loan rates, and when you get into a situation where you have low prices and farm income starts to decline, the tendency is, from both the administration and Congress, to adjust whatever tools they have to help improve the farm income situation. That was done in the 1960's and the result was that we set loan rates so high that they started to interfere with the market. The Government, in essence, became the market and we found ourselves in a tremendous surplus situation.

To get around that problem in the early 1970's, the target price concept was put in place. That allows you to lower the loan rate to get it out of the way of the market and provide the income protection to the farmers through an income transfer, if you will, a deficiency payment.

So I think in terms of the future we feel that you will still need the type of program structure which will keep the Government from becoming the market for agricultural products. In other words, the loan rates need to be at a level that provides a price floor but at the same time not interfere with the market. So therefore, a concept like an income and price support structure that separates the two probably would be the appropriate mechanism to use.

As far as the farmer-held reserve is concerned on paper it's a beautiful concept. Unfortunately, the way it's been operated in the past we've tended to use the farmer-owned reserve to mask the problem. We simply absorb the surplus into the reserve and say it's not there—but it is. So every time we have a little bit of surplus, we put more in the reserve and pretty soon you've got a tremendous surplus problem accumulated. As Mr. Delano said, it was a one-way street. We were putting in but we never were taking out. The concept of the farmer-owned reserve is one that when you start accumulating stocks—you make adjustment in acreage and that draws down production and the stocks in the reserve flow back on the market. That flow has never taken place in reverse so we found ourselves with a tremendous surplus problem built up into the farmer-owned reserves.

With regard to the loan moratorium, No. 1, we hope the credit program is a temporary measure. Second, it's important to look at the situation on a case-by-case basis to determine the opportunities that are there for the individual farmer to work out with the lender the particular difficult situation that may exist and the USDA should be obligated to do that on a case-by-case basis.

As far as the paid diversion and PIK programs are concerned, I would suggest that the implementation of the PIK program this year is going to tell a lot about whether or not it is the kind of program we need in the years ahead or whether a good strong paid diversion or acreage reduction program would be more efficient in terms of drawdown of stocks. I think school is still out. Even though the PIK program has been very successful in terms of farmer participation, we still have to go through the transfer of products back to the farmers and observe the whole market structure surrounding the program.

So it seems to me that those two should be carefully evaluated before deciding which way is appropriate to go from the efficiency standpoint.

As far as marketing orders are concerned, we have 47 marketing orders covering such commodities as fruits, vegetables, and tree nuts.

Those particular agricultural products have the same problems as grains. They're subject to weather conditions, and marketing conditions. They're harvested at different times of the year which lends itself to price depression on a seasonal basis. Marketing orders have been very successful in providing farmers the tools they need to help stabilize that market and providing the consumers with stable prices and high quality products. So we're very, very supportive of the marketing orders.

As far as export subsidy is concerned, I just want to be careful that we not get ourselves into a trade war. At the same time, if we find ourselves in a situation where our competitors are competing with us with subsidies, then clearly we need to look for some innovative ways to compete with them to keep them from taking over our markets. We can't simply sit idly by and let that happen. Programs like blended credit programs, export PIK programs, or other initiatives may be needed to help maintain our trade markets against subsidies.

Senator ABDNOR. Thank you for all the comments, gentlemen. Each of you have been very helpful in close discussions about which direction we're going. I'm sorry I've taken so much time, Senator Jepsen.

Senator JEPSEN. Thank you, Mr. Chairman.

Mr. Delano, I've been contending for some time that our dramatically successful fight against inflation has been one of our most effective farm programs. Had inflation continued its torrid pace farm net income in 1982 would have been $14 billion rather than $20 billion. With farm production expenses at $145 billion per year, farm net income is extremely vulnerable to renewed inflation.

Assuming gross receipts are unchanged, even a 5-percent increase in production expenses this year will result in better than a 30-percent drop in net income.

However, I've been concerned, and I am concerned, that we've bled the inflation turnip about as much as possible and that any improvements in farm net income must come from larger gross receipts. As I see it, higher farm gross receipts can basically come from two sources: The Treasury through deficiency, storage and diversion payments; or the market through sales.

I think we must face the fact that there is no political prospect of getting more out of the Federal Treasury. Agriculture has no alternative but to turn to the marketplace. Your comments, please?

Mr. DELANO. I would agree, Senator Jepsen, and I think we have to pursue the marketplace concept. What worries me a little bit now is that there's a growing philosophy that we have reached our potential in the world market—our sales in the world market. I don't think we have done that. I think we have to get more aggressive in going after some of the world markets and put ourselves pricewise in a position to compete in these world markets. We have the productive capacity in American agriculture to have the ability to compete. All we need to do is decide we're going to compete in world trade. It's just been the last decade that we have suddenly become interested in world trade and we're sort of neophytes in the world trade field related to other countries. But the potential is there and certainly I agree that we should go and compete in the world markets if we're going to have a healthy Nation.

Senator JEPSEN. What is the most important single step or ingredient in improving or increasing our world market participation, in your opinion?

Mr. DELANO. Well, one, I think is the acceptance of the philosophy to participate in the agricultural export market by the agricultural sector in the United States.

I think, second, we're sitting here holding a prop on prices of commodities with some of the programs that we have and we've got to send a signal to other people in the world that we're going to compete in the world market which might mean lowering our prices in order to compete because they're coming in under us and taking our market because we have the prop and they know that they can produce at the loan rate and even the release price. So we need to send a signal to our competitors in the world that we're going to compete.

Senator JEPSEN. I asked you this because in your prepared statement you had a rather sophisticated and organized sequence of comments with regard to what we've just been talking about. I will quote from a couple: "Before we reach our export potential, we must freeze farm program target prices and loan rates to signal our competitors that we have adjusted U.S. farm policies to the realities of changing world conditions. With the domestic market for agricultural products that is, at best, growing only slowly, U.S. agriculture must look to export markets if we are to grow as an industry."

Then you go on to say that, "Other countries have also chosen to compete for these markets." That's been repeated by all the panel members here this morning. "The bottom line is that supplies available for export are greater than what the importers can pay for with the inflation rate down and the cost of credit up. U.S. agriculture can grow to the extent the world economy grows and more people have money to spend on more food."

Now we get down to the question I want to ask of some other members of the panel. That is, the statement that, "The world economy will grow only to the extent credit is available to efficient borrowers and if markets are accessible to world trade. Credit unwisely used to prop up bankrupt, nonmarket economies is credit not available to those who have the market incentives needed to produce what the world would like to buy."

Mr. Boutwell, in your prepared statement, you indicate that financial credit difficulties, under that section there, "For example, Mexico and Brazil are each facing foreign debts totaling $80 billion, while Venezuela and Poland face debts approaching $30 billion." They're good customers of ours or potential customers. "The debt burden in developing countries alone currently exceeds $600 billion. In Central and South America the accumulated foreign debts approach $240 billion."

What is your suggestion as to what we should do with regard to these countries? Expand our 480 program, lend them money outright, contribute more to the IMF fund? Maybe we can solve our surplus problem by—let's take for a minute specifically the El Salvador area right now. Why don't we take some of our surplus commodities that we're having difficulty getting rid of and give some direct aid? You mentioned export PIK. Have you got a comment on that?

Mr. BOUTWELL. One thing, Senator Jepsen, is that we find ourselves in kind of a Catch-22 situation—that is, we do have credit problems in the world, but these countries need food and fiber as well. They are going to take whatever steps necessary to purchase these items in the marketplace.

If we do not get in there with regard to providing some credit, we've found that other countries that have these products for sale will. So it seems to me that we need to consider export credit needs on a case-by-case basis.

In my testimony I pointed out that we need to tailor export credit programs to individual countries to look at their particular situation. Maybe they need 6 months free interest. That was done by one country to capture a cotton sale of ours recently. We need to tailor them to fit the individual needs with one eye on the export market for agricultural products and with the other eye on the need to provide, in a broader context, the type of help these countries need to put them on a sound financial footing so they can come into the commercial market without the tremendous need for credit assistance. It's a very difficult situation but I think with a little bit of ingenuity perhaps we can get around some of the problems.

As far as the export PIK, perhaps what we should be doing is use a combination of credit, export PIK, and some Public Law 480 type programs put together as a package. Such a combination might be better for some of these individual countries.

So, I think the programs are there. We just need to be innovative in terms of how we use them.

Senator JEPSEN. Wayne Nelson, you indicated in your prepared statement, you thought that the 480 program should once again—we should have increased funding for that program to boost the flow of commodities that can be channeled to needy nations. In so doing, you indicate that that will raise the value of all U.S. farm exports, boost the domestic prices and reduce Government farm program costs and the investment will pay off handsomely in terms of future markets.

Do you really believe all that?

Mr. NELSON. Well, it depends on what level you want to increase the Public Law 480 program.

Senator JEPSEN. Well, I'm not being critical now, but I'm looking at the basis of your statement. It sounds to me that if we would really soup that up considerably, we would go a long ways to solving our farm problem.

Mr. NELSON. It would definitely be one step to help solve our farm problem.

Senator JEPSEN. Where would we get the money for the 480?

Mr. NELSON. Where would we get the money? Well, we would have to have it appropriated. We're asking for $500 million right now for increase in Public Law 480. Public Law 480 has historically proven out in the poorer countries. Take a country like Korea where it started out as a Public Law 480 customer and now it has become more and more industrialized and it's a paying customer and buying 100 percent U.S. grain. And hopefully this program can work now with future countries that are having problems now and they can get an industrial base built up and become cash customers.

It's not a short-term fix, but in combination with export PIK or blended credit and some direct credit I think that we can accomplish some of those goals.

Senator JEPSEN. Does anybody else have a comment on this area?

Mr. MULLINS. I'd simply like to say that I agree with Mr. Boutwell and the rest of the panel here that the tools are there. We need to be a little more imaginative in this whole overall trade question. I think we have to do two things and that's divide the world into two—this is not easy to do—divide the world into two components.

No. 1, you have the developed nations who for all practical purposes in their food requirements have reached the saturation point and our trading partners and ourselves are simply in a way to steal each other's markets in those areas. Now the real potential for expanding the agricultural trade in this country lies in the third world developing nations. Now this is where the innovation that Mr. Boutwell mentioned can come in. Mr. Nelson mentioned the success of Public Law 480. Seven out of the 10 major cash customers today are graduates of the Public Law 480 program. They started out in concessionary sales and outright gifts of foodstocks, and today they are our customers.

So I would endorse the idea of an administration's initiative to be very innovative in directing the trade activities toward those nations where the real potential is and then combine that with agreements among the more developed nations where we can have some rational trading policies.

Senator JEPSEN. I think your statement was very good. I might add, Mr. Nelson, it might be well advised in these times of trial and tense relations, to again emphasize the food for peace program and to use it as a very effective tool to provide needed foreign assistance. But, at the same time using Public Law 480 to develop long-term markets, as Mr. Mullins indicated. Do you have any comments on that, Mr. Delano?

Mr. DELANO. Well, I think, as Mr. Mullins indicated, we need to divide the question and the world between the developed nations and the lesser developed nations and you have some of those in between that do have the facilities and have the financial capabilities of borrowing, and this was what I referred to in my statement that you commented on briefly.

Senator JEPSEN. The 480 program is an outlay, isn't it?

Mr. DELANO. Yes, sir; and a very valuable tool and it's worked well and I think we can concentrate and develop that further to help the U.S. farmer.

Mr. BOUTWELL. Senator Jepsen, as far as the statement that I made earlier, about the tremendous need out there, the question is how do you transfer that need into demand; I think the history has been alluded to here that the Public Law 480 program has been the one program that has gone into some of these countries where there was a need and transferred that need into demand. So if you look where the world population growth is, 70 million people a year, most of it is in the underdeveloped countries where there's a need but little demand in terms of commercial demand. So the Public Law 480 program has been successful in that way and the Council supports the addition of $500 million in the Public Law 480 program.

Mr. MULLINS. Senator, one other minor point, but I think Mr. Delano talked about philosophy and you used a word just a moment ago talking about Public Law 480 as an outlay. Turn that around and let's start calling that an investment and I think we'll get a little more receptive ears in some places.

Senator JEPSEN. Back to the domestic thing here for a minute. The words "stabilization" and "stability" are woven through some of your statements here. I believe, Mr. Mullins, you ended by saying that if you could sum up in one word what the goal of America's food and farm policy should be it would be stability; and, Mr. Nelson, you said a multiyear production stabilization plan could be devised.

Are you suggesting that maybe a farm program instead of going from year to year ought to be on a 3- to 5-year basis to bring about this stabilization?

Mr. MULLINS. Well, I would think that we have to have—twofold—yes, I do think that we need a basic overall thrust to our farm program. We need to know which direction we're going. We can't keep hopping from one program to the next and the producer never knows how to plan. But also, to meet the unforeseen weather crises, foreign problems, whatever, there has to be some discretionary authority of the Secretary, but I do think that we need to design a basic policy in this imperfect world that at least we have some idea of the direction that agricultural policy is moving in.

Mr. NELSON. I think it might be possible with this discretionary authority to have some trigger points that a farmer would know that when certain carryover levels hit a certain point for an individual crop, then some sort of a program would go into effect, and if this was over a multiyear thing, over 3 or 4 years, then it would make it much easier to plan. And I do think that would offer some stability to the prices.

Senator JEPSEN. I note that we have not mentioned much about the soil conservation practices that are a part of the farm program. You've talked about post-PIK and PIK programs, but very little has been touched on with regard to economic pressures or restrictions at the individual farm level for water and soil conservation practices.

Because of tough times, it seems to me that they have become viewed as luxuries. What role do you see the Federal Government playing in encouraging, and even perhaps requiring, the application of conservation practices and what is your feeling about requiring farmers to comply with some level of minimum conservation standards if they receive Federal assistance for their farming operations?

I would appreciate a one-liner from each one of you on that general area starting with you, Mr. Boutwell.

Mr. BOUTWELL. There's real opportunity whenever you have this kind of PIK program to apply some conservation measures on marginal acres taken out of production. So we think that the investment should be put on the land particularly during these times.

As far as requiring farmers to participate, we think that it would be more appropriate to provide the economic incentive for farmers to invest in what to them is a long-term investment. It's a short-term expenditure, but it's a long-term investment.

Senator JEPSEN. Do you consider soil conservation to be a national problem or a local one?

Mr. BOUTWELL. Soil conservation in general is a national problem.

Senator JEPSEN. Thank you. Mr. Nelson.

Mr. NELSON. I think that soil conservation can be adequately carried out with the ACP program keeping it intact and expanding it and certainly I think that it's a national problem but there are in fact regions of the country that soil conservation or soil erosion is much more of a problem than in other regions of the country, and trying to link farm programs to this is still something that's up in the air as far as the coalition is concerned. But certainly adequate incentives through the ACP program or some other program to have more of a focus on soil conservation and how the individual farmer can use it in his best interest would be good.

Senator JEPSEN. I may have an example. We have a number of farmers now who have put their entire farming operation in the PIK program. Essentially they now will be receiving payments-in-kind not to produce. Is it beyond the realm of reason or fairness that if we have a soil conservation need there should be some request under this program, or some tie-in with the program, to say that if we're going to do all this and if we're going to pay you to leave your land idle, some specific conservation practices will be implemented?

Mr. NELSON. I think it's on a State-by-State basis, but I know in my State of South Dakota there are practices that you have to do in order to qualify for the PIK program and under conserving these acres and the possibility exists for maybe, if the PIK program is going to be carried out for 1 or 2 more years, for maybe some sort of a 2- or 3-year set-aside of your land for your acreage to go back to permanent vegetation and then this might be one way to look at soil conservation through the PIK program.

Senator JEPSEN. Mr. Mullins.

Mr. MULLINS. Senator, I would think that we need to move the issue of soil and water conservation to the highest forefront of public attention. It is a national problem and I think we need to address it on a long-term basis. We need adequate funding as well. And I don't think agricultural policy should encourage practices that would result in loss of soil nor depletion of adequate water resources. For example, I don't think that land being brought into new production should be eligible for any type of price support programs. I think that only further encourages fragile lands to be broken out that would be probably best left in native grasslands or some other conserving use.

I do think we've got to raise this issue to the highest national priority and combine it with the fact that I don't think agricultural policy should continue to exacerbate the problem.

Senator JEPSEN. As a subject matter, I hear you saying it should be included in the discussion of any farm policy we develop, that when we talk about using land and raising crops, everything to do with soil is an appropriate subject?

Mr. MULLINS. I think so; yes, sir.

Senator JEPSEN. Well, I'm kidding a little bit and I say that with tongue in cheek. It certainly is. It's been left out and ignored too long.

Mr. DELANO. I think soil conservation is a problem that has to be a national problem and we may lose some of our resources and I think it can be solved through education and demonstrations. I think we should give consideration to it and have it uppermost in our minds when we consider a new national farm legislation. But farmers are innovative and they realize it's to their advantage to retain their soil and personally I've used no till or minimum till for the last 20 years when the concept first came in. I just happen to have flat land so I don't have that much erosion.

In reference to an earlier question you commented on, the PIK program requires a farmer, depending on the State, to have some type of cover on that land.

If I may make one other comment, Senator, you referred to stabilization. I think there have been more sins committed in the name of stabilization in agriculture than any other word. As a farmer, I would prefer erratic markets and I'll take my chance on forward contract or forward selling and take my chances on selling on some of those high markets that take me through some of the valleys.

Senator JEPSEN. Thank you, Senator Abdnor, for allowing this time. Finally, I would pose a question-statement.

It seems to me that the soybean association in this country has done some things over the years that we are all alluding to, or suggesting, might be part of the solution—let the marketplace provide for the farmer; but our soybean association folks have gone out and done something about it. I was reading a story just the other day where some representative was down in Venezuela huffing and puffing and going up and down and sweating on the dusty road, going from one little town to another trying to sell some soybeans. They've done a pretty good job around the world doing that. And, interestingly enough, they are also very careful to stand at a distance in getting involved in too many Government support programs.

Is there a moral to that story? Is there a lesson to be learned?

Mr. DELANO. Well, I think each commodity has its uniqueness. Fortunately, soybeans have not been involved to the degree some other commodities have in farm program legislation. They've been able to tie that price to the market and consequently they've been able to compete in the world market, and it is an opportunity to sell at a price that's competitive.

Mr. MULLINS. Senator, I read the same story that you did on the soybean salesman, but there was a point also in that story that, although he was touting the virtues of soybeans, he depended upon Federal programs to make sure that those soybeans would get to the customers in terms of credit sales or whatever. So I think it has to be a cooperative approach that these organizations certainly can do a job in promoting that particular commodity. But you have to have the cooperation of your Federal Government as well to make those sales, particularly in countries like the South American country that that particular story was about. So there's a role for a partnership in this whole promotion aspect.

Mr. NELSON. I think that other commodities as well have done very well in trying to sell the products overseas. U.S. Wheat Associates, the U.S. Feedgrains Council, as well as the American Soybean Association have done very well in conjunction with matching funds from FAS in establishing and encouraging more markets overseas. But the soybean situation supplywise is quite a bit different than in the case of wheat or feedgrains, and you can't just look at either—they don't happen to have any acreage reduction program and a target price, but they do have loans. But I think you have to look at each commodity individually and not just lump them together. What works for soybeans might not necessarily work for wheat or feedgrain.

Mr. BOUTWELL. To follow up on that, Senator, the soybean industry has gone from a very infant in the last 20 years to a very large industry today. It has been characterized as one in which the supply has always been chasing the demand. They did a good job of getting out there and developing those markets, so you've had one commodity where there was a growth sector. Some of the other commodity sectors have not grown as rapidly. I dare say that when the things start to stabilize as far as the soybean sector is concerned and growth in demand becomes slower and slower and harder and harder to come by, then perhaps they will start seeing supply get beyond demand on occasions and they may be looking for some sort of assistance to help keep the system in balance. That hasn't happened yet for them, but I dare say it might in the future. But truly the soybean industry has proved that if you can develop those markets you can enjoy a fairly healthy sector.

Senator JEPSEN. Well, I share your admiration for all the other associations and my statement wasn't meant to be critical of the others. They have been quite aggressive. The corngrowers are now moving out more aggressively and finding more sources and we look to research to find new uses for products that we're blessed with in this country. I just wanted to leave at least my part of this meeting today with that sort of pioneering—your glass is half full and note that we ain't seen nothing yet in all the things we could do and should be doing. I think frankly the agricultural picture of the future in this country is very bright. All of us who are involved in it realize that we've got the most productive areas. We're the most productive producers in the world and we in this high tech age haven't even scratched the surface of the uses that we have for the products that come from the soil. So we need to preserve the soil and at the same time we need to find new ways to bring a better quality of life for everybody. We need to sell our products—that's the key—at a profit. That's what agriculture is about, selling at a profit and improving the quality of life for everybody, not only in this country but all around the world. It can be done and we're going to do it.

Senator ABDNOR. Thank you, Senator, and with that I want to ask one last question, which goes right along the line of what Senator Jepsen has said.

Let me make a statement. I'd like to have a quick comment on it. Let me start with Mr. Nelson and maybe one will be enough.

Talking about production cutbacks, mandatory or otherwise, they present a real dilemma for U.S. agriculture. According to the USDA, our U.S. farmers will be reducing grain production in 1983–84 by 80 million metric tons. The rest of the world grain producers will be increasing their production by almost 50 million metric tons. As a consequence, in 1983–84 the United States ending stocks will be drawn down by 24 percent compared to a year earlier because of PIK. The world ending stock will be reduced by less than 8 percent.

Obviously, unilateral decisions to reduce production, and thereby enhance prices is being largely offset by other world producers expanding their production. This is telling me at least that the rest of the world is more than anxious to, and capable of replacing the United States as a grain producer and that other world grain producers would be very reluctant to negotiate any kind of international grain agreement as long as the market is being handed to them by default on a silver platter.

Is that a fair statement, do you think?

Mr. NELSON. Unfortunately, it is, Senator, and it is a Catch-22 situation to try to walk that tightrope between trying to show these other exporting countries that we really mean business but yet not try to get us into a trade war. The only person in the trade war who wins is the importer. He gets the cheap grain and the American farmer is the loser as well as the American Treasury.

But I think there are ways that we can send these signals possibly through some proliferation of bilateral agreements with some of the existing countries that these other exporting countries are working with. Canada I think now has nine bilateral agreements and they have a good share of their production wrapped up in bilateral agreements and France has just recently had some new bilateral agreements or the EEC has. So that might be one way to do it. But certainly it's something that we have to be aware of and I'm not going to say that because other countries might produce at our expense that we shouldn't have any acreage cutback because then we might have an increase in the whole world supply and that's not the answer either. But we have to be cognizant of it and hopefully this weather that has been so good around the world in the last 3 years has really improved the productive capability of these countries. I don't think that can last forever and that might be one thing could help us out too, but I have no real answer. I wish I did.

Senator ABDNOR. Are you all satisfied with that or would anybody like to add to that?

Mr. DELANO. Well, Senator, I think price has to be a factor and I think we're holding up the world price and consequently the other countries are increasing their production, and whether it's bilateral or what type agreements they have, they are getting our market from us because we have the price propped up and they're coming in under us and selling below and producing below our price.

Senator ABDNOR. Well, in the case of the European Common Market, I think they've got their prices considerably higher.

Mr. DELANO. They're doing it with export subsidies.

Senator ABDNOR. Mr. Boutwell.

Mr. BOUTWELL. I was going to say, Senator, it stands to reason that whatever the price, if these countries are willing to subsidize them whatever the price floor is they will come under it. So that in itself presents a dilemma. I alluded in my prepared statement to the fact that one of the concerns about the PIK program is we're in a retrenchment type mode and if the rest of the world seizes that opportunity to go in and take our markets and increase production, then we're the losers in the long run.

Senator ABDNOR. Well, gentlemen, I've kept you a lot longer than I meant to. I have a busy schedule as you do, and I certainly thank you for your appearance. You have made a great contribution to the start we have made and we may be coming back to you again. Tomorrow we are going to continue hearings with a panel of farm economists, we would welcome having your organizations listen in and have you comment later on some of the facts that they bring out. But we think we have taken a great step forward already by your attendance here today and we thank you very much.

The subcommittee stands in recess until 10 o'clock tomorrow.

[Whereupon, at 12:25 p.m., the subcommittee recessed, to reconvene at 10 a.m., Thursday, May 26, 1983.]

TOWARD THE NEXT GENERATION OF FARM POLICY

THURSDAY, MAY 26, 1983

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

The subcommittee met, pursuant to recess, at 10:10 a.m., in room SD-124, Dirksen Senate Office Building, Hon. James Abdnor (chairman of the subcommittee) presiding.

Present: Senators Abdnor and Symms.

Also present: Robert J. Tosterud, professional staff member.

OPENING STATEMENT OF SENATOR ABDNOR, CHAIRMAN

Senator ABDNOR. The subcommittee will come to order.

Welcome, gentlemen. This is the third hearing in a series of eight addressing the topic, "Toward the Next Generation of Farm Policy." Last week, we heard the administration's perspective on future farm policy and, yesterday, representatives of major farm organizations shared their views on farm policy in the post-PIK era with this subcommittee.

We now turn to this panel for its judgment; four very highly trained professional farm policy experts who, in my opinion, have unexcelled and highly respected national reputations and we just feel very, very fortunate in having them with us. They are: Dennis Steadman, who is the senior economist for Chase Econometrics; John Schnittker, president of Schnittker Associates; G. Edward Schuh, who is head of the Department of Agricultural and Applied Economics of the University of Minnesota; and Emery Castle, who is president of Resources for the Future, Inc.

Now I want to remind our listeners on national public radio that they can participate in these hearings by sending their views on future farm policy to Box A, Joint Economic Committee, Washington, D.C. 20510. That's Box A, Joint Economic Committee, Washington, D.C. 20510.

Finally, I do want to extend to members of the panel the regrets of Senator Jepsen, who is chairman of the Joint Economic Committee. He did want to be here, I know, but he just couldn't come because of a prior commitment this morning.

So with that, I'll ask our distinguished participants to come to the front; we're anxiously waiting to hear from you, gentlemen.

And again, let me say how grateful this committee is that you would take the time, and some of you come from so far away, to let us have the benefit of your expertise.

I think we'll start with Mr. Steadman first and you can just proceed in any manner you care to, Mr. Steadman.

STATEMENT OF DENNIS F. STEADMAN, SENIOR SERVICE DIRECTOR FOR AGRICULTURE, CHASE ECONOMETRICS, BALA CYNWYD, PA.

Mr. STEADMAN. Thank you, Senator. First of all, I do want to thank you and this subcommittee for inviting this panel discussion. And I also want to compliment this subcommittee on taking a step of action which is consistent with many of the comments that we're going to hear today. That is that a major component of a true food and agricultural policy must be a long-run, consistent perspective on those farm policies. I think your initiating these hearings this far in advance of the 1985 Farm Bill is a signal that you certainly intend to establish that longrun perspective.

My objective here this morning is primarily broken into three parts. First, I want to put our current farm recession into some perspective because I believe that from this we have much to learn about what may be in store for us in the future. Second, present a very quick summary of the economic environment in which agriculture will find itself over the next decade. And then, finally, draw some policy implications that I think are appropriate from that economic environment.

First of all, to set the perspective for the current farm recession. Without going into a recapping of all the history, I think that in the prepared statement before you, in figure 1, is a picture of real farm purchasing power which is probably the best way to, in one quick snapshot, summarize what's happened in our farm economy. Certainly, the decade of the 1960's was a decade of slow but steady growth in real farm purchasing power. And then in 1972–73, we see the dramatic explosion that occurred in real farm cash receipts. That was caused by both the drawdown in world grain supplies and the "dawning" of international grain trade.

Through that decade of the 1970's, from 1970 to 1980, world grain trade grew by 99 percent. Certainly, that growth was a function primarily of three things: One, political decisions by centrally planned economies to enter the grain market and fill the gaps left by economies to enter the grain market and fill the gaps left by production shortfalls; two, relatively strong economic growth through that decade with world meat production rising by 30 percent; and three, the floating of exchange rates and the dramatic devaluation of the U.S. dollar.

The higher commodity prices that resulted in the 1972–73 period led most to the general conclusion that we are on a new plateau of food prices in the world and that our real price of corn, as an example, which was down close to 90 cents per bushel in 1971, rose to almost $1.80 per bushel by 1973. That doubling in real commodity prices created the incentives for producers, and also for policymakers, to expand production dramatically, such as cut U.S. agriculture loose to meet the growing world food demand. As you know, total U.S.

grain acreage expanded by nearly 60 million acres between 1971 and 1981. So U.S. farmers certainly met that challenge of growing world food demand—they not only met that growing demand, but, in fact, exceeded it. By 1977, the United States was once again into a dramatically low commodity price situation with prices at their floor.

However, the farm economy did enter into a recovery of sorts in 1978 and 1979 and that was primarily the result of: One, acreage programs imposed at that point in time; two, the farmer-owned reserve; three, a healthy livestock sector, because of a shortage in supply; and four, the 1980 drought.

So the question posed by our current farm recession is: What has happened since 1979 in that picture of real farm purchasing power? Between 1979 and 1982, real farm purchasing power declined by 13.8 percent. And in 1983, we would expect it to fall additionally, for a total 4-year erosion in real farm purchasing power of 14.4 percent. That would be the first time that we've had 4 consecutive years of decline in this measure of farm purchasing power since the 1951 to 1955 period.

Primarily, to summarize quickly, I think there would be four major components behind this dramatic recession that we've seen in the last 4 years in the farm economy.

First, is the fact that the U.S. acreage base has continued to expand in the last 4 years. Between 1977 and 1981 the total principal-crop acreage grew an additional 20 million acres—after the grain price collapse of 1977. Despite the relatively low prices, our total acreage base continued to expand.

The second factor would be the continued growth in grain yields. Corn is a good example, with the severe drought and heat wave of 1980, U.S. corn yields were reduced to 91 bushels per acre, which was essentially equal to what was considered an almost normal average yield of 90.8 bushels per acre only 2 years prior.

The third factor contributing to this 4-year slide in farm purchasing power would be the dramatic weakness in the livestock sector. This was caused primarily by softened meat demand, caused by weakness in the overall economy and the recession that has hit this country so very hard.

It is inevitable that that weakness in the livestock sector, as shown in the table in my prepared statement, would be transmitted back to the crop sector since a large portion of grains are going for livestock feed. We cannot have a healthy grain sector if our livestock economy is in a depression.

I think the fourth major factor that has contributed to our current recession is the dramatic slowdown in world grain consumption on an aggregate basis. Here, figure 3 shows that the long-term trend in world grain production has generally continued for the past several years and has not been unusually high. But rather, the long-term trend in total grain consumption, has in fact plateaued, and grown only 3.8 percent in the last 3 or 4 years. That slowdown in grain consumption would be a function of first, the economic stagnation in all the major economies of the world; second, the financial problems that have been associated with that recession, particularly in importing countries; and third, a decline in non-U.S. production.

If, in fact, our recession is a result of those things, I want to take a very quick look at what the outlook for the demand for our grain products may be for the 1980's. And given that demand outlook, what would be the demands that will be placed on U.S. agriculture in terms of supplying, or meeting, world demand and the United States needs to expand or contract grain acreage.

Certainly, if we are entering a decade of continued shortages, our policies are going to be different than in a decade of continued surpluses.

Very simply, grain utilization is influenced primarily by three things—population growth, income growth, and grain prices. So we want to look very quickly at those factors over the next decade.

Population growth in the world is expected to grow by about 1.7 percent a year from 1980 to 1990. That will be a total growth of about 18 percent. It is a growth in world population that is going to continue to put pressure on potential food demand and not necessarily translate into effective food demand. This will be a slower growth than in the past decade.

Our projections for income growth and general economic activity over the next decade calls for a deceleration from what was experienced in the 1970's. The total gross domestic product in the OECD countries grew at a compound average rate of about 3.3 percent through the 1970's. Our analysis indicates that this growth rate is going to taper off to 2½ to 3 percent in the decade of the 1980's. So we are anticipating a weaker general economic growth worldwide in the 1980's than occurred in the 1970's. These expectations certainly call for an improvement, however, from the economic condition of the past few years.

Also, the value of the U.S. dollar has an influence on our grain prices. After the recent upward adjustment in the value of the dollar, we expect the U.S. dollar to decline on aggregate over the decade relative to the deutsche mark and the yen and continue relatively stable to the franc.

Thus in summary, the outlook for the 1980's calls for slowed population growth relative to the previous decade; income and general economic activity growth which will slow relative to the previous decade; and a U.S. dollar that will continue its long-term decline, but not as rapidly as the fall that we experienced in the decade of the 1970's.

As presented in the prepared statement submitted, if we look at grain production capacity outside the United States as one of the determinants of U.S. grain exports, we see that there is evidence of continued expansion in non-U.S. acreage. We expect non-U.S. grain production to continue to expand over the next decade. Given the demand outlook for grains over the next decade, we expected about 85 percent of the expansion in non-U.S. grain demand to be met by non-U.S. production, which leaves the United States with an export demand of about 15 percent to fill. Of the total growth in grain consumption outside the United States during the previous decade, only 66 percent was met by non-U.S. production. So that the gap between growth in non-U.S. consumption and non-U.S. production is going to slow over the next decade and U.S. prospects for exports are going to slow dramatically over the next decade as well. This translates into a total increase in all grain trade over the 1980's of approximately 41 million metric tons compared to almost 72 million metric tons over the past decade. Thus, what is being described is a likely outlook that calls for continued growth in U.S. exports. However, this growth is not going to put the same upward pressure on U.S. acreage and U.S. production that it has in the past decade. The United States will have to have a farm policy that will adjust to that fact.

Growth in domestic consumption of U.S. grain is also expected to slow during the next decade. We have already seen some suggestion of a shift in consumer preference away from red meats and we expect total per capita meat consumption on average over the decade of the 1980's to be nearly unchanged from the average of the 1970's. With steady population growth of approximately 1 percent, U.S. domestic feed grain consumption here is expected to grow much more slowly than in the past decade and will be tied more closely to population growth than it has been in the previous decade.

In summary, the outlook calls for growth, but modest growth, in demand for U.S. grains. Because of the large expansion in grain production capacity, this slowed growth in utilization will mean additional surplus supply situations in the future. The total principal crop acreage, which grew by approximately 60 million acres in the past decade, would be required to grow only 5 to 9 million acres in the coming decade. This is a situation which we would describe as not chronic surpluses, as we saw in the 1960's, but certainly not the growth era that was experienced in the 1970's when farm policies could be set to cut agriculture production loose.

I believe that U.S. agriculture currently is, to some degree, at a crossroads in the need to readjust to this deceleration in the growth for its demand. We must remember, however, that the problems to which it must adjust have been intensified in recent years due to a worldwide economic recession.

Our outlook describes an environment in the agricultural sector which would call for continued active measures of supply control as necessary to prevent the chronic surplus situation that existed in the 1960's.

I think the reasonable policy issues would include both supply control and demand stimulation. I am not, however, in a position to determine the proper "mix" of the various conflicting objectives that are cited for food and agricultural policy—the objectives of one, secure food supplies; two, reasonably low food prices for consumers; three, reasonable government costs; and four, a viable farm income level. In addition, these objectives will have to be intertwined with the objectives of a food policy, with consumer orientations, and with objectives of environmental policies as well.

With an economic scenario which calls for the probable need for continued supply control programs, we would call these programs a more regular feature of food and agriculture policies over the next decade than the on-again, off-again characteristic of the past 5 years.

If, in fact, supply control programs of some nature, are going to be a more regular feature in agricultural policy, then the programs—whatever they may be—will need to be of a longrun and consistent structure, and not have supply programs which are quick reactions to shortrun problems. We have to offer the growers, and all the decisionmakers in the related industries the opportunity to plan and anticipate; and reward those who cooperate with the programs over the longrun and not simply try to buy too many out too quickly.

With a mix of supply control demand stimulation in mind, I thought I would mention three components of a policy that I believe are good food for thought for the next decade.

Of course one of the first pieces of demand stimulation is to look at the export market and try to cultivate and increase our demand and the role that the United States plays in those markets. Certainly, this area will be talked about a great deal here today. And it is an area that is currently being debated.

On the other hand, however, I want to point out that 60 percent of our grain is consumed in the United States. By continually trying to concentrate on stimulating demand in 40 percent of the market—exports—which may, in some ways, be more difficult to control from a policy perspective than the 60 percent of the consumption may be to overlook important policy options.

Certainly the most, the best longrun policy for stimulating demand would be a sound policy which encourages sound economic growth in the total economy. That would stimulate both domestic consumption and foreign consumption. However, recognizing the fact that U.S. monetary policies, fiscal policies, foreign trade policies, and world political decisions are not going to be made simply to meet the criteria of agriculture, I think we have to look at some of the other alternatives. However, the agricultural impacts of decisions made in the above areas must always be taken into consideration.

One consideration in stimulating domestic demand for feed grains would be policies that reduce livestock production costs, such as the investment tax credit. Stimulative investment would act to increase livestock supplies. These larger supplies would translate into lower prices to the consumer and ultimately, a larger volume of grain consumed domestically.

Again, sound economic growth and policies of lower interest rates may be more important in the short term for increasing livestock production, but as longrun policies, I think these need to be debated.

The second policy implication from the type of economic outlook scenario presented here, has to do with Government-established grain price floor levels. I don't think we can talk about a consistent, longrun supply program or a consistent longrun demand stimulative program, either export or domestic, without studying very closely the level at which we set the floor price of major grains. Low floor prices would do two things. First, they would stimulate consumption, and second, to act to discourage high cost producers from continuing production. There has been a lot of concern expressed recently, and I share that concern, that the floor prices may be getting too high. I think this issue is critical for both demand and supply control.

The recent expansion in acreage during a period when prices were relatively low—20 million acre expansion that we've seen since 1977—may be an important piece of evidence that perhaps U.S. floor prices are set too high. Over the next decade, we have to be able either to discourage the low cost growers from continuing their expansion or discourage the high cost growers from producing at all, if we're to avoid a chronic surplus. It will be extremely difficult to provide the degree of support that will keep the current high cost producer in the production base, without also giving the low cost producer the incentive to expand.

The third and final policy issue that I would want to touch upon is the role of the farmer-owned grain reserve program [FOR] in agricultural policy and the role that it has played in recent years. I believe that the FOR is perhaps one of the major factors contributing to the continued acreage expansion that has helped lead us into the current oversupply situation. This effect has to do with the removal of any penalties to producers for overproduction. And until there are some penalties instilled for overproduction, we are going to be faced with very large Government expenditures to buy out that overproduction.

The farmer-owned reserve has met with mixed success. It was very successful in 1978 and 1979 in propping up grain prices from their low levels of 1977. And it also worked by bringing grain out of the reserve and back onto the market in 1980 when the United States was faced with the drought. However, the acreage expansion which I just cited, as well as our current corn market today—with prices at or above $3 per bushel—are two very good examples of the failure of the FOR program.

When I say that it has acted to remove penalties, it has done this because one, there is no effective volume limit on the FOR program, and two, the loan rates that are offered to producers to enter grain in the FOR are at, or above, nonrecourse loan rates. Growers are offered a premium and the Government pays for their storage.

If we consider the behavior of the producer, what is the penalty of overproduction under the following situation? A belief that the grower can essentially, one, get a loan for this grain which is above the Government established floor; two, store that grain at no cost; and with three, no price risks—since that grain will only be sold if prices reach a predetermined, relatively high trigger level. It is now at $3.25 per bushel for corn. There's no price risk, and no penalty to overproduction in this situation.

One of my questions would be: Why would we want to encourage participation in a program that removes producer price risks and penalties for overproduction if, in fact, commodity prices are not at what we have determined to be surplus levels? And what I'm assuming here is that commodity prices would have to be at the established Government floor level to be considered surplus. And in the 1982 corn market a $2.90 per bushel FOR loan rate is not at the "floor" of $2.55 per bushel.

So there are some proposals to be considered for the FOR. These would include: one, to lower the reserve loan rate, asking why we are encouraging that kind of no-risk overproduction; and two, to set some volume limitations on the amount of grain that can go into the FOR. These limitations may be tied to the producer's past production. Some cap appears to be needed; because if he realizes that his eligible grain to be entered into this "security blanket" program has already been

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spent, and can enter no more, then he knows that the rest of his production in future years is going to have to go onto the market and take the risks that the markets inherently present.

I've just questioned to some degree, the mechanism by which grain is entered into the reserve—the reserve loan rate—and I would also question the mechanism by which grain comes out of the reserve. The long-term strategic reserve, which is tied to all of the grain being released when a price is reached at a 5-day moving average basis, seems somewhat involatile and does not sound like the strategic long-run reserve if, in fact, markets can run up for 5 days and suddenly empty that reserve out.

The current corn market, with prices above $3 per bushel, is somewhat ironic as well.

Senator ABDNOR. Is what? Out of line?

Mr. STEADMAN. Corn prices are now above $3 per bushel. I find it ironic that it is the corn market that is currently in the greatest surplus. The weak corn market played a major role in creating the need for the current PIK program, which will remove approximately 25 million acres of corn from production. Yet we find the corn market with a price that is essentially a policy-supported price of $3 per bushel. This is causing dramatic hardship on an already weakened livestock sector.

I point this out simply as a fact that supply control programs, which include both production control—acreage programs in this case—and inventory control, need to be properly coordinated. And it's clear that the FOR program this year and the acreage control program, is not.

I appreciate this time and opportunity to present these views. To simply summarize, we are currently facing a longrun agricultural economic situation which is not the chronic supplies of the 1960's, nor is it the expansionary era of the 1970's. Demand stimulative and supply control programs will probably be not only necessary over the next decade, but most likely will be more regular features in the agricultural economy. Therefore, these programs need to be better coordinated. A sound economic growth, both in this country and around the world, will, of course, be the No. 1 aid, if you will, that Federal policy could offer in supporting a healthy food and farm sector. Thank you.

[The prepared statement of Mr. Steadman follows:]

PREPARED STATEMENT OF DENNIS F. STEADMAN

FUTURE DIRECTIONS IN FARM POLICY: SOME ISSUES AND THE ECONOMIC ENVIRONMENT OF THE NEXT DECADE*

INTRODUCTION

Since the 1930s, Congress has established a series of programs enacted to help stabilize farm prices and farm income and, very generally, starting in the late 1950s, farm programs for the major crops increased the role of the marketplace in the pricing and production decisions of our agricultural sector. The 1977 Act attempted to reach this government minimization/market maximization goal by, for the first time, establishing an upward price threshold via the release prices of the long-term grain reserve programs, which would establish a corridor in which market prices would most likely oscillate. The fundamental aims of the 1981 Farm Bill remain generally the same as the 1977 Act which preceded it and the several agricultural bills prior. Those aims were to provide for abundant supplies of food and fiber at reasonable costs to consumers while at the same time assuring farmers a fair return on their investment. In addition to these objectives, there also seems to be a consensus that the government should minimize its role in agriculture as well as closely control the expense of agricultural programs.

The objectives of agricultural policy have been many and varied over time and these objectives will be the most dominant factor in determining the future direction of our agricultural policy. While there has been and continues to be considerable disagreement concerning the level of government involvement in agriculture, there is general agreement that the special nature of this sector requires some degree of government interaction. More so than any other sector of the economy, agriculture is extremely dependent upon climatic conditions which are outside the control of industry. In addition, the primary product of agriculture is food, and as a necessity, demand for agricultural commodities in general is inelastic; this indicates that a very small change in quantity will cause a proportionately larger change in price. Consequently, producer receipts also exhibit volatility. The purely competitive nature of the U.S. agricultural production base and the large fixed investment necessary for producers, in combination with this volatile market activity, necessitate assistance in maintaining a minimum level of return in order to prevent short-run situations from removing producers in a long-run sense.

*Author wishes to recognize and thank Daniel Ballard, Raymond Daniel, Lester Myers and Allen Shiau for their ideas, comments and contributions in preparing this paper.

Typical objectives of farm policy have included: (1) the security of the food supply, (2) a viable economy for the food production and distribution system, (3) the allocation of government costs, and (4) reasonable costs to consumers of the available food supply. While these have been the typical objectives and will continue to be principal objectives in the future, direction of "farm" policy in the 1980s will very much be enthralled with concerns of "food" policy.

Traditional food and agricultural policy concerns will also have to be weighted together with natural-resource policies, and international trade and macroeconomic policies. The interrelationships and interdependencies of these policies are readily apparent. An example of the interdependencies of trade policies would include not only items such as the 1980 Soviet Grain Embargo, but also the decision to float the value of the U.S. dollar in the early 1970s—a factor which contributed to the large increase in U.S. grain exports over the past decade.

While the list of principal objectives for agricultural policy can become quite lengthy, the dilemma for policymakers continues to be that all of these policies are not necessarily consistent. Because some policy objectives are in conflict, i.e., adequate farm income and inexpensive consumer food prices, the dilemma for policymakers is to determine the proper weight to assign to the various objectives.

The purpose of this paper is not to suggest a priority of the various food and agricultural policy objectives, but rather to put the current farm economy into perspective together with the likely economic setting of the farm sector over the next decade. The food and agricultural policy issues which are most critical over the next decade will depend very much upon the setting in which U.S. agriculture finds itself. If the setting is one of rapidly rising world food demand, U.S. agricultural export markets, and commodity prices, then the priority to policy objectives would be geared more toward stabilizing and assuring food supplies and food prices. If, on the other hand, the environment of the next decade is one of prolonged and continued depressed demand for agricultural commodities, with the United States in a fundamental excess production capacity position, then the problem would be one of maintaining a viable farm production economy. The economic outlook and policy discussion will focus primarily on the grain markets.

A quick review of the history of the farm economy, which has led to the current weakness in farm income and commodity prices will be presented. Second, will be a review of a likely economic scenario for the next decade in the agricultural sector, and third some of the policy implications that this outlook scenario would imply.

THE CURRENT FARM ECONOMY IN PERSPECTIVE

The U.S. farm economy is currently in the midst of the most severe economic recession since the opening of the international grain markets during the early 1970s. Constant-dollar farm cash receipts have declined from \$52.8 billion (1967\$) in 1979, to an estimated \$45.5 billion (1967\$) in 1982. The additional decline anticipated in 1983, to \$45.2 billion (1967\$), would result in a total four-year decline of 14.4%. If realized, this would be the first time constant-dollar farm cash receipts have declined for four consecutive years since the four-year slide experience during the 1951 to 1955 period.

The current agricultural slump has been brought about by a combination of large farm product supplies and weak consumer demand. Some of the major factors include: (a) the U.S. economic downturn over the past two years which has weakened consumer demand for food, particularly meats; (b) record high crop yields in the United States during 1981 and 1982 with an associated build-up in grain, cotton and soybean inventories; (c) slack U.S. agricultural exports due to the recession overseas, a strengthening U.S. dollar, and on-again, off-again U.S. export policies; (d) continued high inflation during 1980 and 1981, exemplified by the average annual 11.7% increase in the consumer price index between 1979 and 1981; and (e) a nine-year record supply of pork which was a major factor causing depressed livestock cash receipts during 1980. Thus, factors on both the demand and supply side have moved the farm economy into the current slump.

However, the purpose of this paper is not to go into great detail in describing our current farm recession—this has been done very well elsewhere—but rather to put this farm recession into a longer-run perspective as the groundwork for the likely agricultural economic environment of the 1980s.

During the past decade, the nature of worldwide agricultural production demand and trade has changed dramatically. The period of the past decade was characterized by a 33% growth in production of food and feed grains, **Table 1.** This growth necessitated the addition of 45 million hectares (112 million acres) to world grain production. Perhaps the most dramatic change was the disproportionate growth in world grain trade. World wheat trade increased by 80% and coarse grain trade expanded by 131%. In summary, the following were primary driving forces behind these growth rates:

1. Political decisions in centrally planned economies, especially the U.S.S.R. and Eastern Europe, to expand livestock production and import grain when necessary to support that expansion. Thus the U.S.S.R. emerged as a major, but sporadic grain importer in 1972, accounting for about 35% of the increase in world grain trade in the 1970s. Before 1972, the U.S.S.R. adjusted internal consumption to the wide swings in grain production by liquidating livestock herds and reducing consumption;

Table 1
World Grain Production and Trade,
Change over Past Decade
(mmt)

	Average 1969–71	Average 1979–81	Percent Change
Wheat			
Production	325	435	+35
Trade	52	94	+80
Coarse Grain			
Production	394	745	+25
Trade	45	103	+131
Rice, Milled			
Production	208	266	+28
Trade	8	12	+47
Total Grains			
Production	1,127	1,449	+29
Trade	105	210	+99
Area Harvested, m/hec	677	723	+7
Yield, mt/hec	1.66	2.00	+20

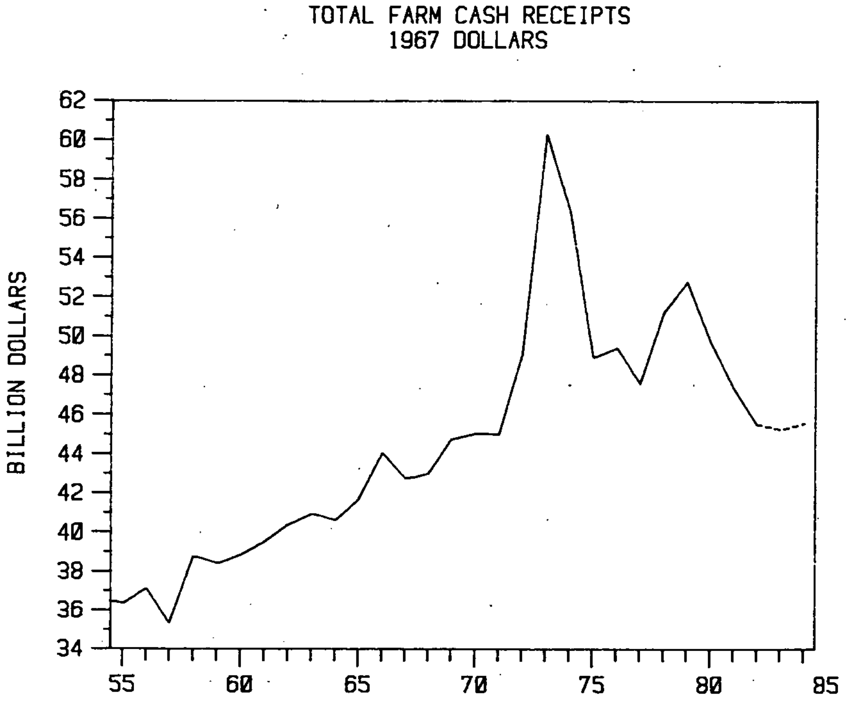
2. Relatively strong economic growth in many parts of the world provided the economic support to stimulate consumer demand for meat and higher quality food grains. Rising demand for animal products thus drove up the demand for feed grains and soybeans. During the 1970s, total world meat production increased 30%—a rate 1.7 times faster than the 18% in world population; and

3. The decision by major governments in the early 1970s to permit currency exchange rates to fluctuate more freely in response to relative economic and market conditions. With the system of floating exchange rates adopted, the previously overvalued U.S. dollar slid in value relative to other currencies, which effectively stimulated foreign demand for U.S. farm products.

In addition to the rapid export growth of U.S. farm products through the decade of the 1970s, the initial commodity price adjustment period in 1972 to 1975 to the changing world economy had a major impact upon the farm sector as well. In addition to the Soviet Union becoming a major grain importer overnight in 1972, the shortfall in the U.S. crop in 1970 and 1974, the failure of the Peruvian anchovy catch, and the massive run-up in world inflation which caused increased values of all raw commodities, dramatically impacted U.S. farm income in the early 1970s. If any one figure could somehow capture the environment of the farm economy over the 1970s, it would very likely be **Figure** 1. As this picture of current dollar farm cash receipts depicts, the change in real farm purchasing power during the 1960s was positive but relatively stable. Total farm cash receipts grew by a compound average rate of 1.4% between 1960 and 1969, ending the decade at $43.0 billion (1967$). With the dramatic drawdown of U.S. and world grain inventories and introduction of major international grain trade, real farm purchasing power turned upward in 1972 and then increased by 23% in 1973 to reach $60.3 billion (1967$). The tremendous runup in real grain prices, as well as in real farm cash receipts, generated a general concern of long-term world food shortages, high food prices, and the necessity to increase agricultural production to meet this rising world demand.

In 1972, total U.S. principal crop acreage was 294.6 million acres. Following the commodity price explosion and the removal of acreage control programs, U.S. principal crop acreage grew by 32 million acres by 1974, and then grew an additional 10 million acres by 1976. By 1977, principal U.S. crop acreage had grown to 335.2 million acres, 50.6 million acres above the 1972

Figure 1


TOTAL FARM CASH RECEIPTS
1967 DOLLARS
BILLION DOLLARS
62
60
58
56
54
52
50
48
46
44
42
40
38
36
34
55
60
65
70
75
80
85

level. This massive acreage expansion, in concert with continued increases in U.S. yields per acre, gave the U.S. farm sector the capacity to not only meet the new rising world demand for food, but also exceed it; by 1977 U.S. inventories had been rebuilt to new price-depressing levels. Therefore, constant-dollar U.S. corn prices had corrected down by 1977 to government-established floor levels and were near the 1969 to 1970 levels, **Figure 2.** As a result, acreage control programs were once again imposed in the United States in 1978 and again in 1979. These acreage programs together with continued export growth, by 1978 and 1979 allowed U.S. grain prices to once again increase relative to the general rate of inflation. The season average price of corn reached $2.52 in the 1979/80 marketing year, compared to $2.02 in 1977/78, and the season average price of wheat rose to $3.78 per bushel, compared to $2.33 per bushel in 1977/78. This improvement in U.S. grain prices came not only through higher exports and production controls but also through supply controls, originating from the long term grain reserve program enacted in the 1977 Farm Legislation.

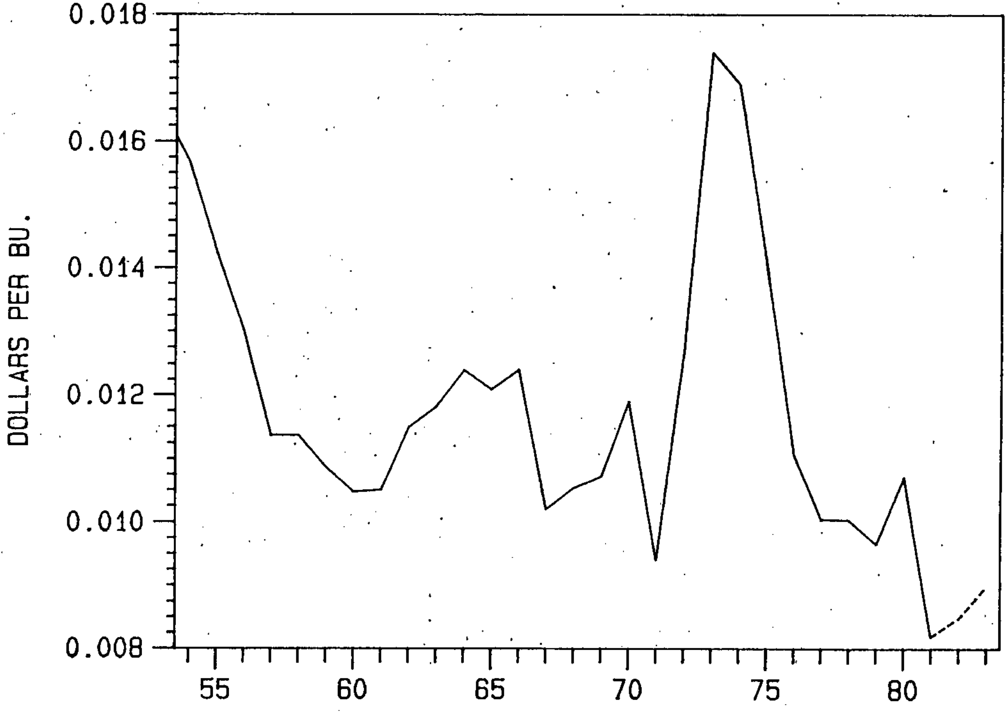
What happened since the 1979/80 marketing year to cause the current severe problems? Very fundamentally, supply continued to expand quite rapidly during a period of depressed demand. This situation is best explained by four primary factors.

First, the U.S. acreage base continued to grow even after grain prices had once again returned to their pre-1972 levels. In 1977 twenty principal crop acreage equaled 344.9 million acres. Even with acreage control programs on, in 1979 the principal crop acreage had grown to 346.4 million acres, by 1980, with the lifting of acreage control programs, the U.S. crop acreage base grew to 356.2 million acres, and by 1981 reached 364.8 million acres. Thus, despite the major correction from the very high grain prices of the early 1970s, U.S. crop acreage grew by 20 million acres (5.8%) in the four-year period between 1977 and 1981.

The second principal factor was a continued gain in U.S. grain yields per acre. As an example, the national average yield per acre of corn reached levels which were record high for the period in each of the 1978, 1979, 1981 and 1982 seasons. The record yield in 1978 of 101.0 bushels per acre was broken by the yield of 109.7 bushels per acre in 1979. An example of the

Figure 2

FARM PRICE OF CORN
MARKETING YEARS 1954/55 TO 1983/84
1967 DOLLARS



magnitude of growth in corn yields was illustrated in 1980 when North America suffered from a severe drought and heat wave. Although 1980 growing conditions were adverse, the reduced yield of 91.0 bushels per acre was near the "normal" yield of 90.8 bushels per acre as recently as 1977. Corn yields set an additional record high of 114.8 bushels per acre in 1982.

The third factor is the major weakness in the livestock sector. Very aggregate measures of livestock sector health turned sharply downward in 1980, as can be seen in **Table 2.** Total livestock cash receipts in constant dollars fell by 12% in 1980 to $24.1 billion dollars (1967$), 7% below the average of the previous three years. This weakness in the livestock sector was caused by the recession in the U.S. economy, as well as by a build-up in pork supplies as the hog cycle peaked. The figures in Table 2 also show that the general health of the livestock sector has remained quite weak into 1983. This prolonged weakness is partially attributable to an apparent shift in consumer demand away from red meat consumption, and to the long period of U.S. economic stagnation. Clearly, with more than 60% of the U.S. grains consumed domestically, weakness in the livestock sector must translate back to the grain sector in the form of reduced grain demand.

Table 2
Constant-Dollar Farm Cash Receipts
Five-Year Average, 1960 to 1979 and Annual 1979 to 1983[a]
(bil 1967$)

	Livestock	Crops	Total
1960-64 Average	21.7	18.0	39.7
1965-69 Average	24.8	18.4	43.2
1970-74 Average	27.6	23.5	51.1
1975-79 Average	25.2	24.8	50.0
1979	27.5	25.3	52.8
1980	24.2	25.6	49.8
1981	22.6	24.7	47.3
1982[b]	22.0	23.4	45.5
1983[c]	22.0	23.2	45.2

[a]Deflated by prices paid by farmers
[b]Preliminary
[c]CE/IDC projection

The fourth principal cause of the accumulation of excessive grain supplies was the dramatic slow-down in both world grain consumption (Figure 3) and world grain trade. As presented in Table 1, world grain trade grew by 99% between the period of 1969-1971 and 1979-1981, for a compound annual growth rate of 7.1%. Calculated another way, the average increase in world grain trade between 1970 and 1980 was 10.3 million metric tons per year. However, during the past three years the average rate of growth in world grain trade has been 0.8 million metric tons per year. In fact, the average for the past two years has been -5.4 million metric tons per year. Thus, the upward trend in world grain trade, which had been present for more than a decade has been broken. Total growth of world grain utilization has been limited to only 3.4% since 1978/79. The break in the upward trend in world grain trade has been primarily the result of: (a) economic stagnation and down turns in most economies of the world; (b) severe financial problems in many grain importing nations—exaggerating the impact of the economic down turn upon grain demand; and (c) a decline in non-U.S. production.

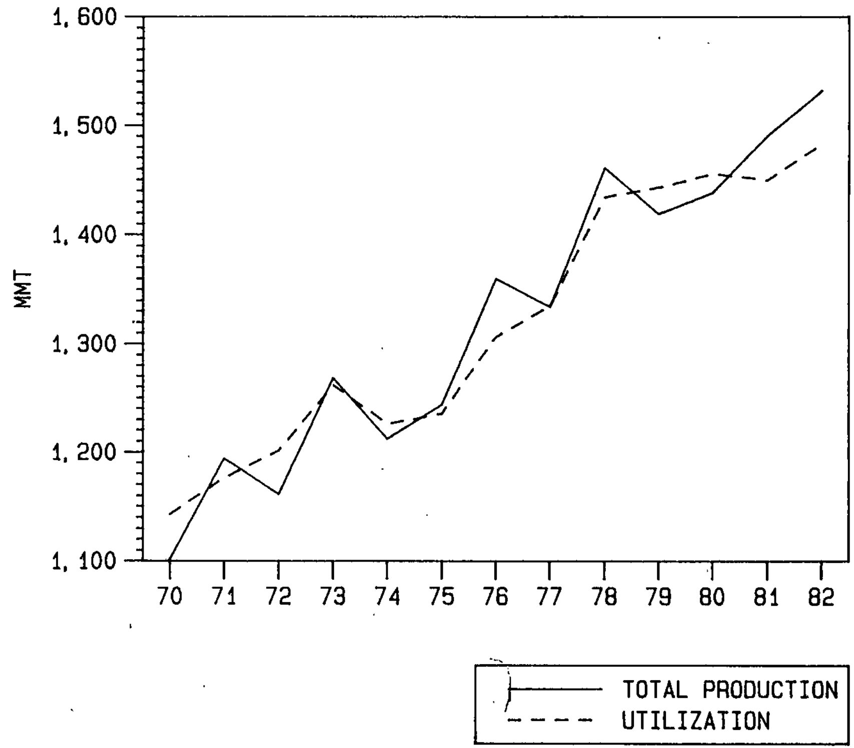
While world grain trade has softened in recent years, so has the U.S. share of world grain trade. Growing from a level of approximately 34.5% in 1970/71-1972/73, U.S. market share rose to 56.0% in 1979/80, achieving a 1977/78 to 1979/80 three year average of 54.9%. However, in 1980 the U.S. share slid to 53.3% and in 1981/82 slid still further to 50.3%. FAS projections for 1982/83 show a U.S. share which is once again in the 50% range. This erosion in the U.S. share is believed to be the result of: (a) the dramatic strengthening of the U.S. dollar relative to other foreign currencies; (b) past grain embargos, which have caused the U.S. to be viewed somewhat as a less reliable supplier; and (c) increasing use of bilateral long-term grain trade agreements by non-U.S. grain exporters.

CROP SECTOR OUTLOOK FOR THE 1980S

The current over-supply conditions in world grain markets are well documented. At the end of the 1982/83 world crop year (July/June) wheat and coarse grain stocks will represent about 21% of one year's utilization. This is the highest stock level since 1968/69. The end results are low prices and efforts by the U.S. government to reduce planted acreage.

Figure 3

WORLD TOTAL GRAIN PRODUCTION/UTILIZATION



Of interest to a long-term forecast is an evaluation of the length of time it will take to reduce stocks to levels which will provide real price support. Historically, this has been when the world stock-to-utilization ratio has been around 13, (see **Figure 4**). The answer is complicated because it involves demand growth, production response, and government policies affecting agriculture throughout the world and especially in the U.S.

Demand Factors

World utilization of food and feed grains is influenced primarily by income growth, population growth, and real grain prices. Production levels affect consumption levels indirectly through the inverse relationship between current production and current price. For some countries, consumption is constrained by the absolute level of production and by the ability to import. These countries are typically net importers and in the lower income range.

Of major concern here is the "effective" demand, as opposed to "potential" demand. During the 1980/81 to 1981/82 period, "effective" demand was weak because of depressed economic conditions, a high U.S. dollar value and the fact that supplies were geographically separated from the potential consuming market.

Alleviation of the current excess grain stock situation depends on the outlook for "effective" demand relative to the outlook for supply levels. Our outlook for long-term demand growth is related primarily to two key factors: income growth as measured by changes in real gross domestic product (GDP) and by population growth.

World population growth forecasts are based on the latest United Nations' medium projections done in 1981. A few summary results of these projections are relevant.

a. Despite the appearance of slower rates of growth, world population will increase 18% over the decade.

b. The developing countries of the world will continue to experience the most rapid growth, increasing 22% between 1980 and 1990. In 1980, approximately 74% of the world's population lived in countries classified as developing economies. By 1990 this ratio is forecast to be 76% and longer-range forecasts suggest the ratio will climb to 82% by 2025.

Figure 4

WORLD GRAIN INVENTORIES AS A PERCENT OF UTILIZATION
1970/71 - 1982/83

c. Africa will experience the most rapid growth rate with population growing 36% between 1980 and 1985.

d. Declining rates of growth for total world population, (1.7% per year for 1980-1990 compared to 1.9% for the 1966-1980 period) means that projections of stabilized population levels and the time of occurrence can be attained.

The implications for agriculture result from changes in demographic patterns and from income distribution patterns and their effect on the ability to purchase and/or produce required food needs. Demographically, the U.N. studies suggest the following:

a. There will be relatively fewer young people as a result of changing attitudes about family planning and later marriages. However, these trends will be partially offset by expected declines in child mortality rates.

b. Better living conditions and medical advancements will combine with the aging of those born during recent past population growth spurts to produce a larger proportion of old people.

c. Developing countries will experience rapid growth of cities and urban populations.

These projections imply that agricultural production, marketing and trade practices will have to adjust to changing market dimensions. While many of the changes, and probably the most dramatic, will occur in the developing countries, the impacts will ripple throughout the world.

a. A growing disparity between population levels in developing countries, many of which have not been self sufficient in food production, and developed countries will intensify the role of world food and feed grain trade. Economic growth becomes an extremely critical determinant of world grain trade as these countries struggle to pay for increasing imported food needs. Without rigorous economic growth the "potential" demand growth represented by population growth cannot be translated to "effective" export demand growth for grain from grain exporting nations.

b. Movement of people to urban places in the developing countries implies a lower proportion of the population that is self sufficient in food production at the family and community level. Maintenance of adequate food supplies will require the following:

1. Increased domestic agricultural productivity,

2. Development and expansion of formal marketing systems,

3. Innovative pricing policies which encourage production and, at the same time, protect low-income consumers,

4. Policy decisions regarding relative encouragement of domestic production versus trade and food imports.

In addition to population growth, income growth is a key factor determining the levels for future demand and trade levels. On average, we expect real economic growth rates to be lower during the 1980s than existed during the 1970s. For OECD countries, the average annual real rate of growth in GDP for 1971 through 1980 was 3.3%. During the 1982 through 1991 period, we expect the average annual real rate of growth to be 2.7% to 2.8%. Thus we expect the expansion in the demand for grains resulting from income growth to not be as strong as during the 1970s.

Another factor affecting the foreign demand for U.S. grain relates to the price level. Prices are primarily determined by fundamental supply and demand conditions, however other factors also enter into international pricing relationships. These factors include freight rates, tariffs, levies, and fluctuations in currency exchange rates.

During the 1970s the U.S. agricultural sector benefited from generally declining values of the U.S. dollar relative to European and Japanese currencies. Between 1971 and 1980, the dollar declined an annual average of 6.6% against the Deutsch mark, 2.4% against the French franc and 4.1% against the Japanese yen. Recently the U.S. dollar has strengthened substantially, partially offsetting the lower U.S. grain prices.

As world economic growth rebounds, we expect the U.S. dollar to again exhibit a weakening trend relative to the DM and the yen. However, the dollar is expected to remain strong against the French franc and the rate of devaluation relative to the DM and yen is forecast to be much more moderate than during last decade. On an annual average basis, the CE International Department forecasts dollar losses of 3.7% against the DM and 1.2% against the yen over the 1982 through 1991 period. Against the French franc the

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dollar is expected to be fairly stable for the rest of the decade after gaining nearly 5% over the 1981-82 period.

While changes in currency exchange rates will again be a positive influence on the demand for U.S. grain exports during the 1980s, they will not exert the strong impact realized during the 1970s.

Non-U.S. Supply Factors

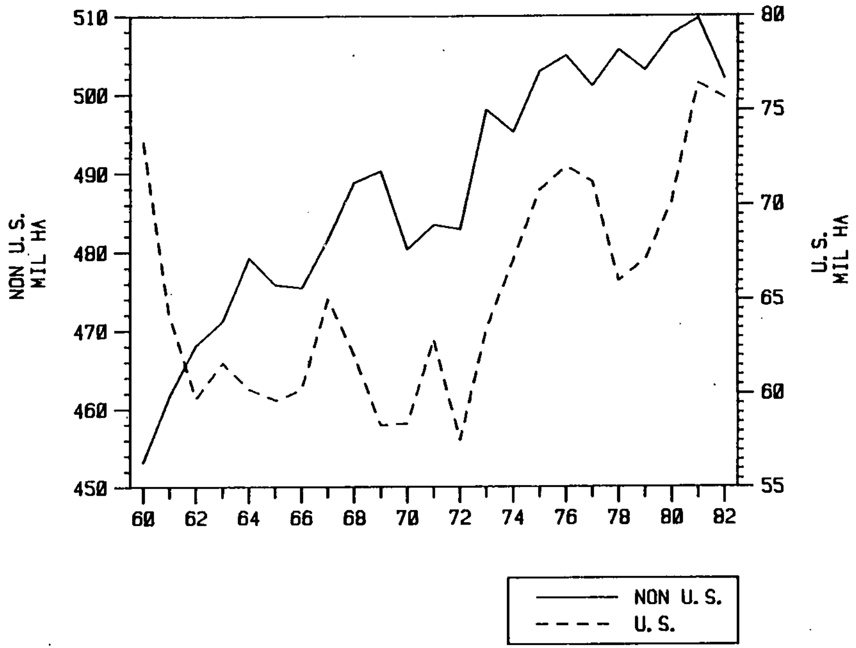
A key factor affecting world grains supply is the extent of U.S. policy programs designed to remove land area from crop production. We expect very little acreage reduction in non-U.S. producing regions in response to current low prices. Except for the EC, stocks are not burdensome and the economic disincentives are not sufficient to cause producers to idle land or to switch significant areas to non-grain crops. This outlook is consistent with historical experience (**Figure** 5).

We expect that non-U.S. grain harvested area will increase gradually throughout the decade from current levels of around 505 million hectares (1248 million acres) to 520 to 525 million hectares (1285 to 1300 million acres) by 1991. Available land for additional grain production is not a constraint for this magnitude of growth. Therefore, the growth forecast is predicated primarily on demand factors. Factors suggesting slower growth rates in acres include, (a) slower rates of economic growth, and (b) slower rates of population increase. Factors supporting increases in non-U.S. harvested area include, (a) less economic incentive to import grains for many of the developing countries, (b) the desire by importing nations to diversify supply sources, and (c) the proliferation of bilateral trade agreements by most non-U.S. grain exporting countries.

During the past decade average non-U.S. wheat and coarse grain yields increased about 14%. Although current economic problems may reduce the ability of many countries to import needed agricultural inputs and also the ability to subsidize the costs of inputs to farmers compared to recent years, over the long term we believe technological changes combined with governmental pressures to increase food self sufficiency will result in average non-U.S. productivity growth similar to the last decade. Given the non-U.S.

Figure 5

WHEAT AND COARSE GRAIN HARVESTED AREA



grain acreage projections, this implies that non-U.S. grain production will grow about 18% or 173 million metric tons from current levels.

The implication of the non-U.S. grain production projections is that world per capita grain production will be at levels similar to what existed in 1970. In 1970 non-U.S. wheat and coarse grain production equaled 222 kg per capita. In 1980 this had dropped to 216 kg per capita. By 1990 we expect it to rise back to about 220 kg per capita due to increased emphasis on self-sufficiency and to efforts by non-U.S. exporters to expand production (Table 3).

During the 1970 to 1980 period, non-U.S. annual per capita utilization of wheat and coarse grains increased 3.33%. This translates to 8 kg/capita increase in annual use and to a total annual utilization expansion of 201 mmt. During the same period, annual non-U.S. production increased only 132 mmt. The expanding difference between non-U.S. production and non-U.S. consumption was made up with rapidly expanding U.S. exports.

Given the demand and supply outlook for non-U.S. countries our forecast for 1990 non-U.S. production and utilization is presented in Table 3. We think economic conditions will continue to permit per capita utilization to expand. However, the rate of expansion is expected to moderate to about 3% over the 10-year period.

Table 3
Non-U.S. Grain Production and Utilization: Selected Years[a]

Year	Production		Utilization	
	mmt	kg/capita	mmt	kg/capita
1970	775	222	818	234
1980	907	216	1019	242
1990[b]	1099	220	1246	249

[a]Wheat and coarse grains.

[b]CE/IDC forecast.

During the 1970 to 1980 period, about 66% of non-U.S. demand expansion was met by increases in non-U.S. production. The remainder was met with expanded imports from the U.S. During the 1980s we project that about 85% of the non-U.S. demand expansion will be met with non-U.S. production expansion and about 15% of the increase will come from expanded U.S. grain exports. The forecast for relatively less reliance on the U.S. to supply expanding non-U.S. grain needs is based on the expectation of economic conditions which favor domestic production over imports in importing countries and from the increasing efforts to diversify sources of imported grains.

World Grain Trade

The implications of the above analysis are translated into total world grain trade estimates as given in **Tables 4** and **5.** U.S. wheat and coarse grain exports are projected to reach 152 mmt by the 1991/92 year, up 47% from estimated 1982/83 levels. The U.S. share of world grain trade is expected to recover from current levels but will not exceed historic highs for either wheat or coarse grains.

Thus, we do not expect export demand growth during the next ten years to be as strong as during the past decade. While the last decade required an additional 66 million acres of production to support expanding export demand, between 1981/82 and 1992/93 we expect it to take only an additional 30 million acres to support export demand expansion. The additional level needed by crop type is detailed in **Table 6.**

U.S. Acreage: The Next Few Years

In 1983/84 U.S. principal crop acreage planted will be down more than 55 million from 1981/82, due to large stocks and government acreage programs. Our outlook for general economic growth, the livestock sector and grain exports suggest that it will be 1986/87 before total planted acres return to previous high levels. Demand growth for the decade will support a net addition of about 5 to 9 million acres over the previous peak acreage level reached in 1981/82, see **Figures 6 and 7.**

Table 4
World and U.S. Wheat Trade[a]

Year	World	U.S.	U.S. Share
	---- mmt ----		%
1970/71	55.0	20.2	36.7
1975/76	66.7	31.9	47.8
1980/81	94.2	41.2	43.7
1982/83	100.7	42.0	41.7
1985/86[b]	109.0	50.0	45.9
1991/92[b]	118.0	55.0	46.6

[a]World on July/June basis. U.S. on crop year basis.
[b]CE forecast.

Table 5
World and U.S. Coarse Grain Trade[a]

Year	World	U.S.	U.S. Share
	---- mmt ----		%
1970/71	46.0	18.6	40.4
1975/76	75.1	50.0	66.6
1980/81	105.4	69.5	65.9
1982/83	93.0	61.3	65.9
1985/86[b]	110.0	71.0	64.8
1991/92[b]	140.0	97.0	69.5

[a]World on July/June basis. U.S. on crop year basis.
[b]CE forecast.

Table 6
Land Expansion Needed to Support Export Demand Growth by Crop Type
(million acres)

Crop Type	1971/72 to 1981/82	1981/82 to 1992/93
Food Grains[ab]	33.8	3.5
Feed Grains[c]	11.2	12.4
Oilseeds[d]	19.1	11.6
Cotton	2.1	2.0
20 Crops	66.2	29.5

[a] Wheat and rice
[b] Base year 1981/82 was year of exceptionally strong wheat exports. If 1980/81 or 1982/83 is used as base, the needed acreage expansion would be over 11 million acres
[c] Corn, sorghum, barley and oats
[d] Soybeans (including soybean meal) and peanuts

In the wheat market the dramatic acreage reduction in 1983 of 23%, on a harvested acre basis, (over 18 million acres) may be partially offset by once again improved yields. Although, total wheat carry-over stocks at the end of the 1983/84 marketing year are expected to be below the 1982/83 levels as a result of the 1983 acreage cutback, ending inventories will still be considered excessive at approximately 1.3 billion bushels. A similar situation will exist in the corn market, as improved yields likely offset part of the 1983 acreage reduction. Ending corn inventories in 1983/84 will be corrected downward, but will remain at surplus levels. Thus, our outlook calls for the need of continued strict acreage control programs in 1984 and most likely for continued modest acreage reduction programs in 1985. These projections are based upon an improvement in the U.S. and world economies, which will help stimulate both domestic and foreign demand for U.S. grains.

Thus, the current surplus grain situation is not a short run problem. Even with the expectations of a generally improving world economy over the next several years, grain demand will increase in a lagging and relatively slow fashion. Thus, world grain demand is not expected to bounce back vigorously and as such, the burden of the correction remains upon grain production in the short-term. The adjustment in world grain production is made particularly

Figure 6

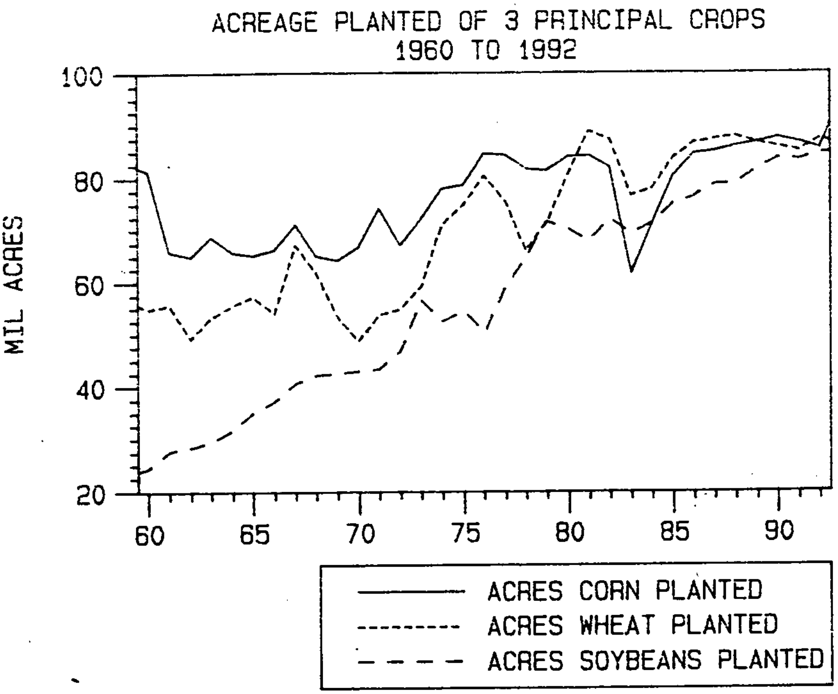
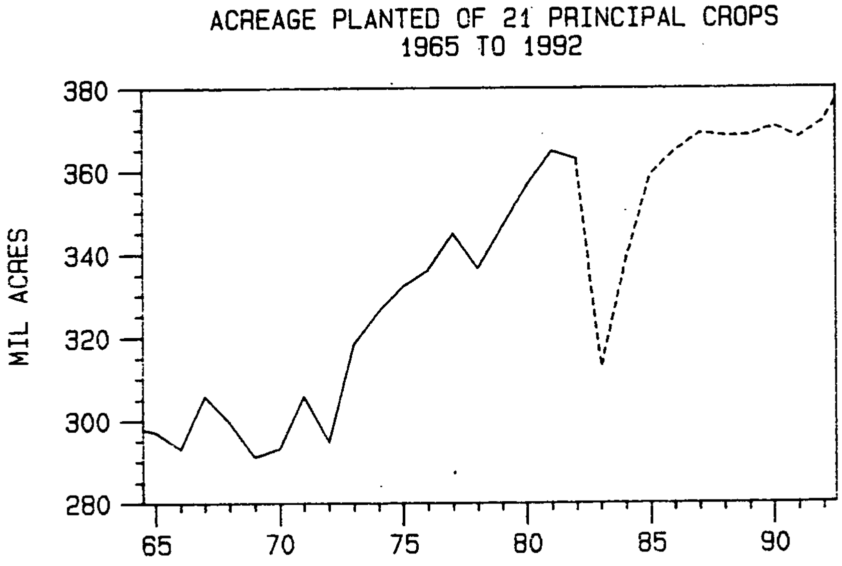


Figure 7



difficult by the fact that (a) the acreage reductions will be implemented solely in the United States, while major producing regions continue to strive for higher production, and (b) by inherent inefficiencies in acreage control programs. Inefficiencies are caused by acreage expansions by non-compliers, some slippage in program administration by compliers which is unavoidable, and higher yields that have traditionally resulted from the more marginal acres being idled first.

Thus, with an economic recovery over the next few years, acreage programs in the U.S. will still be required to cut acreage sharply for at least two years—and quite likely for three years—before supply and demand come into alignment to allow producers an equitable return to their investment.

Outlook Summary

In summary, the outlook for grain demand over the next decade calls for a growth which is slower than the previous decade's. Foreign demand for U.S. grain is expected to continue to grow, but at a sharply reduced rate from the 1970s. Domestic demand for U.S. grain is expected to continue to grow at approximately the same or slightly slower rate from the past decade as consumer demand growth for red meat is curtailed slightly. Despite the projections for slower demand, yields per acre are expected to continue their upward trend of the past decade in most commodities. However, wheat and soybeans yield trends could even accelerate due to increased research investment in plant breeding. Thus, with the currently large inventories, weaker demand and continued strong growth in yields, U.S. crop acreage will be required to grow only modestly over the next decade.

For example, corn acreage which reached a peak of 84.2 million acres in 1982, would be required to be in the 85 to 88 million acre range through the second half of this decade, only 1 to 4 million acres above its previous peak. The anticipated wheat acreage requirement calls for acreage in the 85 to 88 million acre range over the second half of the decade, which is just under the already established peak of 88.9 million acres reached in 1981. Soybean acreage, which grew by 27.7 million acres during the past decade—from 44.5 million acres in 1971 to a recent peak of 72.2 million acres in 1982—is expected to need to grow by only approximately 10 to 12 million acres over the next decade to 82 to 84 million acres by 1992.

As mentioned above, principal crop acreage is expected to grow by only 5 to 9 million acres. Of particular concern to policy makers is the already shown propensity for U.S. farmers to expand the crop land acreage base. As cited previously, the acreage base continued to expand quite rapidly even following the collapse of crop prices in the 1977 period. While weak farm income and low commodity prices are expected to reduce the upward pressure on acreage, the outlook for such modest acreage expansion requirements over the next decade strongly suggests the need for continued and regular supply control programs. The decade of the 1980s is not expected to be a return to the period of the 1960s, with chronic surpluses and acreage control programs which cut deeply into U.S. crop acreage, since the U.S. farm economy in the 1980s will have a base of demand which is worldwide, and therefore, will have greater potential for growth and volatility than was the case in the 1960s. Nor will the 1980s be similar to the decade of the 1970s, which was so dominated by export growth that the U.S. farm economy could expand principal acreage by nearly 60 million acres before again developing a major surplus situation. But rather, the decade of the 1980s is expected to be a period when demand growth is modest and supply control programs are more the "rule" than the exception. Certainly with fluctuations in crop yields in the United States, as well as other countries, programs will be removed during some years. However, in the wheat market for example, barring significant reductions in yields, we would anticipate consecutive acreage control programs to be necessary between now and 1986.

POLICY IMPLICATIONS

This paper has presented an outlook scenario which calls for a slower demand growth in agricultural products during the 1980s. With current low farm prices and income, the expansionary pressures on the U.S. acreage base will be reduced; this will partially compensate for the slowdown in demand. However, the added capacity in the U.S. crop sector since 1974 will be removed slowly, while export growth sufficient to correct the current surplus is not anticipated. Thus, given the current high world grain inventory levels, the negative supply adjustment may take several years. Programs which cap current expansion and hold supplies in check until consumption has time to catch up to supply in the mid part of the decade are, to some degree, already in place.

Thus, supply control programs appear to be necessary at least for the next few years. Since supply control programs are expected to be a "regular feature" in the production decision over the next decade, a necessary characteristic of any agricultural supply control program is that of being "consistent" and "long term" in nature. Programs cannot be viewed in a short-term perspective, as has been the case since 1978. Supply control programs structured in one year should be done so with the next year or the next several years in mind with respect to grower incentives. Ways that would reward the steady and frequent participant and accumulate incentives for regular participation over time may help to improve the long term consistency of the programs as well as improve their effectiveness in actually controlling production.

Of course, a major question in supply control programs in the crop sector continues to be just how to control supply? Recent examples of acreage reduction programs have proven to be relatively inadequate. Acreage, of course, is only one-half of the production equation. Uncontrollable, and unpredictable, yields are the other half. Thus, attempting to control production with a handle on only one-half of the equation is a procedure that needs to be looked at closely. In addition, one can question even the ability to control the acreage-half of the equation, since program slippage seems to be inordinately high. Thus, new innovative ways to reward, guarantee and create the incentive for a fixed production level as opposed to a fixed acreage level would be a major improvement in agricultural policy. However, programs which go so far as to enact grain marketing quotas are not viewed as politically feasible at this time due to the desired "marketplace" orientation of the agricultural sector.

The proper "mix" of U.S. food and agriculture policy objectives is to be determined by our governing body, and thus it is impossible to outline the final policy goals of the 1980s in this presentation. However, some policy modifications seem worth further exploration. The agricultural economic outlook for the next decade suggests the need for a combination of both supply control and demand stimulative measures; the options presented for consideration include both and are made with the following objectives in mind: maintain a viable level of farm income; reasonably low consumer food prices; security of food supplies; maintaining "market" conditions in agriculture; and recognition that large federal budget deficits will be a reality for several years. The issues raised in this paper are not intended to comprise a comprehensive list, but rather are"food for thought" on future food and agriculture policy. The options include: (a) reduction of commodity loan rate levels; (b) limitations on amounts of grain accepted in the F.O.R.; (c) changed conditions for entrance and exit of grain from the F.O.R.; and (d) investment tax credits in the livestock sector.

I also present these options under the pragmatic view that foreign policy, monetary policy, and world politics will not be written to accommodate the agricultural sector alone. However, the agricultural sector is very much impacted by these "non-agricultural" policies, and we must always include the agricultural impacts in considering these "non-agricultural" policies.

Loan Rates

Part of any agricultural policy which has a long-run, consistent view of its implementation needs to be directly concerned with the level of established support prices. Policies set to establish support prices in the United States also influence world grain prices. The government established price floor is critical to both demand growth and supply control.

On a deflated basis, the 1983/84 loan rate for corn is 82.1¢/bu, up from 80.1¢/bu in 1980/81 and 79.2¢/bu in 1981/82.[1] The constant dollar loan rate for the 1983/84 wheat crop will be $1.13/bu, up from the level of $1.07/bu in 1980/81 and $1.00/bu in 1979/80. Generally, real loan rates for grain have increased in recent years.

Our estimates of the U.S. grain export grain response to changes in price, suggest an elasticity of approximately -0.3; thus U.S. exports would be expected to rise by approximately 3% with a 10% decline in prices, all other

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[1]All constant dollar figures are deflated by the index of prices paid by farmers.

things equal. Holding loan rates at relatively low levels would have to be part of a demand stimulative policy.

On the foreign demand side, U.S. policymakers need to be aware that to some degree they are impacting the support price of non-U.S. producers, as well as U.S. producers when establishing the U.S. support level. Should support prices be set too high, not only will policies encourage continued production by high cost producers in the United States, but it will also encourage the continued production by producers outside the United States in areas where yields are normally lower than in the United States. Higher non-U.S. production will of course negatively affect U.S. exports.

Loan rates which are set too high can act to keep inefficient U.S. producers in production beyond their justifiable involvement. Of course this particular question brushes against the issue of maintaining the small family farm, which may be the inefficient, and/or the higher-cost producer. Policymakers simply need to be aware of the fact that to the extent high-cost producers in the United States are encouraged to produce, so will the high-cost producers outside of the United States. Also, the recent continued expansions in the U.S. acreage base suggest that returns have been sufficient to stimulate expansion by efficient (low-cost) producers. If the upward expansion in acreage is to be controlled in order to avoid a chronic surplus situation during the next decade, the market must be allowed to weed out the high-cost producers unless the U.S. government is prepared to continue to provide subsidies to these producers on a long-run basis.

Farmer-Owned Reserve

One factor that is believed to have contributed to the continued expansion in the U.S. crop acreage base, after the erosion in producer prices during the 1977 period, is the lack of producer "penalties" for overproduction in the government loan and farmer-owned reserve (F.O.R.) programs. The most recent addition to supply control programs, the F.O.R. program, has met with mixed success. Certainly this program was successful in reducing market inventories and thus supporting market prices in the 1978 and 1979 period. The program also functioned in 1980 with a crop shortfall and the resulting price runup which brought grain back out of the reserve. However, the continued expansion in the U.S. acreage base in recent years, as well as the current overpriced corn market, are two examples of some drawbacks to the F.O.R. program.

A combination of characteristics of the F.O.R. program have acted to remove a great deal of the producer penalty traditionally associated with overproduction. These factors include: (a) no meaningful limit of the volume of grain any one producer can enter into the F.O.R. program; (b) a loan rate for F.O.R. grain which exceeds the loan rate for nonrecourse loans; and (c) subsidized government payments for grain storage. With these characteristics of the F.O.R. in place, consider the penalties associated with overproduction for producers in the past several years. In the 1979 program, for example, corn producers were asked to voluntarily reduce acreage by 10%. In partial return for participation, the reserve loan rate of $2.10/bu was offered to producers for their total eligible production. Not only was the producer guaranteed $2.10/bu, because of the nonrecourse loan offered in that marketing year, but also that producer could essentially store any volume of his/her available output for free, with no downward price risk, since that grain would not be removed until prices reached an established trigger of $2.63/bu. Moreover, in the 1981 marketing year, corn producers were offered a reserve loan rate of $2.55 compared to a ordinary loan rate of $2.40. Again, with annual storage payments of 26.5¢/bu offered, producers could store this grain with nearly no price risk since the grain would not be resold until the trigger price of $3.15 would be reached. This incentive to store, and the removal of any effective price penalty to overproduction was expanded yet further with the 1982 corn marketing year, with the reserve loan rate set at $2.90/bu, compared to an ordinary loan rate of $2.55/bu and a release price of $3.25/bu.

In recent years, we have seen that with relatively small percentage set asides requested, or no set asides requested, producers have been eligible to receive higher than established government floor price for an unlimited volume of grain to be stored, at no cost, in expectations of higher prices. Thus, the producer expectation that overproduction could always be absorbed into this program with no price risk is created. Many of these negative aspects of the reserve program in the future could be reduced by (a) lowering the reserve loan rate and (b) setting a cap, or quota, on the volume of grain that can enter the reserve. I believe the most important factor to be the establishment of a quota for the volume of grain that can go into the reserve. The government should not be willing to hold itself exposed to accepting any and all grain volumes that may flow into the reserve and incur the storage costs of that volume when the market may not be at a completely saturated point. I would assume that the market supply situation would be considered excessive when market prices are at or near the nonrecourse loan level. Thus, it is at this price point, that grain should enter the F.O.R. and not necessarily at prices higher than the nonrecourse loan level. In addition, if producers had established quotas on the total volume of grain that they could hold in the F.O.R.—based upon some percentage of their current year's or previous year's production levels—then once the individual producer's quota is reached, he would know that any surplus production in the following year would not be covered and thus he would be forced to accept market prices when selling this grain. This type of approach over time would be expected to make producers more responsible in preventing surplus production, by imposing more direct market risk factors.

An additional consideration in the future F.O.R. program would be the mechanism by which grain is released from the F.O.R. and put onto the open market. The establishment of reserved trigger levels can become very critical to the market. Both the level of the trigger and the mechansim by which the trigger is reached (and thus grain is released) needs to be studied closely. The five-day moving average requirement for the trigger price and the automatic release of virtually all grain from the reserve when that five-day moving average is reached appear to have the potential of introducing too much volatility into the commodity market.

A final point relating to the F.O.R. has to do with the coordination of the F.O.R. program together with other supply control programs—namely acreage control. The current oversupported corn market—with prices above \$3/bu during a period of surplus—is an example of an acreage control program and the inventory control program which had not been coordinated, and thus are working in conflict.

Currently, cash market corn prices are above $3.00 per bushel and are causing severe economic hardship for already weakened livestock producers. It is somewhat ironic that the surplus corn inventory situation which was so severe as to call for approximately 25 million acres of corn to be removed from production this year, can be occurring together with corn prices that are over $3.00 per bushel. Very simply, what has happened is that with extremely low corn prices this past fall, large volumes of grain were entered into the reserve program. Then with the enactment of the payment in kind program which presented more of a reward for producers with grain in the F.O.R. than for producers with grain outside the F.O.R., additional grain was entered. Thus we find that during such a severe surplus situation, too much grain has been isolated from market supplies, and the market is now left with its only option to bid prices higher in order to pull grain back into open market supplies. This is a very unfortunate mixture of government policy directly impacting the corn market. I am sure the objective of agricultural policy in the corn market was not to support prices necessarily at $3.00 per bushel during the periods of surplus. Thus, an inventory control program needs to be coordinated with any acreage control program. Again, the on-again off-again attitude which appears to have been taken towards the acreage control programs has led to this inconsistency. Control programs, whether acreage or inventory, viewed in a long run scheme with more set parameters known ahead of time may help to prevent these inconsistencies.

Demand Stimulation

Although a great deal of attention has been justifiably paid to stimulating foreign demand for U.S. grains, approximately 60% of total U.S. grain utilization is consumed domestically. Thus, it is somewhat ironic that there has been such little attention paid to policies directed at stimulating this largest (and perhaps more policy controllable) portion of U.S. grain consumption. While stimulation of export demand is an important policy issue, which is currently being debated, I would like to turn my attention to domestic demand stimulation.

As noted above, one of the dampening factors in the long-term outlook for U.S. feed grain consumption over the next decade is the shift in the mix of the meat diet, away from red meat towards poultry. This shift will act to limit the growth in feed grain consumption. Currently, total per capita consumption of beef and veal in the United States is approximately 105 to 106 pounds per annum (carcass weight). This is the lowest level of per capita consumption (reflecting per capita supplies) in nearly twenty years. Despite the reduced level of beef and veal per capita supplies, producer prices and profits are quite low. This low price situation has been caused by (a) the current weakness in consumer income and (b) a shift in consumer tastes and preference for red meats.

The most effective type of long-run grain demand stimulation would come through strong growth in the economy at large. Policies which support continued growth in consumer income levels would stimulate meat consumption, livestock and poultry production, and thus grain demand.

In addition to policies that support sound economic growth, one type of policy proposal to be considered that would act to stimulate feed grain consumption, and at the same time reduce consumer food prices, would be an investment tax credit for livestock producers. By stimulating the production of beef, for example, through the tax laws (which may be relatively inexpensive) supplies to consumers would grow and as a result prices would be reduced. The economic response in the short term to the initiation of such credits would be to increase the incentives (profitability) to beef production. This increased attractiveness would stimulate supply, and in a purely competitive market such as cattle, the increase in supply would soon be translated into reduced prices to the consumer. Most, if not all, of the tax "subsidy" to production would thus be transmitted to benefit the consumer via lower meat prices. Thus, in the longer run, aggregate profitability in the cattle sector may be relatively uneffected. But the end result will be increased beef production, lower consumer beef prices, and higher consumption of U.S. feed grains.

This type of demand stimulation seems to make increasing sense when one considers the fact that it is currently the feed grain market which is suffering from the most severe surplus. Corn acreage is the most dramatically reduced acreage in the 1983 PIK program. Of the average annual disappearance of 217 million metric tons in the total feed grain market over the past three years (1980/81-1982/83) nearly 155 million metric tons, or 71%, was consumed within the United States.

A Soybean Program?

The above are but a few of the major considerations that seem particulary critical at this point in time. An additional consideration not addressed here has been the relative impact and equity of having government-established price floors, reserve programs, and more importantly production control programs implemented on literally all major U.S. crop commodities with the exception of one—soybeans. Soybean acreage competes directly with corn acreage, wheat acreage, and cotton acreage. All of these commodites have had direct supply control programs imposed in recent years. Through most of the 1970s, the soybean sector was on a rapidly expanding growth curve, which perhaps allowed this commodity sector to prosper in the absence of any major government support. However, it is generally agreed that the soybean sector has matured in recent years. Soybean acreage has oscillated between the 66 and 72 million acre range for the past four years. Thus, an additional important question in the agricultural policy issues of the 1980s will be whether the "glory-boy" crop of the 1970s can afford to be without major government involvement in the 1980s.

Summary

The many and varied objectives of agricultural policy can certainly be in conflict with each other, as was pointed out at the very beginning of this paper. The many considerations of food prices, farm income, policy costs and food supplies are not all completely consistent with each other. The exact mix of these objectives should determine the future direction of agricultural policies. However, this paper was set out to present the likely economic environment in which agricultural policy makers will find themselves making decisions during the 1980s. The agricultural sector will continue to be subject to the volatility of; the climate, the world economy, and of international political decisions. However, the 1980s will be unlike the period of the 1950s and 1960s, when chronic surpluses required supply control programs in an uninterrupted fashion. The 1980s will also be unlike the 1970s when U.S. agriculture could be cut loose to expand to its full potential. But rather the 1980s will be a decade in which government policy will be needed to stimulate a weak demand, while limiting the rate of expansion in U.S. agriculture capacity that was established during the explosive decade of the 1970s. A course of health growth in both the U.S. and world economies is likely the single most important long-run factor in solving the economic problems in the food and agriculture sector. While the economic environment over the next decade is likely to improve somewhat from the experience of 1980 to 1982, active food and agricultural policies will very likely be required. Establishing the mix of policy mechanisms which will keep the varied objectives of food and agricultural policy in balance is a task that will require the full energies of all of us.

Senator ABDNOR. Well, thank you, Mr. Steadman. Again, we're the ones who are most appreciative of your attendance, and that of the rest of the panel today, because this is the kind of statement that we appreciate having from knowledgeable people like you.

Our next witness is Mr. John Schnittker, president of the Schnittker Associates. And once again, welcome to the panel. We're grateful for your attendance.

STATEMENT OF JOHN A. SCHNITTKER, PRESIDENT, SCHNITTKER ASSOCIATES, WASHINGTON, D.C.

Mr. SCHNITTKER. Thank you, Mr. Chairman, and thank you for inviting me to testify in this important series of hearings. I will be brief and specific.

Agricultural policy has a long and rich history. But agriculture and policy are now in a deep and sustained crisis, at a crossroads, not approaching one.

To understand and deal with the main symptoms of this crisis of low farm income, high budget expenditures, and reduced exports, requires a brief look at the past. The present agricultural export situation is not caused principally by flaws in the law, although the chronic dairy product surplus arose largely because of the excessive statutory support levels, and the loan and target price levels for major field crops in the 1981 act can be faulted. The present situation was caused principally by record crops, by economic and political events external to agricultural policy, and by serious misjudgments in program administration.

A strong dollar, export restrictions applied by the Nixon, Ford, Carter, and Reagan administrations, world recession, and serious credit problems represent the principal external factors. Failure to determine and announce effective acreage reduction programs for 1982 and 1983 crops on a timely basis in the face of huge visible surpluses, and decisions in 1982 to admit unlimited quantities of grain into the reserve at premium prices must also bear a major share of criticism for the present situation. The increase in budget expenditures this fiscal year for agricultural price support and related programs from the January 1982 estimate of $1.8 billion to the present estimate of $21.8 billion is an indicator both of record harvests, the situation abroad, and a series of bad policy decisions.

Perhaps the greatest tribute one can pay to the flexibility of present agricultural law is that its scope was broad enough to serve as the basis for timely intervention to avoid or reduce farm surpluses—had that road been taken—and for the last-ditch paid diversion program, commonly called PIK, announced early this year when the administration finally responded to the economic and political signals it had missed during the previous year, and acted to head off further surplus accumulation.

I refer to these recent events reluctantly, but necessarily. U.S. agricultural policy will be conducted under existing law, or essentially existing law, for 2 more years—for the 1984 and the 1985 crops and for marketing seasons ending as late as September 30, 1986, for corn.

If the law is administered rigorously and programs are designed effectively, the unwanted legacy of stored surpluses, low prices, and declining exports can be put behind us by 1985 or 1986. New directions in farm programs and farm policy can then be established more surely. But if the 1984 and 1985 programs are not carefully designed and not strongly administered, the farm policy debate in 1985 may take place in a crisis atmosphere, like today.

Near-term policies. I have specific suggestions for rigorous and effective programs for 1984 and 1985 crops to lay a base for the 1985 farm policy debates.

One, we should announce the objective of reducing carryover stocks of wheat, corn, other feedgrains, cotton and rice to needed levels in two more seasons; establish 1984 programs and the intention to operate similar 1985 programs to carry out that objective; and end the illusion that is currently being sustained by the administration that the 1983 programs or a second year of PIK will put us on the road to agricultural prosperity.

Second, shift to set-aside authority in the law instead of continuing with acreage reduction authority and invoke cross-compliance, especially for grains, for greater effectiveness—a marginal difference between the two, but a constructive difference.

Three, review and reduce base acreages on farms for better results and large cost savings. The national wheat base acreage is inflated by 3 to 4 million acres, for example, and the cost of programs is inflated by something like $250 million per year as a result.

Four, reduce the loan rate for 1984 crops of grain by 10 percent if average farm prices in the first 5 months of the 1983–84 season are not at least 5 percent above loan levels. This very useful feature of present law should have been applied to 1983 crops. No single action would have, or would have had in the past, a more favorable and general effect in slowing down the expansion of acreage abroad, discouraging new and expanded acreage at home, and making the United States more competitive in world markets.

Five, limit the use of payment-in-kind in the 1984 and 1985 programs to roughly the anticipated level of net surplus reduction. It is wasteful in the case of 1983 crop wheat, for example, to push close to 500 million bushels of surplus wheat into a market already filled with the 1983 harvest, equal to demand, only to have farmers subsequently put huge quantities of wheat back under price support requiring large new budget expenditures. The same situation will probably be true for corn, sorghum grain, and cotton in 1983. Excessive use of PIK is very costly.

Six, limit the grain reserve to 700 million bushels of wheat and 100 million or 1 billion bushels of feedgrains. Do it now. To allow unlimited entry of 1983, 1984, or 1985 crop grain into the reserve is to compound the costly errors of the past couple of years.

Seven, Congress should adopt the dairy compromise, at least the dairy compromise under discussion, including progressive reductions in price-support levels in the future if surpluses persist; and partial self-financing of dairy product surpluses. Those kinds of programs would delay a basis for a discussion of new directions for the long term until the debate in 1985.

The climate for consideration of the future—I repeat—is going to be influenced by decisions in the next few months. If the climate is right, U.S. agricultural policy could be changed materially in 1985 to adapt it to the agricultural economy, the U.S. economy we now have and the world we now trade in, instead of some vision of the past. This requires careful analysis and candid discussion of the disappointing and expensive experience under recent and current acreage control programs, of the extreme concentration of farm production and program benefits on a few farms of the increasing importance to some farmers of off-farm income sources, and of the ability and willingness of today's larger farmers to finance a portion of their own price stabilization programs. Specific longer term program changes could include:

One, gradually terminate the open-ended or entitlement character of farm price supports and farm program spending and make them more subject to the budgetary and appropriations process. Transition measures over a period of time would be of critical importance.

Two, provide greater administrative flexibility in setting farm price and income supports for the transition years in order to limit expenditures and remain competitive in world markets; establish objective criteria that provide the flexibility required when necessary to limit surpluses and increase exports. The soybean price-support formula may represent a small starting point.

Three, for the long term, continue the experiment with farmer financing of the price stabilization programs that benefit them, following the lead of tobacco and the dairy assessment program; and recognizing the experimental and controversial nature of each of those programs. The study of income insurance plans now underway, mandated by Congress in 1981, may have a role to play in this partial farmer financing of future programs.

Four, adopt new measures to provide special income assistance when necessary to small farmers especially those farmers in the $40,000 to $100,000 gross income per year class, representing 16 percent of all farmers today and many young, aspiring, and full-time farmers.

Five, revise the grain reserve to serve legitimate long-term objectives, amending the provisions adopted by Congress in recent years that made it a catchall for the impact of the 1980 embargo and preventing its use by the USDA as a sanctuary for unwanted surpluses.

Sixth, we should adopt for the long-term expanded and comprehensive, understandable and believable export credit programs to buttress our ample supplies of commodities, our competitive prices, a properly valued dollar, and good quality products. We should resolve to be a reliable supplier of agricultural products, forswearing hasty export embargoes, and unproductive economic sanctions. We should increase our efforts while lowering our voices in the struggle against unfair trade practices. We should adapt our trading methods and our trade agreement policy to the real world.

There's no point in trying to renegotiate an LA with the Soviet Union or China, while saying that really isn't our policy for other countries.

Seven, we should carefully examine the opportunity to link eligibility for farm program benefits, whatever they are, to soil and water conservation practices on the farm, while renewing the national commitment to conservation and making water pollution by soil and attendant chemical erosion unprofitable.

Finally for the longer term, we should review and increase the Federal commitment to agricultural, food and nutrition research, where we have lagged for several decades.

These ideas and many more related farm and food issues require intensive study and discussion in the next 2 years if we are to move successfully into the next generation of farm policies and programs. I congratulate the subcommittee for providing a forum for these discussions. Thank you.

[The prepared statement of Mr. Schnittker follows:]

Prepared Statement of John A. Schnittker

Thank you for inviting me to testify in this important series of hearings. I will discuss "Future Directions in Farm Policy" and each of the specific subjects suggested in your letter. Agricultural policy has a long and rich history. It has been marked by considerable continuity, by only occasional new directions, and by some serious lapses during which surpluses accumulated and farm prices and incomes fell. The late 1950's and the early 1980's for major field crops, and the past several years for dairy supports represent the best examples of serious policy lapses.

U.S. agriculture and agricultural policy are in a deep and sustained crisis -- at a crossroads, not approaching one. To understand and deal with the main components or symptoms of this crisis (low farm income, high budget expenditures, reduced exports) requires a brief but careful look at the past.

The present agricultural and export situation is not caused principally by flaws in the law, although the chronic dairy product surplus arose largely because of excessive statutory support levels, and the loan and target price levels for major field crops in the 1981 Act can be faulted. The present situation was caused principally by record crops, by economic and political events external to agricultural policy, and by misjudgments in program administration. The strong dollar, export restrictions applied by the Nixon, Ford, Carter and Reagan Administrations, a world recession, and serious credit problems represent the principal external factors. Failure to determine and announce effective acreage reduction programs for 1982 and 1983 crops on a timely basis in the face of large and visible surpluses, and decisions in 1982 to admit unlimited amounts of grain into the reserve at premium prices must also bear a major share of criticism for the present situation. The increase in budget expenditures this fiscal year for agricultural price support and related programs from the January 1982 estimate of $1.8 billion to the present estimate of $21.8 billion is an indicator both of record harvests and of bad policy decisions.

Perhaps the greatest tribute one can pay to present agricultural law is that its scope was broad enough to serve as the basis for timely intervention to reduce surpluses (had that road been taken), and for the last-ditch paid diversion program commonly called PIK announced early this year when the Administration finally responded to the economic and political signals it had missed during the previous year and acted to head off further surplus accumulation.

I refer to these recent events reluctantly but necessarily. U.S. agricultural policy will be conducted under existing law for two more years -- for the 1984 and 1985 crops, and for marketing seasons ending as late as September 30, 1986 (for 1985-crop corn). If the law is administered rigorously and programs are designed effectively, the unwanted legacy of stored surpluses, low prices, and declining exports can be put behind us by 1985 or 1986. New directions in farm policy can then be established more surely. If the 1984 and 1985 programs are not carefully designed and strongly administered, the 1985 debate may be dominated by a crisis atmosphere.

Near-Term Policies

I have specific suggestions for rigorous and effective programs for 1984 and 1985 crops as follows:

1. Announce the objective of reducing carryover stocks for wheat, corn, other feedgrains, cotton, and rice to needed levels in two more seasons; establish 1984 programs and the intention to operate similar 1985 programs to carry out that objective; end the illusion that the 1983 programs or a second year of PIK will put us on the road to agricultural prosperity.

2. Shift to "set-aside" authority, instead of continuing with "acreage reduction" authority, and invoke cross compliance (especially for grains) for greater effectiveness.

3. Review and reduce base acreages on farms for better results and large cost savings. The national wheat base is inflated by 3-4 million acres, for example.

4. Reduce the loan rate for 1984 crops of grain by 10 percent if average farm prices in the first five months of the 1983-84 seasons are not at least five percent above loan levels. This very useful feature of the law should have been applied to 1983 crops. No single action would have (had) a more favorable and general effect in slowing down the expansion of acreage abroad, discouraging new or expanded acreage at home, and making the U.S. more competitive in world markets.

5. Limit use of payment-in-kind in the 1984 and 1985 programs to the anticipated level of surplus reduction. It is wasteful in the case of 1983-crop wheat, for example, to push close to 500 million bushels of surplus wheat into a market already filled with a 1983 harvest equal to demand, only to have farmers put huge quantities of wheat back under price support. The same will probably be true for corn and cotton in 1983.

6. Limit the grain reserve to 700 million bushels of wheat and 1,000 million bushels of feed grains. To allow unlimited entry of 1983, 1984, or 1985 crop grain into the reserve is to compound the costly errors of past years.

7. Congress should adopt at least the "dairy compromise" now under discussion, including progressive reductions in price support levels if surpluses persist and partial self-financing of dairy product surpluses.

New Directions for the Long-Term

The climate for consideration of constructive changes in agricultural and trade policy in 1985 will, I repeat, be greatly influenced by farm program operations during the next two years. If the climate is right, U.S. agricultural policy could be changed materially in 1985, to adapt it to the agricultural economy we now have and the world we trade in instead of to some past farm economy. This requires careful analysis and candid discussion of the disappointing and expensive experience under recent and current acreage control programs, of the extreme concentration of farm production and program benefits, of the increasing importance to some farmers of off-farm income sources, and of the ability and willingness of today's larger farmers to finance a portion of their own stabilization programs. Specific program changes could include:

1. Gradually terminate the open-ended or <u>entitlement</u> character of farm price supports and farm program spending and make them more subject to the budgetary and appropriations process. Transition measures would be of critical importance.

2. Provide greater administrative flexibility in setting farm price and income supports in order to limit expenditures and remain competitive in world markets. Establish objective criteria that provide the flexibility required, when necessary, to limit surpluses and to increase exports. The soybean price support formula may represent a starting point.

3. Continue the experiment in farmer-financing of the price stabilization programs that benefit them, following the lead of tobacco and the dairy assessment program (and recognizing the experimental and controversial nature of each). The study of income insurance plans mandated by Congress in 1981 may have a role here.

4. Adopt new measures to provide special income assistance to small farmers, especially those farmers in the \$40,000 - \$99,999 gross income class, representing 16 percent of all farmers and many young, aspiring, and full-time farmers.

5. Revise the grain reserve to serve legitimate long-term objectives, amending provisions adopted by Congress in recent years that made it a catch-all for the impact of the 1980 embargo, and preventing its use by the USDA as a sanctuary for unwanted surpluses.

6. Adopt expanded and comprehensive export credit programs to buttress our ample supplies and competitive prices, a properly valued dollar, and good quality products. Resolve to be a reliable supplier of agricultural products, forswearing hasty export embargoes and unproductive economic sanctions. Increase our efforts while lowering our voices in the struggle against unfair trade practices. Adapt our trading methods and our trade agreement policy to the real world.

7. Carefully examine the opportunity to link eligibility for farm program benefits to soil and water conservation practices on the farm, while renewing the national commitment to conservation and making water pollution by soil and attendant chemical erosion unprofitable.

8. Review and increase the federal commitment to agricultural, food, and nutrition research, where we have lagged for several decades.

These ideas and many more related farm and food issues require intensive study and discussion in the next two years if we are to move into the next generation of farm policies and programs. I congratulate the Committee for providing a forum for such discussions.

Mr. TOSTERUD [presiding]. Thank you very much, Mr. Schnittker. A word of explanation is obviously required. I am Bob Tosterud, for the record, staff economist for the Joint Economic Committee. Chairman Abdnor has left the room to attend an appropriations hearing and he's got a great deal of interest in several bills there.

So we'll proceed with Mr. Schuh.

STATEMENT OF G. EDWARD SCHUH, PROFESSOR AND HEAD, DEPARTMENT OF AGRICULTURAL AND APPLIED ECONOMICS, UNIVERSITY OF MINNESOTA, ST. PAUL, MINN.

Mr. SCHUH. Thank you, Mr. Tosterud. I, too, would like to thank you for the opportunity to appear at these hearings. I would also like to compliment the subcommittee for addressing the problems of agriculture.

It's clear, in my judgment, that the problems of agriculture can no longer be reached or dealt with purely with sectoral policies, as we have been trying to do in the past. The points that I try to make in my prepared statement are as follows—and incidentally, the title is, "U.S. Agricultural Policy in an Open World Economy."

The points I try to make are as follows: First, the U.S. economy and how it relates to the rest of the world has changed very significantly over the last 20 to 25 years. Second, our economic policy does not yet sufficiently recognize these changes. In particular, our agricultural commodity programs do not have sufficient flexibility to keep these programs from being counterproductive to the best interests of both U.S. farmers and the Nation as a whole. That is particularly the case when we have the kind of changes that we have been having in recent years.

Third, under present circumstances, these programs are giving strong stimulus to both foreign and domestic producers to produce more at the very time that they should be giving contrary signals. Moreover, the programs are providing an umbrella for producers in other countries which enables them to undersell us and take way our market share.

The fourth point I try to make in my prepared statement is that in the new international economy, of which we are a part, monetary policy, fiscal policy, exchange rate policy, and trade policy, are more important to the welfare of agriculture than are our conventional commodity programs.

The fifth point I make is that, and this is the final point, given the present structure of our economy, conventional programs can stabilize farm prices and farm income only at the expense of very large Treasury cost. Solutions to the problems of agriculture must be sought, in large part, in changes in our own monetary and fiscal policies and in reform of our international economic institutions, such as the GATT. These international institutions and our monetary and fiscal policy are the source of many of our problems today and, in my judgment, we should seek the cure to the problems at their source.

Rather than go into the detail of my prepared statement, let me do two things. First, I want to discuss some of the changes in our economy that are of special significance to commodity markets. And second, I'd like to review briefly the elements of a program that would assist agriculture.

Consider changes in our economy. There are four things that I would like to discuss. The first is our increased dependence on trade. I have some data in my prepared statement in which I show that from the beginning of the 1970's to the beginning of the 1980's, our dependence on trade approximately doubled. We seem to have a perception that increased dependence on trade is characteristic only of agriculture when, in fact, it's really characteristic of our total economy. Over that same period of time, our dependence on trade just about doubled for the total economy as well.

It's also interesting that there is a general recognition that our exports have grown and that we are more dependent on trade. However, there is much less recognition that when our economy becomes more open in that way, some of the old rules and some of the old parameters of the economy become very different.

The second change in our economy is the emergence of a well integrated international capital market. This is an aspect of our economy that we have become very sensitive to over this past year, particularly as Mexico experienced difficulties with its debt problem, later followed by Brazil. We suddenly became sensitive to the fact that what happened in other countries could have very important implications for our own credit and banking system. But we still don't recognize that the emergence of that international capital market is as important a link of our economy to the rest of the world's economy as is trade, nor that it connects our economic policies with the economic policies of other countries in very important ways, or that it provides an additional linkage in the domestic economy between what happens in financial markets and what happens in commodity markets.

I want to come back to this point later.

The third very significant change in our economy was the shift in 1973 from a system of fixed exchange rates to a system of flexible exchange rates. We had come through the whole post-World War II period with a system of fixed exchange rates. We changed that policy practically overnight, and when I look back at it, what surprises me is how little political debate there was at the time about that very important policy decision.

A point I try to make in my prepared statement is that the combination of the emergence of this international capital market and the shift from a system of fixed exchange rates to a system of flexible exchange rates really changed in a very significant way how economic policy affects not only agriculture, but the rest of the economy as well. To gain historical perspective, if one goes back to the 1950's and the 1960's, what one finds is that our monetary and fiscal policy really had very little impact on the agricultural sector. As I put it in my statement, monetary policy could be whatever it wanted to be at that time and it didn't make much difference to agriculture.

The burden of adjustment to changes in monetary policy were spread rather generally in the economy, with the construction industry being one sector that probably bore a bit more of the adjustment than did other sectors. When we consider the situation we now have, in which we are more dependent upon trade, in which we have an international capital market that links our economies together, and in which we have a system of flexible exchange rates, it turns out that the impact of changes in monetary policy is transmitted to the economy through changes in the capital flow in and out of the country, and through changes in the value of the dollar. Therefore, the sectors that have to bear the adjustment now are export sectors like agriculture and import-competing sectors like the automobile industry and the steel industry. And it is a footnote to my prepared statement to note that the problems of the automobile and steel industry are really cut from the same fabric as the problems of the agricultural sector.

The main point I want to make, however, is that we have shifted from an economic structure in which U.S. agriculture was almost completely isolated from the effect of changes in monetary and fiscal policy to a situation in which it is one of the sectors that has to bear the burden of adjustment to the changes in those policies.

The final change in our economy that is very significant, in my judgment, relates to these previous two changes. That is the very great increase in instability of monetary policy during the 1970's. This actually started in about 1968. But one can only characterize monetary policy during the 1970's and into the early 1980's as one of stop and go, zigzag, shifting from extreme monetary ease to extreme monetary tightness.

In light of the previous changes I have talked about, the changes that cause this monetary policy to impact primarily on trade sectors such as agriculture, what we have is that this very unstable monetary policy has been imposing very large monetary shocks on the agricultural sector.

I'm struck by the extent to which agricultural economists like to talk about the weather and what it's been doing to agriculture. In fact, I have often referred to the weather as an ignorance variable. It turns out that economists discover the weather only when they can't explain what the heck is going on in the economy. [Laughter.]

Now, let me turn to what I believe are the main elements of a new policy perspective that we should develop for agriculture. In my judgment, this is not a question or an issue of having more of the same of our old commodity programs, or of fine-tuning our old commodity programs to make them do a little bit better. In my judgment, the structure of our economy has changed so significantly that we really have to take a completely new view to what we do about agriculture. So let me talk briefly about five elements of a new perspective.

The first element is that we should phase out our present commodity programs. We should phase them out in part because they simply cannot be managed under our present international arrangements so as to keep them from being counterproductive.

If we do not do that, if we do not phase them out, we need at least to build a great deal more flexibility into the programs so they are not counterproductive, as they have been in the past.

I want to emphasize that, in my view, these programs are simply not compatible with the changes in our economy that have occurred over the last 10 to 20 years. They end up making farmers worse off rather than to help them. And they do that in part because they continue to send the wrong signals.

One only has to look at the last 2 years of our experience to see how these programs have been counterproductive. There's a very interesting paper that's been done by the Economic Research Service that examines what has been the impact of the rise in the value of the dollar over the past 2 years. It turns out that if you look at the loan levels of corn, wheat, and soybeans and correct them for inflation, those loan levels have been virtually stable over the last 2 years, 1981, 1982. During that period, however, the value of the dollar has risen something like 25 to 28 percent, depending upon what base period you take and precisely how you measure the change. What that means is that although the loan levels have been constant in terms of our domestic currency, our domestic economy, those prices have been reflected abroad at something like a 25-percent to 28-percent higher level.

We are now beginning to recognize that those higher prices choke off our exports. There still seems to be insufficient recognition, however, that those higher prices also give very strong incentives for producers in other countries to produce more.

So we're not only choking off our own exports; we are also providing very strong incentives for producers in other countries to produce more. And then we also have a farmer-owned grain reserve system that is there to pick up, to sop up the surpluses as our exports dwindle off.

The analysis in the ERS paper suggested that just the rise in the value of the dollar choked off about $3 billion of exports in 1981 and 1982. That amounted to about 16 million tons of grain, 10 million tons of which were corn. So one can see that what we're talking about are really very significant things.

This is all complicated by the fact that our domestic policies have continued to give very strong incentives for domestic producers to continue to produce, even though our foreign markets are declining. So, we end up with a commodity program that is really giving very contrary signals to producers, both here and abroad, at the very time that we badly needed to be getting some adjustment.

The second element of the program is a better mix of monetary and fiscal policy and with that, a more stable monetary policy. I emphasize this issue of a better mix between monetary and fiscal policy simply because what we have been doing is to force the Federal Reserve to bear the burden of doing something about inflation. At the same time, we run a very large Federal deficit.

The only way that deficit can be financed if we are not willing to have the Federal Reserve monetize the debt is to have very high interest rates. Those high interest rates, of course, attract foreign capital. And that's what we need to do if we're going to finance the deficit out of savings both here and abroad. But it's that capital in-flow that gives us the very strong dollar and that, in turn, chokes off our export markets and provides those strong signals for other producers.

One can argue that we are not likely to change our fiscal policy just for the benefit of agriculture. And that may be the case. But I'd like to emphasize the consequences that these large budget deficits are having on our agricultural sector and on other sectors of our economy like the import-competing automobile and steel industries.

We can deal with those problems with other measures, as we now try to do in the case of agriculture. But we can do it only at very large budget cost.

The third element of a program is to reexamine our science and technology policy vis-a-vis agriculture. Under the changed conditions of demand that we have for U.S. agricultural output, where the total demand is now much more elastic than it was in the past. Farmers are likely to receive a larger share of the benefits of technical change. Therefore, if one is interested in providing some means of income support for agriculture, investments in science and technology are one means of doing it. Those kinds of investments also become a very important aspect of our remaining competition in international markets, particularly if we continue with a very strong dollar.

We should also note the importance of expanded trade to our balance of payments overall. Consequently, there is a national interest in having a strong, productive, competitive agriculture.

Let me turn to the fourth element of the program, and that is the need to give a great deal more attention to reforming our international institutions. There are a lot of things that I could talk about here. I'm going to put emphasis on two elements of that international system, one of which we do not have at the present time and one of which we have, but which is no longer serving us well.

The one that we don't have and which, in my judgment, we badly need, is an international central bank. I emphasize the need for an international central bank because part of the problem that U.S. agriculture faces today is due to the fact that the dollar is overvalued.

I'm not talking about the fact that the dollar is high, that it is strong in international markets. A large part of that is due to our fiscal policies and our monetary policies. But even leaving that aside, our dollar is even stronger than it would ordinarily be simply because the United States acts as the central banker for the world. We've been doing that throughout the post-World War II period. We taxed agriculture and our other export sectors rather severely during the 1950's and the 1960's with that policy, and now we are at the same game again.

We are central banker for the world in large part because the world is on a dollar standard. Therefore, when we try to squeeze inflation out of our economy, we end out having to squeeze it out of the rest of the world economy as well. To put it succinctly, the only way that one can be the central banker for the world is to keep your currency overvalued. That's the only way that you can keep the flow of money in the system and keeping it growing.

There are benefits in being central banker to the world, but there are also costs. And it turns out that agriculture is one of the sectors that bears an important share of those costs.

I believe we can move toward the main elements of an international central bank by replacing international dollar reserves with Special Drawing Rights—SDR's—an element that we already have, and then giving the International Monetary Fund a mandate to keep the stock of those Special Drawing Rights growing at a constant rate. If we were to do that, we would remove the onus from the Federal Reserve of being the central banker to the world and stop punishing

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our agriculture, and stop punishing our import competing sectors, such as the automobile and the steel industries.

The other change that we need in our international institutions is to reform the GATT. The GATT is a set of international institutions that at one time served us reasonably well. I believe it is still a useful mechanism. But we are in a situation in which at least our agricultural trade goes to those countries that are not signatory to the GATT, so all those very carefully negotiated codes and trade rules we have developed simply do not apply to agriculture.

It is fair to note that most of agriculture was exempted from provisions of the GATT in the very beginning. I believe we need something like the GATT on the international scene, but we need to redesign it to more closely reflect the realities of the world we now have.

The final component of my program would be to develop a set of adjustment policies that would help us adjust our resources when we have these large shocks that come from the external economy. I emphasize the need for such policies because I certainly don't think we're going to stabilize the international economy overnight. In the absence of that, we might well develop a more effective adjustment policy so that we can help the resources adjust rather than to build up these very costly stocks and then have to force adjustment in an emergency as we've had to do this year.

I would like to make just one concluding comment. That is that what I have talked about is obviously a very different policy agenda for agriculture than we are generally familiar with. However, that new agenda recognizes the changes in our economy and provides a means of doing something about the agricultural sector compatible with those changes in our economy.

Senator, I want to thank you again for the opportunity to appear here today.

[The prepared statement of Mr. Schuh follows:]

Prepared Statement of G. Edward Schuh

U.S. AGRICULTURAL POLICY IN AN OPEN WORLD ECONOMY

Approximately one year ago I testified before this Committee with a paper titled "Agriculture in Transition". An important theme of that paper was that U.S. agriculture faced a severe adjustment problem and that the welfare of farmers would not improve until that adjustment problem was resolved. The need for adjustment came about because a U.S. dollar that was quite weak in foreign exchange markets during the latter half of the 1970's had induced additional resources into agriculture, while a strong dollar in the early part of the 1980's required that resources be shifted out of agriculture.

Little has been done over this past year to address that adjustment problem, with the result that the welfare of farmers is only a little better than it was a year ago. In fact, over this past year agricultural commodity programs became a serious impediment to agricultural adjustment, with the result that commodity stocks burgeoned further above their year-ago levels. This has led to the PIK program, a costly return to a bygone era that promises to give farmers some short-term gain in exchange for the potential of considerable longer-term pain.1/ Moreover, it does this without in any way addressing the resource adjustment problem which agriculture faces.

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1/See Schuh, G. Edward, "The Costs of PIK", Department of Agricultural and Applied Economics, University of Minnesota, St. Paul, May, 1983.

The major problem U.S. agriculture faces today is that our commodity programs operate counter to the best interests of both agriculture and of the nation as a whole. The reason these programs are counter-productive is that they do not take account of the significant changes in the U.S. economy, in the international economy, nor in the way the U.S. economy relates to the rest of the world. These programs were designed for an earlier day and an economic system that was significantly different than the one we have today. If we continue with these programs as they are now conceived, we can expect to see excess resources committed to agriculture, program costs that continue at very high levels, and an agriculture that is subject to political decision-making rather than market opportunities.

I would like to divide my comments into three parts: (1) a discussion of the changes in our economy that are of particular significance to agriculture, (2) a discussion of the implications of these changes for agriculture, and (3) an outline of the main elements of a policy perspective for U.S. agriculture that is consistent with the changed economic conditions it faces. At the end I will have some concluding comments.

Changes In Our Economy

The U.S. economy, and the international context in which it operates, have undergone dramatic changes in the last twenty to twenty-five years. Some of these changes are of very great significance for U.S. agriculture and agricultural commodity policies. It is those changes that I would like to discuss in this section.

Increased Dependence on Trade

The growth in agricultural trade over the decade of the 1970's is well recognized. There are a number of ways this increased dependence on trade can be measured, but my colleague Luther Tweeten recently chose to measure it by estimating the share of total demand for agricultural products that is attributed to exports.1/ The estimates he developed are as follows:

1971/72	13.2	1977/78	23.1
1972/73	17.9	1978/79	22.9
1973/74	22.3	1979/80	27.4
1974/75	21.7	1980/81	26.0
1975/76	22.6	1981/82	22.5
1976/77	21.7		

What one observes is more than a doubling in the dependence on foreign trade as a source of markets for U.S. agriculture over the decade of the 1970's. It is important in understanding this increased dependence on trade to note that this change was not unique to agriculture. The economy as a whole became increasingly dependent on trade, and by about the same margin. Hence, the economic forces affecting agriculture were also affecting the rest of the economy. That means that in understanding this growth in agricultural trade, we should leave aside episodic events such as the difficulties of the Peruvian fish industry and the change in Soviet policy, and search for more basic, underlying changes in economic conditions.

1/Tweeten, Luther, "Excess Farm supply: Permanent or Transitory?", paper presented at National Agricultural Policy Symposium, March 28, 1983, Kansas City, Missouri.

We also need to recognize that this increased openness of the U.S. economy, or increased dependence on trade, makes it more difficult to influence the economy with strictly domestic policies. Unless these policies are designed so as to take account of changes in the international economy, they can well be counterproductive. Unfortunately, we don't seem to have learned this lesson.

Emergence of a Well-Integrated International Capital Market

The emergence of a well-integrated international capital market may be one of the most significant developments of these past 20 years. This capital market now links the national economies of the world together in ways and to an extent that are every bit as important as their linkage through international trade. Moreover, it links the economic policies of individual countries together in ways that are equally as important.

It is worth recalling that at the end of World War II there virtually was no such thing as an international capital market. Such transfers of capital among countries as there were took place on a government-to-government basis and we called it foreign aid. During the 1960's, however, there emerged a Eurodollar market. This market expanded into a Eurocurrency market, and eventually expanded so as to effectively link most of the countries of the world. The value of loans extended in this market is now huge, and centrally-planned as well as less-developed market economies use it. At the same time, transfers of capital on a government-to-government basis, or foreign aid, have paled into relative insignificance as a share of the total transfers of capital among countries.

The inability of Poland, Mexico, and Brazil to meet their international debt obligations this past year has made us suddenly aware of the presence of this capital market. It has also made us aware that this market may pose some very real threats to our own capital markets and credit institutions. Less seldom, however, do we recognize the extent to which a link between commodity markets and capital markets has emerged, or the extent to which this capital market provides an important link between monetary policy and commodity markets. I will address these additional linkages below.

The Shift to Floating Exchange Rates

At a meeting of international monetary authorities in Bretton Woods in 1944, participating countries agreed to establish a system of fixed currency exchange rates at the end of World War II. The motivation for establishing such a system was a general belief that beggar-thy-neighbor competitive devaluations during the 1930's had greatly exacerbated the Great Depression of that decade and spread it on an international scale. It was believed that adherence to a system of fixed exchange rates would keep individual countries from attempting to dump their unemployment problems abroad by devaluations of their currencies and force them to make changes in their domestic policies instead.

This fixed exchange rate system served both the U.S. and the rest of the world reasonably well for almost 30 years. However, President Nixon devalued the U.S. dollar in 1971, and when that didn't seem to solve our chronic balance of payments problem, he devalued again in 1973, closed the gold window, and forced the world to a system of floating exchange rates.

This shift in exchange rate regimes was almost as significant, or possibly as significant, as the emergence of the international capital markets. Looking back to that period, it is amazing how little political debate took place as to whether or not we should change the system. Similarly, it is amazing how little recognition there is of the significance of that change in the economic system, or of its significance to agriculture and agricultural commodity programs. The change to a system of flexible exchange rates had very important implications for domestic commodity programs. We have not yet fully appreciated the significance of this development for agriculture.

The Shift to Highly Unstable Monetary Policy

During the 1950's and the 1960's the United States benfitted from relatively stable monetary policies. Inflation was relatively low, and there were not many major shifts in monetary policy.

Starting in about 1968, this felicitous circumstance changed. U.S. monetary authorities embarked on zig-zag, stop-and-go monetary policies that appear to be still with us taday. We alternately go from periods of extreme monetary ease to periods of extreme monetary tightness. This has imposed enormous monetary disturbances on the economy. These disturbances or shocks have imposed important shocks on the agricultural sector, and as I will argue below, have been the source of an important share of the instability agriculture has experienced over the intervening period.

Implications of the Changes in the Economy For Agriculture

The changes in the economy discussed in the previous section have very important implications for agriculture and for agricultural policy. It is these implications that I will discuss in this section.

Increased Elasticity of Demand

An important part of the intellectual baggage most analysts carry around with them regarding U.S. agriculture is that the elasticity of demand for the output of this sector is low. This is assumed to be true both for changes in price of the product and for changes in per capita income. In other words, it is generally believed that changing the price of an agricultural product will have very little effect on the quantity demanded, nor will changes in per capita income.

When exports of U.S. agricultural products were relatively small, these assumptions of low responsiveness of demand to changes in price and income were correct and valid. All the evidence we have is that the price and income elasticity of demand for most agricultural products is quite low, on the order of .1 or .2 in absolute terms. This is because in the absence of trade there are few close substitutes for agricultural products. Moreover, with per capita income levels as high as they are in the U.S., there is very little response to changes in income.

However, the increased dependency of U.S. agriculture on international trade has significantly changed these conditions of demand. This change in the conditions of demand is of very great significance for U.S. commodity policy. Unfortunately, the significance of these changed conditions of demand is not generally recognized.

With increased dependence on trade, the total demand for U.S. agriculture is a combination of the domestic demand and the foreign demand. The presumption is that the foreign demand is relatively prices and income elastic. If trade becomes important, then it is likely that the average elasticity will be greater than it is under the conditions of a closed economy.

Why is there a presumption that the elasticity of foreign import demand will be relatively high? In part it is because most importers of agricultural products are only marginal importers. Japan is an important exception. However, most countries import only a small proportion of their total food consumption. That means that these countries have a close substitute for imports readily avialable. Hence, when relative prices change, these countries can easily substitute domestic production for imports.

Similarly, individual countries can obtain their import supplies from alternative sources, as the Soviets have amply demonstrated. Again, this availability of alternative supplies causes the price responsiveness or elasticity of demand for the exports of a particular country to be relatively high.

Given the growth in dependence on trade, the price elasticity of foreign import demand for U.S. agricultural output has to be only slightly greater than -3.0 for the total demand for U.S. output to be treater than -1.0. If we export as much as half of our total production, as we typically do in the case of soybeans and wheat, for example, then the foreign elasticity of import demand for our output only has to be slightly greater than -2.0 for the elasticity of total demand for our output to be greater than -1.0.

The important point about this issue is that if the price elasticity of demand for the total output of our product is greater than -1.0, the basis of our price policy significantly changes. Under these circumstances, a decline in our price will actually increase the total revenue to our producers, not decrease it, as is conventionally believed. The point is that a one percent decline in the price of our product will increase the quantity sold by more than one percent. Hence, total income will increase.

This important aspect of our becoming more dependent on trade has been largely ignored by both policy-makers and farm groups. It changes significantly the basis for price policy. Whereas in the past, an increase in price actually increased total farm income, since there was a less than proportional decline in sales, today the reverse is true. Hence, for most of our commodities that are exported, an increase in price actually leads to a reduction in total income to agriculture rather than an increase. Unless the government stands ready to acquire the supplies that are not sold when prices rise, farmers actually lose income in the aggregate.

Similar arguments apply with respect to the income elasticity of demand. A larger and larger share of our foreign demand comes from the less-developed countries. For these countries, the income elasticity of demand for agricultural output is relatively high. When this is combined with the domestic component of demand, the average income elasticity of demand becomes significantly higher.

Unfortunately, there is little recognition of how our increased dependence on trade has increased the price and income responsiveness of demand for our agricultural output. Instead, we still tend to think of this price responsiveness as being quite low. This causes us to press for higher prices, when in fact we should be pressing for lower prices if we want to increase total income.

Adjustment in the International Economy

Changes in the value of the U.S. dollar in foreign exchange markets bring about important adjustments in the international economy. Failure to recognize these adjustments has caused our domestic commodity programs to be contrary to the best interests of our farmers and the nation as a whole in an additional way to that noted above. I can best illustrate that by referring to the experience of the past two years.

Over that period, the value of the U.S. dollar rose something on the order of 25 percent, depending on how the increase is measured and the exact period chosen as a basis. During that same period, the real value of the loan rate for three of our principal exports - corn, wheat, and soybeans - remained approximately constant in terms of our domestic currency. However, in terms of the currencies of countries that import from us, the value of those loan rates increased by approximately the 25 percent that the value of the dollar rose on a trade-weighted basis. Hence, even though there was virtually no change in that domestic price as determined by our domestic commodity programs, there was a significant increase in these prices as perceived by the importing countries and other exporting countries.

There are two important consequences of this rise in price. First, it choked off the quantity demanded of our exports. This is an important reason why the exports of our agricultural products have declined so significantly over the last three years - from $43 billion in 1980 to a projected $35 billion in the current marketing year. Longmire and Morey1/ of the USDA's Economic Research Service estimate that the rise in the value of the dollar alone in 1981 and 1982 reduced the value of our agricultural exports by $3 billion dollars and 16 million tons, 10 million of which was corn. These numbers indicate the extent to which the foreign demand for our agricultural output is responsive to price. It also indicates the relative role of changes in the value of the dollar in explaining the slump in our exports and the decline in U.S. farm income.

The important point is that the story does not stop there. The rise in prices of these commodities in terms of the currencies of other countries is a strong stimulus to increased output in other countries. This increase in supplies in other parts of the world at the same time that the quantity demanded of our exports has declined has been a significant cause of our decline in market share. It is in addition to the effects of the European Community's use of export subsidies and the lingering effects of the embargo on sales to the Soviet Union. In fact, it may be the most important effect of the three.

The important thing to recognize is that this kind of an adjustment is precisely what <u>should</u> happen with a system of floating exchange rates.

1/Longmire, Jim, and Art Morey, "Exchange Rates, U.S. Agricultural Exports Prices and U.S. Farm Program Stocks", Economic Research Services, U.S. Department of Agriculture, Washington, D.C., November, 1982.

When the value of the dollar rises in foreign exchange markets, our share of total trade should decline, other things being equal, and the share of other traders should rise. Similarly, our exports should decline, other things being equal, and the exports of other countries should increase.

It is for this reason that it is so counter-productive for us to berate the Canadians and Australians and other exporters because they don't reduce their agricultural output at the same time we do. In fact, we must appear rather foolish to them, for the very price signals we are sending to the international economy are strong incentive for them to increase the output of their export commodities. At the same time, if it were not for our commodity programs, we would be giving even stronger signals to our own producers to reduce their output. That is precisely the way international adjustment should take place.

Current Commodity Programs are Counterproductive

Our domestic commodity programs were designed for the most part back in the 1930's when trade was relatively unimportant to U.S. agriculture. They were refined in the immediate post-World War II period and essentially adapted for conditions in which trade was still relatively unimportant and in which the international economy operated with a system of fixed exchange rates.1/

As trade became important in the 1970's, the programs underwent significant change with both the 1973 and 1977 legislation to make them more

1/Even in that earlier period our commodity programs had pernicious effects for agriculture.

suitable to an open, trading economy. More flexibility in prices was established to enable us to remain competitive over a wider range of conditions, and a reserve program was established, together with a system of deficiency payments, to even out fluctuations in agricultural prices and farm incomes in what was obviously expected to be a more unstable economic environment.

These programs are still counter-productive, however. Target prices are encouraging production at levels that can no longer be absorbed by domestic and foreign markets at prevailing price levels. The price floor established by our loan rates are providing strong incentives for producers in other countries to increase their output. Those same loan rates provide an umbrella for producers in other countries, with the result that they can come in and undersell us while we support the market. Unfortunately, if we were to set out to design a system that would cause us to lose market share, we would be hard pressed to design a better one. Then we lose credibility on the international scene when we lecture others to do something different than the very price signals we are sending out suggest they should be doing.

To summarize, in a world of flexible exchange rates with wide fluctuations in the value of the dollar, our current commodity programs no longer serve us well. In fact, they are demonstrably counterproductive both to farmers and to the nation as a whole. Moreover, they have caused the Treasury costs of the programs to increase at a very rapid rate. Unmarketable supplies are thrust into government-controlled stocks at the very time that deficiency payments remain quite high.

The Budget Deficit and Agriculture

Agriculture did well during the 1970's when the dollar was weak. It has fared poorly in the 1980's when the dollar has been strong. Given that agriculture is an export sector, this was to be expected.

In attempting to understand what has happened to agriculture, it is important to understand what has caused this very great change in the value of the dollar. It is true that other factors affected our export performance both in the 1970's and in the early 1980's. What has not received sufficient attention in my judgment, however, is the vary large changes in the value of the dollar. Hence, I choose to focus on this issue.

Two important factors have affected the value of the dollar in both periods: our energy policy and our monetary and fiscal policy. The combination of OPEC-induced increases in petroleum prices in the 1970's and our own failure to let those price increases be fully reflected to the domestic economy caused our import bill for petroleum to burgeon significantly. In effect, we were subsidizing the importation of petroleum at the very time the cartel was unilaterally raising prices. The large increase in our petroleum import bill contributed importantly to the weakness of the dollar in the 1970's.

At the same time, inflation was out of control in the domestic economy, and there seemed to be little commitment to do anything about it. This further contributed to a weak dollar - a weak dollar which significantly benefitted agriculture as an export sector.

As we moved into the 1980's, both of these policies changed. President Reagan deregulated the domestic petroleum industry, thereby removing the implicit subsidy on imports, putting more competitive pressure on the OPEC, and eventually contributing to a decline in the price of petroleum. The result has been a very significant decline in our petroleum import bill, an important factor contributing to the strength of the U.S. dollar in the 1980's.

At the same time, the Federal Reserve Bank has taken significant steps to bring inflation under control at the same time that our budget deficits have run out of control. The Federal Reserve for all practical purposes stopped monetizing the budget deficits. The result has been very high interest rates.

As long as we continue to incur large budget deficits and the Federal Reserve does not monitize the corresponding debt, we are likely to have a strong dollar. In effect, the real interest rate is permitted to rise by a sufficient amount to generate the savings needed to finance the debt. With a well-integrated international capital market, these savings come from domestic sources as well as from abroad. It is the inflow of savings and capital from abroad that helps keep the dollar strong.

My point is not to argue that the Federal Reserve should pursue an easier monetary policy and monetize the debt generated by out budget deficits. That would surely lead to rampant inflation again and eventually to another boom and bust cycle. My point is to emphasize the extent to which the problems of U.S. agriculture are rooted in our domestic monetary and fiscal policies, rather than in the agricultural sector alone.

Monetary Disturbances to Commodity Markets

After two decades of relatively stable prices for agricultural prices during the 1950's and 1960's, these prices suddenly became very unstable during the 1970's and into the early 1980's. There are a number of explanations for this increased instability, but I would like to focus again on one that generally tends to be neglected - the impact of our unstable monetary policy.

As noted above, U.S. monetary policy during the 1950's and the 1960's was relatively stable. Moreover, during that period the nature of our economic system was such that such changes as there were in monetary policy had little effect on agriculture. In effect, monetary policy could be whatever it wanted to be with little impact on agriculture or on commodity markets.

Both of these conditions changed in the 1970's. Monetary policy became a great deal more unstable. And the structure of the economy changed so that agriculture suddenly became one of the sectors that bears an important share of the adjustments to changes in monetary policy.

The key factors here are the emergence of a well-integrated international capital market and the shift to a system of flexible exchange rates. Under these conditions, export sectors and sectors which compete with imports bear the burden of adjustment to changes in monetary policy. For example, if the Federal Reserve tries to slow down the economy by slowing down the growth in the monetary aggregates, the result is an increase in interest rates in the domestic economy. This increase in interest rates attracts an inflow of capital (or a reduction in the outflow), which in turn bids up the value of the dollar in foreign exchange markets. The rise in the value of the dollar chokes off our exports, while at the same time causing imports to come in at a lower price in terms of the domestic currency. The result is a dampening down of both the export sectors and the import competing sectors. The Federal Reserve accomplishes what it sets out to do, but the burden of the adjustment is forced on the export and import competing sectors. An important point to note here is that the problems of the automobile industry are cut in part from the same fabric as the problems of agriculture.

When the Federal Reserve decides to pursue an easier monetary policy so as to stimulate the economy, exactly the reserve occurs. Interest rates decline, capital flows out of the country (or the inflow declines), the value of the dollar declines, our exports become more competitive in international markets and imports become expensive. The result is an expansion of the export sectors, including agriculture, and an expansion of the import-competing sectors of the economy. Again, a major share of the burden of adjustment is forced on these sectors of the economy.

The important point is that these changes in the structure of our economy came about precisely at the same time that our monetary policy became a great deal more unstable. Hence, a great deal of the instability of agriculture over the last decade has been due to monetary disturbances, not changes in the weather as is commonly believed. Agriculture, as an export sector, has been victimized by a highly erratic monetary policy at the very time that it became one of the sectors that bore the adjustment to changes in monetary policy.

A Policy Perspective for the Future

A policy for agriculture must take into account the changes in our economy and in the way we relate to the international economy. Given the extent to which our economy has become internationalized, that means that solutions to many of our problems must be sought in the international arena. They will not likely be found in policies designed only with the domestic economy in mind, to the neglect of the international economy.

Commodity Programs

Commodity programs as we have conventionally understood them have probably outlived their usefulness. Given the changes in our economy, they can probably bring about more stable prices and farm incomes only at the expense of very high budget costs. Moreover, if international monetary events continue as they have over the past decade, these programs are demonstrably counter-productive. They preclude the very adjustments that a regime of flexible exchange rates is designed to bring about.

We should also recognize that economic development and deregulation of the U.S. economy has reduced a great deal of the need for such programs. We now have well-integrated domestic capital markets, plus commodity markets that are also quite efficient. Farmers can participate in both of these markets in a variety of ways not available to them in the past. Moreover, improvements in communication and transportation have been such that information and stocks and resources can flow reasonably freely. The progressive deregulation of both the commodity and credit markets enable these markets to bear a great deal more of the adjustment to changing demand and supply conditions than they could in the past. Farmers can forward price, contract, and make use of credit and capital markets much more extensively than they did in the past. And an efficient capital market is available to enable private speculators to help carry stocks and even out fluctuations in commodity prices.

I would make three caveats to my suggestion that we take as a goal the elimination of domestic commodity programs as we now know them. First, the programs do need to be phased out gradually, especially such programs as that for dairy. That program has induced far too many resources into the dairy sector. A period of adjustment, plus positive adjustment policies, are needed to help bring the sector into adjustment.

Second, a case can probably be made for a production or income insurance program for small producers, especially those embarking on internal growth. Such producers will probably find it difficult to access credit and capital markets in the same way that larger producers can. Hence, some means should be available to keep them from being wiped out when natural disasters strike or the market makes a sudden lurch. Such programs should be cost shared, however, along the lines of the present all risk crop insurance program. Moreover, the subsidy should be kept modest so that resources are not induced into areas that would not otherwise be in production, or so as to keep producers in production who would not otherwise be able to survive.

Third, one could probably make a case for a modest loan program at relatively low levels. The purpose of such a program should be to circumvent periods of very tight credit that might coincide with the planting season or the marketing of the crop. The biological constraints of agriculture are what ultimately give such a program some social value. A period of tight money that coincides with the planting season may not just delay a crop for a period of months, as would occur in the nonfarm sector. It may well cause a loss of production for a year. The same applies to the marketing season, when the inability to borrow at that time may force a crop onto the market, causing prices to decline, only to rise at a later date.

The loan levels for such a program should be kept modest so as to not interfere with trade. The interest rates should be subsidized only in periods of extreme monetary tightness.

Science and Technology Policy

Science and technology policy for U.S. agriculture needs to be seriously rethought. It may now be the key to our remaining competitive in international markets. And it may now be an important source of income gains for U.S. farmers.

With the exception of the dairy sector, a major share of the benefits of technical change in U.S. agriculture in the past have been passed on to the consumer. With international trade being relatively unimportant, increases in productivity led to lower prices, and the consumer has been the major beneficiary.

With increased dependence on trade, producers stand to reap a larger share of the benefits of technical change than they have in the past. As the demand for our agricultural output becomes relatively more elastic, productivity-induced increases in output lead to a relative expansion of sales compared to the decline in price. The producer benefits.

When viewed in this context, farmers should be paying for a larger share of the costs of science and technology. The check-off system now widely used provides a convenient means of assembling the producers' contributions to such programs and channeling them to research institutions. In addition, however, the Federal government now has a greater interest in agricultural research than it had during the 1950's and 1960's. Maintaining a highly productive agriculture is the key to maintaining a strong export performance. And a strong export performance is in the national interest. Hence, in the future we should have a stronger commitment on the part of the Federal government to agricultural science and technology. In fact, such a program should become an important part of our export promotion drive.

Fiscal Policy

The large budget deficits we are now incurring, and that are predicted to continue into the foreseeable future, are doing serious damage to agriculture and are an important cause of current farm problems. These deficits have caused interest rates to be higher than they otherwise would be. This has caused the dollar to be strong, and that in turn has choked off our exports and translated international prices of agricultural commodities into the domestic economy at low levels.

Unfortunately, we have forced the Federal Reserve to bear the brunt of the battle against inflation. It can do it, of course, as recent experience has demonstrated. But it does it at the expense of interest rates that are unprecedentedly high by historical standards in real terms. A more balanced budget would cause interest rates to decline. With that decline would come a decline in the value of the dollar, and help both our agricultural and automobile industries. In fact, there is probably nothing more important to helping either of these two important sectors of our economy than to get our budget more nearly in balance.

Monetary Policy

An easing of monetary policy would undoubtedly aid agriculture. But that should be done only as the budget is brought into balance, or we will be back on another inflationary spree.

However, there is at least one aspect of monetary policy that could be changed with considerable benefit to agriculture. That is to shift this policy into a more stable mode. The stop-and-go monetary policies of the last 15 years have imposed large monetary shocks on agriculture. A great deal of agriculture's problems would disappear if monetary policy were more stable. It would not have these alternating periods of feast and famine that have characterized these last fifteen years. Asset values would not be bid up during periods of easy money, only to be wrenched downward when a policy of monetary tightness followed. Farmers would be able to plan more effectively, and therefore to make more efficient use of their resources. They more than likely would not come clamoring to Washington for assistance. However, so long as we continue to victimize farmers with such erratic monetary policies, we can continue to expect them to seek assistance.

Reforming International Institutions

The monetary and trade institutions which serve the international economy were largely created at the end of World War II. Those institutions served both the U.S. and the international economies reasonably well for a while. But many of them have broken down with the crush of economic forces, or have grown largely irrelevant. In some cases, adequate international institutions were never in place and still need to be established.

In terms of furthering the interests of agriculture, two issues need to receive serious and immediate attention.1/ The first is the need to establish an International Central Bank. For all intents and purposes the U.S. now serves as central banker for the world. The world is essentially on a dollar standard. Hence, what the U.S. does about its monetary policy is of central importance to the world economy.

Although the U.S. reaps certain gains from being central banker to the world, it does so only at the expense of imposing certain costs on selected sectors of the economy. These costs arise because the U.S. has to over-value its currency if it is to be the central banker for the world. An over-valued currency is an implicit tax on export sectors such as agriculture. It is also an implicit import subsidy that discriminates against import competing sectors such as the automobile and steel industry.

The main elements of an International Central Bank could be had by converting international dollar reserves into Special Drawing Rights (SDR's)

1/For more detail on this set of issues, see Schuh, G. Edward, "Towards Reform of Our International Monetary and Trade Institutions", presented at Invited Seminar Series, "Current Issues In and Approaches to International Development", International School for Economic Development Studies, Colorado State University, fort collins, Colorado, December 3, 1982.

and giving the International Monetary Fund (IMF) a mandate to keep the stock of these SDR's growing at a constant rate. Although not a full central bank as we understand it, the IMF would have the principal mandates of an international central bank. Moreover, the U.S. Federal Reserve bank would then be left with the essentially technical problem of adjusting to conditions in international monetary markets.

I believe the creation of such an International Central Bank would reduce or even eliminate a great deal of the monetary instability we have experienced these past 15 years. It would also remove the onus from us of having to over-value our currency in foreign exchange markets. And this would benefit agriculture (as well as the automobile industry) in a very significant way.

The second issue needing serious attention at the international level is the need to reform the General Agreement on Trade and Tariffs (the GATT). Here, a number of things are important. First, trade in agricultural products was largely excluded from the benefits of the GATT when it was originally created. That, combined with the reluctance to discuss domestic commodity programs in later multilateral negotiating sessions, has kept agriculture from benefitting from the general trade liberalization that has occurred during the post-World War II period.

The second thing to change in the GATT is to broaden its membership base. The GATT was created in large part to serve the interests of the industrialized countries of the West. The centrally-planned economies and the less-developed countries were not signatory to the agreement in the beginning. Although membership in the agreement has grown over the years, the centrally-planned and less-developed countries are still largely outside the reach of its professions. Yet it is precisely with those countries that our agricultural trade has expanded. Hence, an international institution which we have so carefully nurtured over the years is less and less effective in protecting us from trade distortions and interventions.

Now is not a particularly good time to renegotiate the GATT. However, as the world economy recovers, we should make a serious attempt to renegotiate the GATT or to establish a comparable new organization in its place. High priority should be given to including agriculture in these negotiations, to including as many countries as possible, and to establishing rules for distortions in foreign exchange markets as well as in trade markets.

Adjustment Policies

Adjustment policies are important for two reasons. In the short term, there is the need to bring agriculture into adjustment with its current market opportunities. This applies not only to dairy, but to export commodities such as wheat, corn and cotton as well. If the dollar remains strong, and there is little reason to expect it not to in the short run, resources need to be adjusted out of agriculture if production is to be brought into balance with demand.

The other kind of adjustment is that needed to respond to changing conditions in domestic and international markets over the longer pull. If prices are permitted to flex both in the domestic market and abroad, these kinds of adjustments should come about relatively easily, unless we should continue to have large monetary disturbances.

In addressing the adjustment problem it is important to note that under current conditions it should be easier for agriculture to adjust then it was in the past. In the first place, some 63 percent of the income of farm families now comes from off-farm sources. That indicates the extent to which agriculture has become an industry of part-time employment. It also indicates the extent to which economic activity in the U.S. has become decentralized.

In any case, the agricultural labor force is already well integrated into the nonfarm labor market. Making additional adjustments of labor should not be as difficult as it was in the 1950's and 1960's. Moreover, the agricultural labor force as a share of the total labor force is much smaller than it once was. That in itself should make the adjustment easier.

Similarly, agriculture is much more dependent on imports purchased from the nonfarm sector than it once was. As relative prices change, the use of these imports change accordingly. To the extent these inputs are important sources of output, as in the case of fertilizer, a decline in commodity prices which causes a decline in fertilizer usage brings about a corresponding adjustment in output.

In dealing with the short-term adjustment problem the most efficient solution may be by means of something like the old Soil Bank program. Incentives for participating should be designed to remove from production that land that is subject to greatest wind and water erosion. Such an approach will enable the program to attain both resource adjustment and soil and water conservation objectives.

Market Development

The promotion of exports will be a desirable policy goal into the foreseeable future, both for agriculture and for the economy as a whole. Currently, there are strong pressures to commit additional resources to export subsidies, subsidized export credits, and expanded food aid shipments.

As a nation we obviously should do what we can to provide food aid for peoples suffering from famine or short food supplies due to national disasters. And we may be able to effectively utilize some food aid as an integral component of development assistance programs. But we should avoid using food aid programs as a subterfuge for dumping our own adjustment problems abroad. Such a policy tends to harm the very groups we would like to assist in those countries - the rural poor. It also enables policymakers in those countries to avoid addressing their own development problems.

Export subsidies and subsidized export credits have similar difficulties. Moreover, serious questions can be raised about their cost effectiveness in a regime of flexible exchange rates. Subsidizing exports will only make the dollar stronger, which will make us still less competitive. An important aspect of the flexible exchange rate system is that it is difficult to dump your domestic problems abroad. Many of our current export promotion strategies do not reflect recognition of that fact.

Earlier in my remarks I mentioned a number of things that could help strengthen our export performance: getting a better mix of fiscal and monetary policy, making greater investments in agricultural production technology, and helping to reform the international monetary and trade institution. Two other actions are desirable. The first is to continue and strengthen the market development activities of the USDA, including their cooperator groups such as the National Wheat Growers Association, American Soybean Producers, the Feed Grains Council, etc. The second is to increase our knowledge of the international economy. As a nation we have significantly underinvested in understanding how the international economy functions. Consequently, we have only limited knowledge to serve as a basis for developing market development strategies, for understanding how various policies both here and abroad affect our export performance, and for devising appropriate policies and institutions.

Concluding Comments

I have sketched out a rather unconventional policy agenda. Domestically, I suggest that we move away from commodity programs as quickly as we can deal with the corresponding adjustment problem. At the same time we need to reduce our budget deficits and work towards a more stable monetary policy so we no longer victimize agriculture with our macroeconomic policies.

On the international scene, we need to work for an International Central Bank so we no longer need to overvalue our currency, and for a reform of the GATT so as to have a more efficient apparatus for dealing with trade conflicts and trade problems. In summary, except for supply-side policies such as greater investments in science and technology and resource adjustment policies, plus the strengthening of market development programs, I suggest that we shift away from conventional commodity programs and towards improved macroeconomic policy and the strengthening of our international institutions. Changes in our economy make these changes a policy imperative. Our commodity programs are demonstrably counterproductive.

Senator SYMMS [presiding]. Thank you very much, Mr. Schuh. Mr. Castle, we'll go right on to you and then we'll have the questions after you've all had a chance to testify.

STATEMENT OF EMERY N. CASTLE, PRESIDENT, RESOURCES FOR THE FUTURE, INC., WASHINGTON, D.C.

Mr. CASTLE. Thank you, Senator. I'd like to compliment the subcommittee on undertaking these series of hearings. As I listened to my three colleagues, I think that all three of them had something in common, and that was the argument that the emphasis on traditional commodity programs in agriculture has directed attention away from performance of the economy generally and the role of agriculture in international markets.

I compliment them for making this point. I certainly agree with it. I would like to argue that our emphasis on commodity programs has also directed our attention away from some very important problems at the domestic level. And I have organized my remarks to draw attention to what I consider are three neglected areas of agricultural policy: First, are the agricultural input policies. Second, our natural resource base in agriculture. And third, is rural America and the rural communities.

So my remarks are organized in those three general areas.

Government programs do address part of each of these areas, but in most instances, these programs have arisen independent of the commodity programs which are at the core of traditional farm policy. The result is that the present policies often are fragmentary and inconsistent and sometimes are addressed to the wrong problems. And I'll now be more specific and comment first on the input policies.

A whole set of input policies with a large influence on agricultural production operate mostly independent of farm commodity policy. In general, such policies make agricultural inputs more abundant and available at a lower cost than they would be if the program did not exist. Examples are Government credit to agriculture; soil and water conservation payments that increase soil productivity; reclamation programs that bring more land into production; research programs that increase the knowledge base on which agriculture can draw; and education and extension programs designed to make the latest and best information available to farmers.

All of these programs are in the public interest at least some of the time. But persons concerned with a forward-looking farm policy should ask if the objectives are realy appropriate to the future. Many of these programs stem from an agrarian philosophy that dates to the time of Thomas Jefferson and even earlier. Among other characteristics, this philosophy holds that farming provides an opportunity for an ambitious person to close the gap between present circumstances and aspirations, in the words of a former USDA employee, John Brewster.

Accordingly, the Nation has developed programs to make it easier to start farming by increasing the amount of capital, land, human capital, and knowledge of agriculture. Ironically, this has occurred simultaneously with the most rapid displacement of farm people any nation has ever witnessed.

Thus, while the Government has encouraged the flow of resources into agriculture, the market has driven them out. Even worse than this inconsistency is that in our desire to help people, we have often created even more hardship.

For example, several years ago, my colleagues and I discovered that farm businesses in the early years of a government irrigation project in Oregon failed at roughly twice the rate for the remainder of the State. Without going into a detailed treatment of this complex subject, let me make only the summary point that the nation needs to consider these programs as an integral part of farm policy. I am not suggesting that these programs be scrapped. But I am suggesting that their operations and objectives need to be examined in terms of agriculture's and society's needs in the future.

A special word should be said about education and research. All of the studies that I have seen indicate——

Senator SYMMS. Excuse me just a second, Mr. Castle.

Mr. CASTLE. Yes.

Senator SYMMS. I don't mean to interrupt you, but just as a point of interest. Where was this project in Washington that you refer to in your footnote on the secondary benefits—I mean Oregon—the secondary benefits of the irrigation project? Do you remember the project, where was that?

Mr. CASTLE. Yes. It was the north unit of the Deshutes project in central Oregon.

Senator SYMMS. Up in the Madras area?

Mr. CASTLE. That's right.

Senator SYMMS. Thank you.

Mr. CASTLE. A special word, I think, needs to be said about education and research. All of the studies that I have seen indicates that the society gets a handsome rate of return on its investment in this area. So much so that the investment probably should be increased, not curtailed. But research and educational activities also need to change in response to future needs.

As you know, the research and educational establishment has been going through a most rigorous examination, some of it self-imposed, and I am hopeful that the future will be affected for the better as a result.

I turn now to natural resources and agriculture. Most people are aware that agriculture, as we know it, rests on a natural resource base. But despite that knowledge, society has not been very discriminating in managing resources to provide for agricultural needs of the future. For example, we have spent a great deal of time and energy worrying about the conversion of rural land to urban areas, but much of the rural land in question was not used for agricultural production before it was converted and had little potential for ever being so used.

Similarly, we've had a massive oil conservation program that blankets the entire United States. Soil erosion does impair our future capacity to produce, but the severity of the problem varies greatly from place to place. Only recently have we come to recognize the need to target approaches to such problems. The difficulty in both examples stems, I think, from a tendency to treat land as a homogenous resource.

Land has value as a resource only in the context of a given technology. Therefore, land resource management, logically, cannot be separated from research and education. For example, minimum or conservation tillage is one of the most significant land use developments in recent years. It has spread rapidly, but quietly, while conserving millions of tons of topsoil and saving energy. We need to identify and foster such practical development.

Water resource management also should be a major part of the farm policy of the future. Agriculture is overwhelmingly the largest single consumptive user of water and as the demand for water increases in the economy generally, agriculture will be pressed to make better use of the water it now has.

Almost certainly, massive water resource development projects will decline in importance. As they do, we can expect greater emphasis on the transfer of water rights as water is put to its best use. But if this is to happen, many States will need to perfect their water laws to permit markets in water to develop.

The central issue of the future for both land and water will be how these resources are allocated, transferred, and shared by the farm and nonfarm user. Happily, we have already seen great improvements in the efficiency with which these resources are used and I believe these trends will continue in the future.

I have written elsewhere that with proper management, neither land, nor water should constrain agricultural production, at least through the remainder of this century.

A central aspect of many farm nonfarm conflicts frequently is overlooked; namely, the role that farms play in rural growth and development. Many rural communities are becoming increasingly nonfarm in nature. Or to say the same thing another way, nonfarm people in rural areas are increasing relative to the number of farmers. The loss of land and water from farm to nonfarm uses, which has attracted so much attention during the last few years, has been discussed almost entirely in terms of its effect on our capacity to produce food, as though potential food shortages were a major issue. They are not. But there is a major issue and that is how the farm and nonfarm activities in the rural areas can be carried on simultaneously and in harmony while contributing to the quality of life in the rural countryside.

I would now like to turn to my final topic, which is the rural community.

Rural America has been transformed in recent years. It no longer is predominantly farm-oriented by any of the common measures. Excluding Alaska, land and farms accounts for only 55 percent of the land and rural areas. People on farms now are but 7 percent of the total nonmetropolitian population. Rural residents derive but 6 percent of their income from farming and fully 71 percent of farm families obtain more than half their income from off-farm employment.

We know a great deal more about the farm sector of rural communities than we do about the remainder. For example, some rural residents are the affluent who may derive their wealth from cities but prefer to reside in rural areas for amenity reasons. Others are nonfarm blue collar workers. Industry has grown rapidly in rural areas with profound effect on the labor market. Declining real costs of both communication and transportation, lower living costs in less densely populated areas, and the preferences of many for the nonurban environment all suggest that this trend has not yet run its course.

The functioning of the labor market in many rural areas will have more to do with the income of farm families than will the markets for corn, wheat, beans, or meat. And there are the rural poor, those people who have significantly different characteristics than their urban counterparts. More poor rural households are headed by men than is the case in urban areas. More such individuals are retired. And more of them fail to work because of illness or disability.

Programs for the poor crafted for the city are not likely to work well in rural America. The rural community is one of the most rapidly changing parts of our society. We need to know more about it to give it the attention it needs. Often those who do not wish to conform to urban land use constraints flee to rural areas and the quality of life there may suffer. Some places are little more than rural slums. Belying the simple farm-oriented, pastoral picture many of us have of the countryside, many rural communities are becoming more complex and are plagued by problems that are not easily treated.

If we are concerned with the well-being of farm people, in addition to maintaining the income of commercial farmers, then the total rural community must be accorded a place in the farm policy of the future.

Senator, I realize that much of this is far afield from farm policy, at least farm policy as it has been treated traditionally. But as your subcommittee undertakes the commendable task of fashioning future farm policy, it is very important that you consider the total environment affecting the welfare of the agricultural sector. Too often have we considered the agricultural input programs, soil and water resources, and the rural community as distinct and separate problem areas. And too often has this resulted in mistaken policy, too narrow legislation, and inadequate programs.

And I would urge this subcommittee as it undertakes this fundamental look at agricultural policy to avoid this pitfall. Thank you very much for inviting me to appear.

[The prepared statement of Mr. Castle follows:]

Prepared Statement of Emery N. Castle

Price supports, acreage controls, land retirement, and commodity loans long have formed the core of U.S. agricultural policy. Recently, such subjects as exchange rates, payments-in-kind, and the relation of the general price level to agricultural prices have changed the emphasis of the policy discussion, but the principal focus remains on farm commodities. This is not surprising, for commodity programs have been important tools used by government to enhance and maintain farm income -- most certainly a major objective of farm policy. But more than farm income should be included in a comprehensive, forward-looking agricultural policy.

I believe three problem areas also should be high on the agricultural policy agenda. These are agricultural input policies, natural resources, and rural America. Government programs do address part of each of these areas, but in most instances these programs have arisen independent of the commodity programs at the core of farm policy. The result is that present policies often are fragmentary and inconsistent, and sometimes are addressed to the wrong problems. Permit me to be more specific.

This statement reflects my personal views as an agricultural and resource economist and does not in any sense constitute a position of my organization. Indeed, Resources for the Future is a research and not an advocacy organization and does not take positions on any matters of public policy.

Agricultural Input Policies

Acreage control has been government's traditional means to reduce agricultural production. Always an exceedingly crude instrument, acreage control will become even more so with the passage of time. As in the past, new technology -- better seeds, more efficient animals, chemicals of various kinds -- almost surely will increase the use of inputs other than land.

Moreover, a whole set of input policies with a large influence on agricultural production operate mostly independent of farm commodity policy. In general, such policies make agricultural inputs more abundant and available at a lower cost than would be the case if the program did not exist. Examples are:

- Government credit to agriculture
- Soil and water conservation payments that increase soil productivity
- Reclamation programs that bring more land into production
- Research programs that increase the knowledge base on which agriculture can draw
- Education and extension programs designed to make the latest and the best information available to farmers.

All of these programs are in the public interest at least some of the time. But persons concerned with a forward-looking farm policy should ask if the objectives -- what they are designed to achieve -- are appropriate for the future. Many of these programs stem from an agrarian philosophy that dates to Thomas Jefferson and even earlier. Among other characteristics, this philosophy holds that farming provides an opportunity for an ambitious person to "close the gap between present circumstances and aspirations," in the words of a former U.S. Department of Agriculture employee, John Brewster.

Accordingly, the nation has developed programs to make it easier to start farming by increasing the amount of capital, land, human capital, and knowledge in agriculture. Ironically, however, this has occurred simultaneously with the most rapid displacement of farm people any nation ever has witnessed. Thus, while the government has encouraged the flow of resources into agriculture, the market has driven them out.

Even worse than this inconsistency is that in our desire to help people, we often have created still more hardship. For example, several years ago my colleagues and I discovered that farm businesses in the early years of a government irrigation project in Oregon failed at roughly twice the rate for the remainder of the state.* Without going into a detailed treatment of this complex subject, let me make only the summary point that the nation needs to consider these programs as an integral part of farm policy. I am not suggesting that all of these programs be scrapped; I am suggesting that their operations and objectives need to be examined in terms of agriculture's -- and society's -- needs in the future.

A special word should be said about education and research. All of the studies I have seen indicate that society gets a handsome rate of return on its investment in this area, so much so that the investment probably should be increased, not curtailed. But research and educational activities also need to change in response to future needs, as I believe now has been

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*Kimball, N. D., and E. N. Castle, "Secondary Benefits and Irrigation Project Planning." Oregon Agricultural Technical Bulletin 69, May 1963.

recognized. As you know, the research and educational establishment has been going through a most rigorous examination, some of it self-imposed, and I am hopeful that the future will be affected for the better as a result.

Natural Resources and Agriculture

Most people are aware that agriculture as we know it rests on a natural resource base. But despite that knowledge, society has not been very discriminating in managing resources to provide for the agricultural needs of the future. For example, we have spent a great deal of time and energy worrying about the conversion of rural land to urban uses, but much of the rural land in question was not used for agricultural production before it was converted and had little potential for ever being so used. Similarly, we have a massive soil conservation program that blankets the entire United States. Soil erosion does impair our future capacity to produce, but the severity of the problem varies greatly from place to place. Only recently have we come to recognize the need to target approaches to such problems. The difficulty in both examples stems from a tendency to treat land as a homogeneous resource.

Land has value as a resource only in the context of a given technology. Therefore, land resource management logically cannot be separated from research and education. For example, minimum or conservation tillage is one of the most significant land use developments in recent years. It has spread rapidly but quietly while conserving millions of tons of top soil and saving energy. We need to identify and foster such practical developments.

Water resource management also should be a major part of the farm policy of the future. Agriculture is overwhelmingly the largest single consumptive user of water and, as the demand for water increases in the economy generally, agriculture will be pressed to make better use of the water it now has. As we almost certainly have seen the last of massive water development projects, we can expect greater emphasis on the transfer of water rights as water is put to its best use. But if this is to happen, many states will need to perfect their water laws to permit markets in water to develop.

The central issue of the future for both land and water will be how these resources are allocated, transferred, and shared by farm and nonfarm users. Nonfarm demand can be expected to grow, but a crunch is not likely. Happily, we already have seen great improvements in the efficiency with which these resources are used, and I believe these trends will continue in the future. I have written elsewhere that -- with proper management -- neither land nor water should constrain agricultural production, at least through the remainder of this century.*

A central aspect of many farm/nonfarm conflicts frequently is overlooked, namely, the role that farms play in rural growth and development. Many rural communities are becoming increasingly nonfarm in nature; or, to say the same thing in another way, nonfarm people in rural areas are increasing relative to the number of farmers. The loss of land and water from farm to nonfarm uses, which has attracted so much attention during the last few years, has been discussed almost entirely in terms of its effect on our capacity to produce food -- as though potential food shortages were a major issue. They are not. But there is a major issue and that is how farm and nonfarm activities in rural areas can be carried on simultaneously and in harmony, while contributing to the quality of life in the rural countryside.

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*Resources for the Future Reprint No. 204, "Agriculture and Natural Resource Adequacy;" originally published in <u>American Journal of Agricultural Economics</u>, December 1982.

The Rural Community

Rural America has been transformed in recent years: it no longer is predominantly farm oriented by any of the common measures. Excluding Alaska, land in farms still accounts for a bare majority -- 55 percent -- of the land in rural areas. But people on farms now are only 7 percent of the total nonmetropolitan population, rural residents derive but 6 percent of their income from farming, and fully 71 percent of farm families obtain more than half their income from off-farm employment.

We know a great deal more about the farm sector of rural communities than we do about the remainder. For example, some rural residents are the affluent, who may derive their wealth from cities but prefer to reside in rural areas for amenity reasons. Others are nonfarm blue collar workers: industry has grown rapidly in the rural areas, with profound effects on the labor market. While I doubt that most government programs have had a great deal to do with this trend, government at various levels long has encouraged rural industrialization. Declining real costs of both communication and transportation, lower living costs in less densely populated areas, and the preferences of many for the nonurban environment all suggest the trend has not yet run its course. The functioning of the labor market in many rural areas will have more to do with the income of farm families than will the markets for corn, wheat, beans, or meat.

And there are the rural poor, people who have significantly different characteristics than their urban counterparts. More poor rural households are headed by men than is the case with urban areas, more individuals are retired, and more of them fail to work because of illness or disability. Programs for the poor crafted for city characteristics are not likely to work well in rural America.

The rural community is one of the most rapidly changing parts of our society. We need to know more about it to give it the attention it needs. Often those who do not wish to conform to urban land use constraints flee to rural areas and the quality of life there may suffer; some places are little more than rural slums. Belying the simple, farm-oriented, pastoral picture many of us have of the countryside, many rural communities are becoming more complex and are plagued by problems that are not easily treated. If we are concerned with the well being of farm people, as contrasted with maintaining the incomes of commercial farmers, then the total rural community must be accorded a place in the farm policy of the future.

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Mr. Chairman, I realize that much of this is far afield from farm policy, at least farm policy as it has been treated traditionally. But, as your Committee undertakes the commendable task of fashioning future farm policy, it is very important that you consider the total environment affecting the welfare of the agricultural sector. Too often have we considered the agricultural input programs, soil and water resources, and the rural community as distinct and separate problem areas. And too often has this resulted in mistaken policy, too-narrow legislation, and inadequate programs. I urge you to avoid this pitfall.

Terms Used in this Statement

It is important to note that the terms "urban" and "metropolitan," like the terms "rural" and "nonmetropolitan," cannot be used interchangeably. Each term has a specific definition.[1] The geographic components of metropolitan/nonmetropolitan are counties. In contrast, the urban-rural classifications are complicated geographic subareas within counties.

Metropolitan Area:

The metropolitan area has been formally recognized as the Standard Metropolitan Statistical Area (SMSA) and consists of:

(a) a central county containing a central city or twin cities of 50,000 or more inhabitants.

(b) in addition to the central county, or counties, containing the city or cities, contiguous counties are included in the SMSA if they are socially or economically integrated to the central city. Economic integration with the labor market occurs if at least 75 percent of the labor force is non-agricultural and (a) at least 30 percent of employed workers residing in the contiguous county work in the central county or (b) at least 15 percent of the contiguous county's employed workers work in the central county and the county has a "metropolitan character" (either population density or percent urban population above a specific level).

Nonmetropolitan Area:

The territory outside metropolitan areas is referred to as nonmetropolitan.

Urban Area:

Urbanized areas are made up of a central city (or cities) and the surrounding "closely settled territory," primarily defined on the basis of population density above a certain level. Specifically, an urbanized area will contain:

(a) a central city of 50,000 or more inhabitants or twin cities with a combined population of at least 50,000.

(b) surrounding closely settled territory, including

1. incorporated places of 2,500 inhabitants or more;
2. incorporated places of less than 2,500 inhabitants, but with a closely settled area of 100 or more housing units;
3. small parcels of land with a population density above 1,000;
4. other similar small areas that help "close" the area by eliminating enclaves.

Rural Area:

Rural territory encompasses all nonurban areas, and its population includes both farm and nonfarm residents.

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[1]Detailed definitions can be found in U.S. Bureau of the Census, Census of Population: 1970, General Social and Economic Characteristics, Final Report PC(1)-C1, United States Summary, Washington, D.C., 1972, or U.S. Bureau of the Census, County and City Data Book, 1977, Washington, D.C. 1978.

Senator SYMMS. Well, I thank all of you very much for testifying and being part of these hearings. I'd like, at this point, to compliment the chairman of this subcommittee, Senator Abdnor, from South Dakota for his leadership in getting this series of hearings together where we can bring in experts like yourselves to try to lay down what the future for the next generation is going to be in America's farm policy and where we think we're going.

And I think you've all made a contribution to the hearings. We do have some questions that we'd like to ask for our record. Mr. Schnittker, you and Mr. Steadman both recommended that the Secretary of Agriculture should announce and implement a longer term supply control program, one that would be in force for perhaps 3 or more years, as opposed to our current 1-year programs.

Could you please elaborate on that and the reasons and the benefits of this recommendation?

Mr. SCHNITTKER. Senator, in the current situation for the principal field crops, grains as well as cotton, we have large enough excess supplies that we're likely to require at least 2 more years of an orderly reduction of those surpluses to some concept of what a normal carryover level would be.

If farmers, farm suppliers, and others know that the program will operate not only for 1984, but similarly, for 1985, unless circumstances change, they have a much better chance to plan for the future. And finally, if we can get these surpluses behind us by the middle of 1985, the policy debate for a new farm policy, the next generation, as you said, can take place in a much better environment.

Mr. STEADMAN. Well, I agree with that general observation and that we will require continued acreage controls for the next 2 years, most likely, at minimum. The opportunity for producers and input suppliers and everyone involved to plan and anticipate will be critical in their behaving rationally and the policies finally achieving what they are set out to achieve, as opposed to perhaps some on-again, off-again, 1-year perspectives which have, as an example, in the 1983 program, by default, rewarded perhaps some producers more so than others. And I think there needs to be more consistent rewarding or incentive structure there for those who cooperate with those programs year after year.

Senator SYMMS. Thank you very much. A common theme that seems to be expressed by virtually every witness is the need to reduce U.S. production. In other words, production cutbacks, mandatory or otherwise, but some formula that would, whether it be the market system or some Government program, try to deal with the dilemma that U.S. agriculture faces of having the ability to produce more than our markets seem to be able to absorb.

According to the USDA, while U.S. farmers will be reducing grain production in 1983 and 1984 by 80 million metric tons, the rest of the world's grain producers will be increasing their production by almost 50 million metric tons. As a consequence, while 1983–84 U.S. ending stocks will be drawn down by 24 percent, compared to 1 year earlier, world-ending stocks will be reduced by less than 8 percent.

So our obvious unilateral decision to reduce production and thereby enhance prices is being largely offset by other world producers expanding their production.

This is telling me that the rest of the world is more than anxious to and capable of replacing the United States as a grain producer.

So my question is: Are we trying to clap with one hand if we do this? Would any of you want to comment on that? Mr. Schuh.

Mr. SCHUH. I would like to comment on it because this kind of adjustment in different parts of the world is a precise feature of becoming part of an international world economy. And when the value of the dollar rises as strongly as it has, it is providing the signals for producers in other countries to expand their output of the products we export and provides signals for our own producers, or should be providing the signals for our own producers to reduce their output. That is precisely the kind of adjustment mechanisms that the exchange rate provides in the international system.

Now those adjustments, in their own right, would be severe enough. We complicate it by having a commodity program that not only reinforces those signals, but forces them even stronger in the other direction. I don't believe the signals for the producers in other countries would have been quite as strong as they have been had we had more downward flexibility in our loan rates over the past year.

I believe we end up looking like we don't understand the world of which we're a part when we lecture the Canadians for increasing their production when that's precisely the signals the international system is giving them and which we, in fact, reinforce with our domestic policies.

Senator SYMMS. Well, are you saying, then, that there are some policies, at least, if not programs, but policies that we should be trying to implement which would enhance the effectiveness of our supply control efforts?

Mr. SCHUH. Absolutely. In fact, I would like to add to the point that was made here by noting that when the value of the dollar was as weak as it was in the latter half of the 1970's, we induced additional resources into agriculture for the first time in something like a 50-year period. Then after those resources were induced into the sector, the value of the dollar went the other direction and now we have the need to transfer the resources out. And transferring them out is a very difficult process if you rely only on market forces. You will eventually do it, but it takes a very long period of time.

That is why there is great merit in the suggestions that were made earlier of the need for some kind of a land retirement program that extends over a period of time so that you remove the land from production. That's what the signals are telling you to do.

Senator SYMMS. Were you wanting to say something, Mr. Schnittker? Excuse me, sir.

Mr. SCHNITTKER. Thank you.

Senator SYMMS. I'd better get this right, since we're on national public radio.

Mr. SCHNITTKER. All I ask is that people pronounce my name correctly. I think that, properly administered, in the summer of 1982, the price support and production adjustment programs for grains could have avoided these signals to the countries abroad to a substantial degree.

Senator SYMMS. Say that again, now. Price supports and——

Mr. SCHNITTKER. If the programs had been properly administered a year ago, the right kind of programs announced, including a large acreage reduction program for the grains in the summer of 1982 and a major reduction in the price support loan levels for the 1983 crops, we could have substantially avoided the signals to other exporters to produce more. We could not, of course, have avoided the effects of the increasing value of the dollar with agricultural policies.

Senator SYMMS. Do you see any changes regarding a relationship to some kind of international monetary reform to reduce the differential that we had to suffer under with our exports due to the value of our dollar?

Mr. SCHUH. I think there's a general recognition that there are a lot of defects in the present system. There have been international meetings of people, of policymakers from other countries who wanted to change the international system. Unfortunately, I think the United States ends up being one of the countries that is reluctant to change the system, in part, because I think we're suffering a crisis of confidence of international institutions in general.

But there is rather widespread recognition that the present system has a number of weaknesses and a willingness to move in the direction of changing the system and really putting something in place of the Bretton Woods convention.

Senator SYMMS. Do any of you have the opinion that the American dollar is overvalued?

Mr. SCHUH. I have the opinion that the American dollar is overvalued and I mentioned that in my statement.

Senator SYMMS. I'm sorry I didn't get to hear everybody's testimony. I was late in getting here this morning.

Mr. SCHNITTKER. Well, I certainly agree, strongly overvalued.

Senator SYMMS. Mr. Steadman.

Mr. STEADMAN. Yes, I agree with that.

Senator SYMMS. And Mr. Castle.

Mr. CASTLE. I agree with that.

Senator SYMMS. You all agree with that. The thing that I would just like to ask you, a question that relates to this, is, when one looks around the world at all of the different trouble spots—I was in San Salvador 2 weeks ago and have watched the thing very closely in Central America—you can almost feel it when you stand in a country like that, that the money is leaving the country, fleeing for a safe haven. I've talked to friends of mine who visited Hong Kong and Singapore and who are business people in agriculture and commodities, as a matter of fact. This one gentleman said he could stand on a corner in Hong Kong and almost watch the money leaving the country trying to get to the United States because of the perception there that the Communists are going to take over in Hong Kong and take away people's right to private property.

That's exactly the perception that's going on in Central America.

So, if the United States should stop letting every two-bit dictator in the world push us around, like we have Fidel Castro, do you think that that might reverse some of that capital that's coming from all over Central America, all out of South America, looking for the safe haven of America to invest their money? Or does that help us, hurt us? How does that affect us?

Mr. SCHUH. Well——

Senator SYMMS. Well, I'll give you an example. I had dinner with a woman at the American Embassy in Brasilia who is married to a U.S. State Department officer and she was just seated at the table as I was. She was a Peruvian citizen and a U.S. citizen, joint. I was visiting with her about her native country. She owned a piece of property in Lima. She told me that she was trying to sell it. It had been valued at 60,000 American dollars only 2 years ago. She now has it listed on the market for 30,000 American dollars because she's making a market choice that she'd rather have 30,000 U.S. dollars in the bank in Miami than she would to have the property, prime property, in Lima, Peru. She feels the situation is so unstable.

And there are millions of people across the world making those kinds of decisions.

So, I have often wondered if the failure of the United States to have a very clear, forthright foreign policy in the last 25 years, if that hasn't brought home some of these problems to us.

Mr. SCHUH. Well, I guess I would be inclined to put the emphasis on using our international political power to design a system of international institutions that would permit the kind of adjustments we've been talking about rather than to argue that we can deal with our economic problems by being policemen for the world. Because I think once we go back to trying to be policemen for the world, then we're going to be incurring very large balance-of-payments deficits and we'll be in even a worse situation than we are.

Mr. CASTLE. I would just add to that that I think any form of government, a dictatorship of the left or the right, in order to survive has got to come to grips with the welfare of the people in that country. The kind of stable international monetary institutions that Mr. Schuh has been talking about it seems to me is fundamental to getting the kind of international stability so that these various countries can find their place in the world trade and in world economic development.

Senator SYMMS. Well, it appears that until we can somehow resolve some of this question on the dollar, that there's no way, for example, to get away from all of the talk about protectionism. There's more talk about protectionism in the Congress of the United States than there has been in the 10 years that I've been here. I'd say it's at a much higher level today. The Japanese, for example, just seem to refuse to allow American agriculture—we could sell a lot of beef in Japan, for example. They buy it. The market is obviously there. But we can't get through the trade barriers there and then that brings back counteractions on the part of those of us here that get tired of that aspect of it.

But it does seem to me like the differential between the value of the Japanese yen and the American dollar are so far out of balance, that I don't know how they can ever solve the problem, no matter what else would happen. I don't think the Japanese culturally would like to, or are ever going to buy a lot of products from other countries if they have a choice to buy Japanese. I mean, that's just the market over there. They're going to buy Japanese.

But, yet, it looks like an attractive market for beef and other foodstuffs that we could sell that wouldn't quite have the prejudice, except for this dollar.

Mr. CASTLE. Senator, I think you've made some very important points. I would note, however, that Japan does import a very substantial quantity of agricultural products from the United States. As a matter of fact, they are our largest customer for agricultural products.

So despite all of the constraints that you mentioned, which are quite valid, they, nevertheless, have and are purchasing substantial amounts of agricultural products and the prospects are that these exports will continue to grow.

Senator SYMMS. Well, I hope it does. It looks like the Pacific rim countries out there certainly make an attractive market for American agriculture, the entire region of the world. And I hope that it can continue to grow.

Well, Mr. Schuh, you, in your testimony, made a case for the inconsistencies between the domestic farm program and the dynamics of the international market place. How would you suggest that we relate, coordinate or sensitize domestic price support programs to international monetary and foreign exchange developments?

You've touched on this slightly and I don't mean to ask you a redundant question. But, for example, would indexing the commodity loan rates to the value of the dollar make any sense? Or would we only further compound the problem?

Mr. SCHUH. No. In fact, it would have to be an inverse indexing, of course. That would certainly——

Senator SYMMS. Would you explain that for our record, please?

Mr. SCHUH. Well, as the value of the dollar went up in foreign excharge markets, you would want the loan level and the target prices to be adjusted downward. When we usually think of indexing, we usually think of various indexes all moving up together and all moving down together.

I think that's an interesting way of trying to preserve the main elements of our current commodity programs and yet get the flexibility in them we badly need. I guess what worries me is we would always have the tendency to want to tinker around with such indexes. So whether we can establish a set of programs that operate by rules rather than by discretion is an open question. But I think it's worth trying. The only point I would make on them is I think one would need to index both the loan level and the target price so that we get the adjustment both domestically and abroad.

Senator SYMMS. Do any of you want to comment on that?

[No response.]

Senator SYMMS. This question I'll pose to all of you. When I was over in the House—I was on the House Ag Committee—oftentimes, we'd have witnesses come before the committee making the case that the more market-oriented we tried to go with U.S. agriculture the more the U.S. Government appeared to be washing its hands of the defense of U.S. agriculture. In essence, throwing American farmers to the wolves to fend for themselves against the government-backed treasuries of the European Economic Community, the government-supported Canadian, Australian, Argentinian grain boards where they market through monopolistic systems and try to make government-to-government type deals for the protection of their agriculture producers.

Would any of you make a comment on how you feel about that? Is it possible for private enterprise U.S. grain traders to make a deal, for example, with a non-market country like the Soviets who have certain advantages if they know there's going to be a trade. Then they can place orders on the commodity markets and so forth.

Or are we kidding ourselves to think that we can maintain a free market stance in a world that is continually, in agriculture, using marketings through cartels, whether it's Australia or Canada or purchasers who are governments that are buying, whether it's the Soviet Union or Red China, who are making government deals. In many cases when our free enterprise farmers are selling through a grain-trading company, it's private enterprise selling to a government.

On the other hand, on the competitive side of it, they're competing with the Canadian grain board who can speak for the whole trade.

I'd just like to hear your comments on what you think is the best thing for the American farmer and the best thing really for the U.S. economy for the long run so that we can maintain a balance of trade by the use, ability, and the efficiency of American agriculture to produce all this produce. If we could sell more of it at a better price, it would certainly help the whole economy.

Why don't we just start down there on the end, whoever wants to start. Mr. Schnittker is ready.

Mr. SCHNITTKER. I'll start in. The so-called market-oriented farm programs in this country are generally dated back about 20 years to the mid-1960's. The Congress and the executive branch certainly haven't thrown the farmers to the wolves in that period, but have reduced the loan levels from time to time, and sometimes increased them later on.

I think it's unfortunate that in the last couple of years market-oriented programs have had a major setback with the accumulation of surpluses and the virtual mandate for a massive intervention which needs to continue for several years.

And on your final question, Senator, I believe that the U.S. market system can compete very favorably with the trading and the government-controlled marketing systems of many other countries, both free world countries and Communist bloc countries, as long as we don't get our price support levels so high that we prevent the market from operating.

Mr. SCHUH. I agree wholeheartedly with what has just been said. I think there are two points that need to be made. One, the market will do its job and has done its job very well as long as it has information. I think there is a very important role for the Government to be sure that analysis gets done, that forecasts get made, that information is made available so that all participants in the market know what's going on in it.

I think the main point I would make, however, is that rather than throwing the farmers to the mercies of the open market, what we have been doing is imposing very large shocks on the system that make it very difficult for farmers to compete. And it's those policy interventions, in my judgment, that have been giving us the fits.

The very great instability that has come about by virtue of our very unstable monetary policies—I mean, one could hardly imagine any production sector being able to compete and have a stable sector when you have all of those zigs and zags in policy. And again, as Mr. Schnittker has pointed out, the failure to make the adjustments in the commodity programs so that the price signals were coming along to bring about the resource adjustment, those are errors of policymakers and not a function of the market.

Senator SYMMS. Well, let me ask you a question just specifically about this. I know that Mr. Castle wants to make a comment on it. I can see by the enthusiasm in his eyes that he's ready to give us some more wisdom, which we appreciate.

But this dairy program, for example, is so complicated. I don't think there's hardly anybody in the Congress that truly understands the dairy marketing system. I have had a hard time finding anybody that can sit down and explain to me how we market dairy products. I go out to Idaho and find out that there's a guy that runs a free enterprise dairy over there west of Boise, by Meridian, and he can't buy enough milk because he can't pay the farmers enough, the producers enough, for the milk. And he's actually out selling cheese to the stores. Yet, the co-op, they buy all that they can get their hands on and they put it in caves somewhere, dehydrated milk and butter and so forth. And half of them—not half of them, but a big percentage of these dairy people were financed to get into the dairy business by the FmHA.

It just seems like an impossible situation to me. But, yet, we have failed to lower the price support level. I think that's what you're talking about on the dairy thing. So to get a market response, we need to have them kill some of those milk cows out there so that there would be less milk and more hamburger, I guess. But somehow or another, the way that the system works, they put this 50 cent charge in and it doesn't seem to impact the production. What people are telling me is that they're trying to keep their cash flow up so that instead of killing inefficient cows, they're buying a few more and trying to milk a little harder.

It just seems like it's a hopeless quagmire and I just wonder if you would want to comment on that. What should be done about the American dairy program?

Mr. SCHUH. I would say that the American dairy program is a perfect example of a program that was designed 30 years ago for a set of economic conditions that were totally different than what we now have. We have kept it, however. The program seriously needs review. And it is a complicated thing to do. We tend to focus on the support levels, but the marketing order aspects of dairy policy are probably as important as are the support levels in stimulating this excess production.

The final point I would make is that the analyses that we have done at the University of Minnesota suggest that the price would not have to drop all that much if one were to deregulate that system simply because you would get benefits on both the consumption and the supply side. As it is, we continue to make more and more investment, get the sector further and further out of adjustment and we will soon be in the same place we are with our other commodity programs where we have to have a major adjustment to get back in shape.

Senator SYMMS. Mr. Castle.

Mr. CASTLE. I'd like to make several points in response to your question. First, I think from the very beginning of this Nation that Gov-

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ernment and agriculture has had a partnership and I think we have a very large number of areas in which Government and agriculture interact and work together.

I can't come to grips with the statement "Getting government out of agriculture," because I think that they are just so intertwined, that that's not going to happen. I think the real issue is the way in which Government plays a role in agriculture. And in that respect, it seems to me that we must take account of the unique role of our agriculture, the uniqueness of our country relative to that of other nations. And we're changing. We're moving much more in the export area.

We must recognize, I think, with respect to our Government programs, particularly price support and commodity programs, that we can have an enormous influence on the production of other countries. And the blankets that we establish in the world market can induce into production areas that want to produce grain and want to sell that grain.

Senator SYMMS. Well, let me just ask a question. Do you think that we'd be better off, since we've got all this dairy product, for example, stacked up in warehouses all over the country, just go ahead and take it out and sell it on the world market with an export subsidy?

Mr. CASTLE. Oh, no. Of course not. No.

Senator SYMMS. Or should we have an export subsidy to sell some of this grain on the market? Do you think that that would be detrimental?

Mr. CASTLE. An export subsidy, that's not what I was speaking to. I think that when we have certain programs, we really can raise the world price. And that can induce other people into production. I think if we were to go to a system where we were selling at a competitive world price, that, I think, would be to the advantage of our producers.

Senator SYMMS. Well, that's what we did when we had the soybean embargo and the wheat embargo, and so forth. We've gotten Argentina and Brazil increasing production.

Mr. CASTLE. That's right. This goes back to John Schnittker's earlier testimony. And that is in order to function in the world economy, we must decide that we're going to be a reliable supplier. And to hold those markets, we cannot adopt embargoes and turn our supplies off and on.

You spoke of the Japanese earlier. The soybean embargo did a great deal to influence relations between this country and the Japanese and we're still feeling the effects of that.

Senator SYMMS. That's correct. You know, I've talked to processors who say they never again, no matter what happens, would be solely reliant on one country to supply them with soybeans. Even though they also said that they thought our beans were of a higher quality than they were buying from other suppliers, they wanted to diversify, and that they would never come back again.

And that program was really, basically, the only Government intervention from a marketing standpoint when the embargo was put in place. Prior to that, they really didn't get involved in all the acreage set-asides and so forth and it was relatively a farmer's choice and marketing system.

Do any of the rest of you want to comment on that export subsidy idea?

Mr. STEADMAN. Just to add a couple of points in agreement with what was said. We have to be cautious in making comparisons between the dairy programs and our current grain programs. We've heard that the grain programs have tended to be market programs, where the market has played an increasing role over time. And the dairy program certainly is one where the market is not playing an active role. So there are different categories, to some degree.

With respect to the dairy program, per se, and some of the proposed changes, I think with that being a nonmarket oriented program, it is very much our own overproduction and supply problems and not a problem such as perhaps grains, where there is some world demand stimulation.

Senator SYMMS. In a case like that, maybe the Congress should give more flexibility to the Secretary of Agriculture in terms of adjustments on the support levels so that they can try, at least, to respond faster to the market situation?

Mr. STEADMAN. Well, it certainly was the adjustments in the daily program from 1977 to 1981 that got us into that.

Senator SYMMS. It got discombobulated over politics, if you want to know the truth about it. The Republicans, and I remember when it happened, and I am a Republican, on the House Ag Committee were playing games when our dear friend, Bob Bergland, became Secretary of Agriculture, thinking that he was going to have to make us not have the price support level get raised as high as it would. It was just a little game that was played in the House Ag Committee, but it became law, as happens around this town. Some people start out and tell a joke and it becomes a law. [Laughter.]

It's a fact, though. I mean, we actually, the Republicans over there, put in an amendment, and said, well, we'll have some fun with these guys. They've been doing this to us for the last 8 years, so we'll put an amendment on this bill to raise the price support level.

And what happened was that it became law. When Butz was Secretary of Agriculture, he'd get it vetoed if they did something like that. But as it turned out, they didn't have the votes or the support, and pretty soon the whole farm lobby was in there supporting the higher level. The result is that we've got billions of pounds of surplus dairy products stacked up in the warehouses.

Now, Senator Helms went over to the GATT meeting last year and raised a furor asking them how much butter they wanted us to dump on the market because of the way the Europeans were doing it.

Mr. STEADMAN. I appreciate that tale because that's the most rational tale I've heard for how we got into that dairy program. [Laughter.] I never had an understandable explanation until now.

Senator SYMMS. Well, you know what I always say around this town. If you love sausage or law, you should never watch either one of them being made. [Laughter.]

Because it's just about as rational as could be. That's what happened. I remember it very well. I finally realized and said, I'm not going to go along with this and voted against it at the end and started opposing it because Bob Bergland was put into an impossible situation. It wasn't even his fault. But he couldn't do much about it.

He was arguing the right argument. He and Earl Butz didn't actually argue that different of a general position. I mean, you know, they weren't that far apart on what their arguments were. But he got stuck with that thing and it was a disaster.

The cowboys, the cattlemen in this country, God bless 'em, you know, they're one of the few people that come into this town and don't ask for anything. They don't have their hand out wanting some kind of bailout. They came in and lobbied against the bailout bill when we were trying to pass a bill a few years ago to guarantee the loans for the cattlemen when they were in bad shape. They came in, the cattle feeders and the national cattlemen, and lobbied against it. They said, we want to keep the Government out of it.

But here they are and now we've got the PIK program, trying to raise the price of grain, and the dairy support program, trying to raise the price of milk. The dairymen, who are some of the hardest working people in the country, buy grain and compete with the cowboys. And it seems like it's impossible.

I kind of have to be sympathetic to what you said, Mr. Castle. There's just no way that a farmer can escape this thing. The Government has gotten the system so complicated. It's a matter of trying to maximize the free choice for the farmers, maximize their ability to make their own decisions. But there's always going to be some manipulation; one program has an effect on something else down the road.

I wanted to ask another question. Did any of you want to comment on that? Yes.

Mr. SCHUH. I wanted to comment on your question about export subsidies and make the point that export subsidies, in the presence of a flexible exchange rate system we now have, are really not a very cost-effective means of getting our exports abroad. As you push the exports out, it just makes the dollar all the stronger. So you really end up fighting against yourself. And any look at cost effectiveness, you know, just comes off very badly.

Again, it's a case where our economic system has changed sufficiently that the old policy instruments that we used to use simply are not effective any more.

Senator SYMMS. I want to ask one other question that often comes up and I heard it discussed last night by a former Congressman from a midwestern farming State. The subject is reclamation projects and irrigation.

You know, you hear a great deal about that and a lot of people have made the points about how much the U.S. Government spends on reclamation projects. If you investigate it, fou know, we have spent more money on the subway system in Washington, D.C., in the last 15 years than we've spent since 1902 on reclamation projects.

So it hasn't been a massive investment. But the benefits back have been enormous in the reclamation States. I think when one looks at the Snake River Valley in Idaho, for example, where 30 percent of our potato production comes from, that whole country is just a desert. Without reclamation, there wouldn't be a population of over probably 100,000 people living in Idaho. There would be no basis of support for it.

What do you see in the future? One of you mentioned about water—Mr. Castle, I guess—water and resource allocation. What do you see in the future for any new reclamation projects? This fellow last night I was with, he said, "Gosh, we don't want any of that. We're already producing more than we should." But we have a lot of potential, I think. We have the engineering capability and the water resources that in many ways is being wasted because we're not building dams and conserving the water potential that we have in this country and utilizing it.

Mr. CASTLE. Well, I think there are many facets to your question. First of all, I don't think that it's the total amount of money that the Government has spent here being so enormous that's a real issue. I think the real issue is whether or not that amount of money which has been spent has truly been effective and whether it has really accomplished what it is that we want to accomplish.

It's my feeling that the reclamation programs have done a fine job of bringing about regional development. I think that much of the economic activity that exists in the Northwest region stemmed from reclamation programs.

On the other hand, I think that there have been some other effects that we can't ignore. The beginning generation of farmers certainly don't all succeed. The failure rate has been quite high on reclamation projects. Now once they make the adjustment and a stable system is evolved, that's another thing. But I believe that the facts show that there has been a large number of people that have taken advantage of cheap water, cheap land, have put their own very small capital stake involved and then have had that taken away from them as a result of the economic forces.

That's one thing.

The other thing that we have to look at is the substitution effect. There have been some studies to show that much of the vegetable production in the West comes at the expense of the agriculture of the Southeast. So that the vegetable production has shifted regionally and that has to be looked at.

Now with respect to the future, there are some opportunities for additional reclamation. But they're not as extensive and they're not as low cost as they once were. I think there are still some opportunities in the Northwest. But I think that the days of the massive developmental project are probably behind us simply because the best sites have been take advantage of, the best land has been already brought in. And I think from now on those kinds of projects will need to be looked at very, very carefully because the resources just aren't there, the enormous opportunities aren't there.

Senator SYMMS. You know, one that comes to mind to me oftentimes is that Garrison project in the Dakotas.

Mr. CASTLE. Yes.

Senator SYMMS. That was a kind of a promise and a commitment to that region of the United States by the Congress that they were going to develop some down water things. But they were coming back up there and developing that Garrison project. The cost effectiveness is there. Everything is there. Although North and South Dakota's population has been going down, it seems to me that there has almost been a betrayal to those people with the way that project has been dragged out and failed to pass.

And what interested me was when the House voted on it last year, And it's not a partisan thing at all; you can't make any sense out of it from a partisan standpoint. But over half of the Congressmen from reclamation States voted against it. I don't know whether that's saying something about public sentiment or a lack of understanding on the part of the Congress on reclamation projects or what. But I thought it was really amazing that people who come from reclamation States, even though the promise had been made some 20 years ago and those of us that are here now weren't there then, but there was a commitment from the U.S. Government to develop that project. And, you know, it's been held up for years in a state of limbo.

Mr. CASTLE. I cannot comment because I am not familiar with what brought that about.

Senator SYMMS. Well, it kind of signals to me that maybe there won't be any more projects, if over half the Congressmen from the reclamation States are voting against them. And it was liberal Democrats and conservative Republicans alike. It wasn't a partisan thing.

Well, unless any of you have any more comments, I think that this will probably conclude our hearings. We may have a few questions that Senator Abdnor wanted to get asked that I have failed to ask. He may write some of you for a continuation of the record.

I would just like to thank each and every one of you for your contribution here this morning. We appreciate your time and your effort and your energies to help us with these hearings. And I would like to announce that on June 8, in this same room, we will reconvene the full committee and the subject will be "Consumer's Interest in Farm Policy," with the first witness being Mary Jarratt, Assistant Secretary for Food and Consumer Services, USDA; Rodney Leonard, executive director of Community Nutrition Institute; and Ken Farrell, director, Food and Agricultural Policy Program, Resources for the Future.

If there's no further comment, the subcommittee stands adjourned.

[Whereupon, at 12:10 p.m., the subcommittee adjourned, subject to the call of the Chair.]

TOWARD THE NEXT GENERATION OF FARM POLICY

WEDNESDAY, JUNE 8, 1983

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

The committee met, pursuant to notice, at 10 a.m., in room SD–124, Dirksen Senate Office Building, Hon. Roger W. Jepsen (chairman of the committee) presiding.

Present: Senators Jepsen and Abdnor.

Also present: Robert J. Tosterud, professional staff member.

OPENING STATEMENT OF SENATOR JEPSEN, CHAIRMAN

Senator JEPSEN. On behalf of the Joint Economic Committee, I want to welcome all of you to our fourth hearing exploring the next generation of farm policy. Today's witnesses are Mary Jarratt, Assistant Secretary for Food and Consumer Services of the U.S. Department of Agriculture; Rodney Leonard, executive director of the Community Nutrition Institute; and Ken Farrell of Resources for the Future.

I share the feelings of Secretary of Agriculture John Block that farm policy is truly at a crossroads. The decisions we make now will have an influence not only in the decade of the 1980's, but throughout the remainder of this century.

You know, it is often overlooked in this era of the internationalization of U.S. agriculture, that over three-quarters of the total farm cash receipts still come from domestic sales. Farm advocates often accuse U.S. consumers of taking agriculture for granted; we must all be cautious that the glamour, the prospects and controversy surrounding the international marketplace not overshadow the importance of domestic food and fiber market development. For example, the State of Virginia purchases as many U.S. agricultural commodities as the entire European Economic Community, our largest foreign market.

In considering the direction of farm policy, we all recognize and appreciate the importance of the consumer's perspective. Indeed, any future farm policy must effectively accommodate both farmer and consumer interests and goals. I view the achievement of that accommodation as one of our most difficult tasks, especially as current food surpluses are eliminated.

Moreover, because production decisions are determined in accordance with the basic economic principle of supply and demand, what consumers are purchasing in the marketplace is extremely important.

Changing food consumption patterns in the last decade indicate that in formulating new farm policy, we will need to take into account the significance of these shifts in Americans' eating habits.

For example, the consumption of fluid whole milk has declined by 32 percent per capita in the last decade. Fluid milk production, however, has increased by 12 percent, largely in response to a price support program that has encouraged oversupply.

These figures point out the need to develop a long-term dairy policy which takes account of changing milk consumption patterns. Representing one of the most efficient dairy production States in the Nation, and having a nephew as a dairy farmer, I think the ideal solution is to increase the demand for dairy products. Whether the solution is to increase demand or reduce supply, one thing is clear—these figures point out the need to develop a long-term dairy policy which takes into account the changing milk consumption patterns.

Agricultural policy is also inextricably bound up with food and nutrition policy. A significant portion of the agricultural budget—depending on who is giving the estimate, from one-third to two-thirds of USDA outlays—is devoted to domestic food programs, including food stamps, school lunches, and elderly feeding programs.

The relationship between these feeding efforts and farm policy decisions, however, is often overlooked. Just as consumers have a significant interest in the development of farm policy, so, too, farmers have a large stake in the development of nutrition policy.

Federal feeding programs represent a sizable market for agricultural commodities. For the school lunch program alone, in 1982, the Department of Agriculture spent close to $750 million to purchase 1.1 billion pounds of farm-produced foodstuffs. In considering the future direction of farm policy, therefore, it is vitally important that we consider the future direction of Federal food policy.

The task of Congress is to develop a sound farm and food policy that takes into account the relationship between farm production and food consumption. We look forward to the testimony of our witnesses today on this important interrelationship.

Finally, I want to remind our national public radio audience that they can participate in these hearings by mailing their views on future farm policy to Box A, Joint Economic Committee, Washington, D.C. 20510.

At this time, before we proceed with the panel, I will yield to the very distinguished Senator, Senator Abdnor, for any comments you may have.

OPENING STATEMENT OF SENATOR ABDNOR

Senator ABDNOR. Thank you, Mr. Chairman. I too want to extend my welcome and appreciation to today's witnesses, because they will play an important part in our hearings. We're very concerned about their interests and concerns in farm programs. It's becoming increasingly apparent that farm policy wears many hats.

There are four major groups affected, as I see it, by food and agricultural policy—farmers, consumers, taxpayers, and the public at large. Each group has certain objectives or ambitions regarding a pay-out from farm programs and policies. Farmers desire, among other things, a fair economic return for their investment and their effort, reasonable stability in prices received, open access to foreign markets, freedom in making production and marketing decisions, and the preservation of the family farm structure.

Consumers, on the other hand, seek a farm policy that will have adequate quantity and quality and a variety of food and fiber at reasonable prices, reasonable stability in food prices, farm commodity export sales to help earn foreign exchange and food stamps and other welfare programs to provide an adequate diet for those who lack resources to purchase such a diet from earnings.

Of course, of all people, taxpayers want a farm policy to be of low cost to the Federal Treasury to require a minimum administrative and bureaucratic burden.

Society seeks an efficient use of resources, an equitable sharing of the benefits of economic progress, environmental protection, and energy conservation.

And these are only domestic objectives. You've got foreign farmers. You have consumers, taxpayers, and societies who also desire certain results from the U.S. farm policy.

One could also add to the list the interests of thousands of agribusiness firms and over 20 million workers employed directly or indirectly in food production, marketing, processing, and transportation. They all have a keen interest.

We certainly cannot forget and ignore the domestic and foreign policy political objectives of the farm program.

Linking these dozens of farm policy objectives are hundreds of inherent conflicts. Perhaps the most glaring and certainly controversial of these conflicts is the insistence on the provision of food at prices substantially below the costs of production and low public interest in the maintenance of farm income.

If the American farmer, like any other business enterprise, is going to survive, he must generate sufficient revenues to yield an adequate rate of return on capital, labor, and management. Simply put, these revenues must come from one of two places, the market or the Federal Treasury.

There is one future farm policy objective that farmers, consumers, taxpayers, and society share. It is that additional farm revenues should not and cannot, indeed, come from the Federal Treasury. It's time for the U.S. consumers, the Congress, and the administration to face the fact that the economic recovery of agriculture necessarily requires higher commodity prices and, therefore, higher food bills for American households.

In this connection, it is critical that everyone recognize and appreciate the relationship between the prices received by farmers for their products and the prices paid by consumers for these products in a processed, edible condition. For example, we should all take note that even should the price paid to farmers for food grains double, the retail price of cereal and bakery products would only rise about 12 percent. Only 12 cents of every retail dollar spent for cereal and bakery products goes to the farmer. In fact, the farmer gets less than 35 percent of the retail cost of a typical market basket of food.

To be perfectly frank, words fail me in describing how disgusted I get listening to other people cheer the economic recovery of the automobile industry, or the housing, steel, chemicals, construction, or other industries, and then lash out against the farmers for sharing in that economic recovery. Agriculture is in desperate need and deserving of an economic recovery. So, let us all welcome and applaud a recovery, and we've got to find a way to bring it about.

Ladies and gentlemen, we appreciate the fact that you're here to give us the benefit of your thinking and your organizations' thinking on how best to approach the problem.

Thank you very much.

Senator JEPSEN. Thank you, Senator.

Now, we welcome Mary Jarratt, Rodney Leonard, and Ken Farrell. I would advise each of you that your prepared statements will be entered into the record in full. Therefore, you may proceed in any manner that you desire, by way of summary or whatever other method you take, knowing that your remarks will be printed in full.

We'll start with you, Ms. Jarratt. You may proceed.

STATEMENT OF MARY C. JARRATT, ASSISTANT SECRETARY OF AGRICULTURE FOR FOOD AND CONSUMER SERVICES, ACCOMPANIED BY DONALD L. HOUSTON, ADMINISTRATOR, FOOD SAFETY AND INSPECTION SERVICE

Ms. JARRATT. Thank you, Mr. Chairman and Senator Abdnor. It's a pleasure to be here to join in your hearings on "Toward the Next Generation of Farm Policy."

Today we want to speak especially to the Department of Agriculture's responsibility as it pertains to the consumer and how we go about providing an adequate, affordable, and safe supply of food and sufficient information for the public to make better food choices.

With regard to the adequacy of the food supply, USDA economists estimate the quantities of food available for consumption in our country and the nutrient content of these foods. We have been doing this since 1909, and the information is available in USDA publications. They provide the basis for assessing current levels and food sources of nutrients for making comparisons with past years.

These food supply data show that we have an abundant, varied, and very nutritious food supply. Levels of energy and most nutrients per person are well above the quantities that most people need to eat to avoid deficiency diseases and insure good nutritional health. In terms of calories and protein—dietary components in short supply in some of the developing countries—our food supply has been abundant throughout this whole century. Levels of most vitamins and minerals are higher today than at the beginning of the century, partly due to advances in agricultural production and food technology.

These statistics reinforce the evidence on our supermarket shelves—that is, that our country's food supply provides consumers with the opportunity to select diets of high nutritional quality at a most reasonable price.

What has been the cost of food to the consumer?

Between calendar years 1979 and 1982, the Consumer Price Index for all items minus food increased 35 percent. The CPI for all food in that period increased 22 percent, but the CPI for food at home, or what's represented by our grocery bills, increased by 20 percent.

The slower inflation rate for food compared to nonfood items is, in part, the result of an abundant food supply relative to the total domestic and international demand.

The rise in food prices slowed dramatically last year, helping to ease pressure on family budgets and making a big contribution to our fight against inflation. The rate of increasing in food prices continued to slow this year.

Food prices are expected to rise 2 to 4 percent in 1983, which would be the smallest rise in 15 years. The price of food in 1982 averaged 4 percent higher than in 1981. That was half the 1981 rise of 7.9 percent. As often happens, food prices in 1982 rose more slowly at food stores than at restaurants: 3.4 percent versus 5.3 percent. In both cases, however, prices increased much more slowly than the year before.

There were, of course, a number of reasons for this. Excellent weather produced bumper harvests in our production and most livestock foods increased, making food supplies abundant. At the same time, the recession has cut into buying demand, and thus, consumer demand for food is a little lower. Meanwhile, the cost of doing business for firms in the food industry rose more slowly than in recent years. And finally, prices of imported foods and fish increased very little.

This meant really good news for food shoppers.

When economists examined the causes of last year's 34 percent rise in grocery food store prices, they found that the slight increase in farm value accounted for only one-tenth of that rise. Higher prices for imported foods again accounted for $1\frac{1}{10}$ of the rise. The remaining eight-tenths came from a higher farm-to-retail price spread. By this we mean such things as processing, shipping, and retailing of the farm produced goods.

Although the spread rose by 5.1 percent last year, the rise was far slower than in 1981, and the smallest increase in 5 years. Smaller increases in labor, packaging, and energy costs were mainly responsible.

Looking at what we do in domestic assistance to consumers, USDA distributes farm products to the public through, really, two basic mechanisms. One is through the provision of cash assistance like the school lunch or the school breakfast program or something that is near cash, as the food stamp benefit, to benefit eligible recipients, and then the benefit is negotiated in a grocery place or delivered in-kind at the point of service.

The second mechanism is through the donation of food products to the public for use in schools and other eligible outlets using the Food and Nutrition Service delivery system. Food products are acquired for donation in three ways:

First, USDA buys food on the open market with funds it receives by direct appropriation from Congress. And then these foods go in turn to our eligible feeding programs, the lunch programs, the commodity supplemental feeding program, the program on Indian reservations, or whatever.

A second mechanism is that we use what is called section 32 to buy essentially perishable kinds of commodities, fruits, vegetables, and meat, under surplus removal activity, again, to donate to our eligible outlets, schools, or whatever.

In our third method of acquiring for foods is under our price support activity with the 416—section 416 kinds of commodities, the essentially nonperishable ones. Again, the foods are donated to domestic outlets. And our cheese and butter distribution program that is going on now is an example of the use of this kind of commodity.

The total value of these commodities was $1.4 billion in fiscal year 1982. Of these, the value of the purchases was $610 million, while the bonus donations, the ones that are given free to eligible outlets, equaled $854 million.

These totals are increasing, I might point out, during fiscal year 1983. We expect to distribute to needy families approximately 75 million dollars worth of the perishable kinds of foods under the recently enacted jobs bill, as well as approximately 300 million pounds of dairy and grain products under the jobs bill authority also.

Looking at what we do on international food assistance, we participate in alleviating world hunger essentially through the activities carried out under Public Law 480, the Agricultural Trade and Development Act of 1954. Under this legislation, titles I and II are concessional sales—titles I and III, excuse me, are concessional sales and title II is what is given through donation. Voluntary relief agencies carry out the donation activity for us, and the kinds of entities that assist the Department in this activity are CARE, Catholic Relief Service, Lutheran World Relief, Church World Service, and others. Food is also donated to the World Food Program to fulfill our Government's pledge to foreign countries. In addition, small amounts of food commodities are donated to other foreign governments for use abroad in meeting famine or other urgent or extraordinary relief requirements.

The Agricultural Stabilization and Conservation Service, of course, carries out the responsibilities for Public Law 480. At the present time, ACSC purchases 21 different commodities for the title II programs, and those commodities are listed in my testimony.

Focusing our attention now on the safety and wholesomeness of the domestic food supply, it is interesting to note that in recent months the safety and wholesomeness of our food supply, especially meat and poultry, has come under fire in the press by certain consumer organizations. One group claims that USDA inspection program is simply inadequate. Other critics allege that meat and poultry products contain toxic chemical residues and post unnecessary health risks.

Contrary to these charges, however, the American public is better protected today than perhaps it ever has been. Consider this: The Food Safety and Inspection Service, our agency with responsibility for inspecting meat and poultry, is by far the largest health inspection force in the Federal Government, both in absolute numbers and in the ratio of inspectors to regulated facilities. Close to $1 million a day is spent in the inspection of livestock, poultry and processed products. Furthermore, since 1981, while many Government programs have been reduced, both the executive and legislative branches have seen to it that the meat and poultry inspection program remains intact.

As to the longstanding problem of drug and chemical residues, USDA has great success in their prevention and control. We do not tests every bird and animal carcass for every possible compound that may be in the food supply. That would be impractical and too costly. What we do, instead, is monitor those compounds posing the greatest threat by analyzing randomly selected tissue samples in all species and test tissues from specified suspect animals before permitting their release into the commerce. In addition, the Department conducts the residue avoidance program—a cooperative effort between Government and industry that teaches farmers to eliminate potential problems at their source.

Of course, the only true measure of consumer confidence comes from consumers themselves, and this is confirmed each year by consistently high per capita consumption of both meat and poultry. Also, a recent nationwide survey by the Good Housekeeping Institute indicates the public has retained its trust that USDA and FDA are carrying out food protection responsibilities. Regarding the degree to which we insure the safety of food, we were found in that survey to be good or very good by 76 percent.

We at the Department have every intention of insuring that this confidence endures. Maintaining effective communications with the public we serve is an important way that we think this can be accomplished. We distribute over 1 million free publications to help consumers prevent food poisoning and combat other food-borne health hazards. The agency has initiated a meat and poultry hotline to help us respond quickly to consumer concerns, and they have also undertaken the major effort with the school children in the country.

Looking at nutrition information per se, since the beginning of its human nutrition program in the 1980's, the Department has conducted research and developed knowledge and techniques for improving professional and public understanding of nutrition. Primary research areas are nutritional needs of people, the nutritive value of foods, the nutritional adequacy of diets and the food supplies and the selection and handling of foods.

Several USDA agencies are involved in these activities. The Agricultural Research Service in its five regional laboratories studies the human nutritional requirements at every stage of the life cycle. The Human Nutrition Information Service develops standard reference tables on the nutrient composition of foods. We conduct periodic national surveys to monitor the nutritional levels of U.S. diets, and we develop and communicate information on a variety of food and nutrition consumer issues.

The Extension Service, again, is a partner in this activity, and with its network of State specialists and agents in essentially every county in the country, translates our USDA-developed nutrition information to consumers at all economic levels.

The Department's emphasis at the Federal level is to provide nutrition information to professionals who then take this information and deal with their client populations.

Reports from the Nationwide Food Consumption Survey showed the food and nutrient intake of men, women, and children of different ages. The changes in average food consumption patterns of individuals required to meet our specified dietary standards, such as the recommended dietary allowances, are determined. Newly revised family food plans at different costs illustrate how families can get nutritious diets that they can afford.

We are doing an annotate bibliography of nutrition education materials to help State and local staff in the WIC program, the supplemental program for women, infants, and children, to select, acquire, and develop materials for program participants.

Our agencies cooperate with other public and private organizations in the preparation of research-based information for consumers. An example of this is a project that we're doing with the American Red Cross, that the Red Cross is funding, but it is jointly developed by them and by our Human Nutrition Information Service and will be taught in the local Red Cross chapters around the country. It will help give the public better skills for making food choices most appropriate to them.

We are also doing teleconferences and workshops, because these sometimes are a less expensive way of communicating with the public than producing a written publication.

We recently, with the Department of Health and Human Services, conducted a teleconference on maternal and infant nutrition. This was sent out to public health professionals who deliver services to this pregnant and child-bearing population. It was a much less expensive mechanism for us to help a lot of those professions than if we had prepared written materials and delivered it.

We have also done a very interesting thing recently with the Food and Nutrition Service and the Consumer Office combining forces to conduct what we're calling Making Food Dollars Count. They are workshops on nutrition and food selection problems of the economically disadvantaged. The Food and Nutrition Service regional offices have provided the support for this, and the beauty of the program is, is that once the workshops are conducted in each region, then attendees can go back into their local community and carry on further workshops for the public.

We're sometimes faulted, the Department of Agriculture or in Government as a whole, I think, for failing to tell consumers what to eat to be healthy. The truth is, we don't really. Although nutrition research has answered many questions during this century, it is still a new science, and the Department, I would point out, is very dedicated to finding more answers to these questions that the public has about what is a good nutrition intake. In the interim, nutrition advice to consumers from the Department of Agriculture and Health and Human Services was presented in the publication called "Nutrition and Your Health: Dietary Guidelines for Americans." Briefly, these guidelines suggest that we in the American public select moderate amounts of a variety of foods daily from our abundant food supply, and that we maintain ideal body weight through exercise.

We are reviewing those guidelines as directed by the Senate Appropriations Committee. And a panel of scientists has been selected to review the guidelines, and the work will begin this summer.

Mr. Chairman, we have covered a broad range of subjects here, and I'll be happy to answer any questions that you might have.

Senator JEPSEN. Thank you, Ms. Jarratt.

[The prepared statement of Ms. Jarratt follows:]

PREPARED STATEMENT OF MARY C. JARRATT

Mr. Chairman, and members of the Committee, thank you for this opportunity to be part of this series of hearings entitled, "Toward the Next Generation of Farm Policy." My remarks will address the Department's responsibility as it pertains to consumers by providing them with an adequate, affordable, and safe supply of food and sufficient information to help them choose their food wisely.

I. Adequacy of the Food Supply

To appraise the adequacy of the food supply, USDA economists estimate the quantities of foods available for consumption in our country and the nutrient content of these foods. Such estimates have been made for each year since 1909 and are available in USDA publications. They provide the basis for assessing current levels and food sources of nutrients and for making comparisons with past years.

These food supply data show that we have an abundant, varied, and nutritious food supply. Levels of energy and most nutrients per person are well above the quantities that most people need to eat to avoid deficiency diseases and ensure good nutritional health. In terms of calories and protein -- dietary components in short supply in many developing countries -- our food supply has been abundant throughout the century. Levels of most vitamins and minerals are higher today than at the beginning of the century, partly due to advances in agricultural production and food technology.

These statistics reinforce the evidence of our supermarket shelves -- that our country's food supply provides consumers with the opportunity to select diets of high nutritional quality at a most reasonable price.

II. Cost of Food to Consumers

Between calendar years 1979 and 1982, the Consumer Price Index for all items minus food increased 35 percent from 213.0 to 288.4 (1967 = 100). The CPI for all food increased 22 percent from 234.5 to 285.7. At the same time, the CPI for food-at-home (grocery bills) increased 20 percent from 232.9 to 279.2

The slower inflation rate for food compared to nonfood items is in part the result of an abundant food supply relative to total domestic and international demand. However, this was not the case during the 1970-1980 decade, when food price inflation exceeded nonfood price inflation by more than 10 percentage points. The 1974-75 worldwide food shortfalls caused much of the food price increase during that decade.

The rise in food prices slowed dramatically last year, helping to ease pressure on family budgets and making a big contribution to the fight against inflation. The rate of increases in food prices continued to slow this year.

Food prices are expected to rise 2 to 4 percent in 1983, which would be the smallest rise in 15 years. The price of food in 1982 averaged 4 percent higher than in 1981. That was half the 1981 rise of 7.9 percent. As often happens, food prices in 1982 rose more slowly at food stores than at restaurants: 3.4 percent versus 5.3 percent. In both cases, however, prices increased much more slowly than the year before.

There were a number of reasons for this. Excellent weather produced bumper harvests on American farms and production of most livestock foods increased, making food supplies abundant. At the same time, the recession cut into buying power, and thus, consumer demand for food. Meanwhile, the cost of doing business for firms in the food industry rose more slowly than in recent years. And finally, prices of imported foods and fish increased very little.

This meant good news for food shoppers. For example, prices of many foods at the grocery store were only slightly higher than the year before, and some were much lower. Since last August, the combination of abundant food supplies and weak demand have caused grocery store prices to drop from one month to the next.

When economists examined the causes of last year's 3.4 percent rise in grocery store food prices, they found that the slight increase in the farm value accounted for only one tenth of the rise. Higher prices for imported foods and fish caused another one tenth of the rise in food store prices. The remaining eight tenths came from a higher farm to retail price spread. The farm to retail price spread, or difference between the farm value of food and its retail price, is the charge for processing, shipping, and retailing farm-produced foods.

Although the spread rose by 5.1 percent last year, the rise was far slower than in 1981 and the smallest increase in 5 years. Smaller increases in labor, packaging, and energy costs were mainly responsible.

Weaker consumer demand posed problems for the food industry as well as for farmers. This industry -- which encompasses such diverse firms as food processing, shipping, food stores, and restaurants -- is a major sector of the U.S. economy, and one of the largest in terms of the number of jobs it provides.

III. Domestic Food Assistance to Consumers

USDA distributes farm products for the public good through two basic mechanisms. One is through provision of cash (school lunch and breakfast reimbursements) or near-cash (food stamps) benefits to eligible recipients that are negotiated directly in the marketplace for food products.

The second mechanism is through the donation of food products to the public for use in schools and other eligible outlets of existing Food and Nutrition Service programs. Food products are acquired for donation in three ways:

- USDA buys food on the open market with funds that it receives by direct appropriation from Congress. USDA gives these foods to schools that participate in the National School Lunch Program and other child nutrition programs, sites that participate in nutrition services for the elderly, Indians on reservations, and participants in the Commodity Supplemental Food Program.

- USDA buys fruits, vegetables, meat, and poultry items under surplus-removal programs, as authorized by Section 32 of Public Law 74-320, as amended.

  Section 32 allows USDA to encourage domestic consumption of commodities by removing them from the normal channels of trade. USDA buys the food to strengthen farm income and then donates it to nutrition programs, most of which are school food programs.

- USDA obtains other foods, such as grains, dairy products, vegetable oil, and peanut products, through price support activities that help farmers achieve a fair return for their products. Foods acquired under this legislation may be donated to any domestic outlets under Section 416 of the Agricultural Act of 1949, as amended, which include schools, and charitable institutions. Our recent cheese and butter distributions are good examples of this particular type of food donation.

The total value of these commodities was $1.4 billion in Fiscal Year 1982. Of these, the value of purchases was $610 million; the value of "bonus donations" of commodities obtained under price support programs was $854 million. These totals are increasing during Fiscal Year 1983. We expect to distribute to needy families approximately $75 million worth of food under Title I of the recently enacted Jobs Bill as well as approximately 300 million pounds of dairy and grain products under Title II of the Jobs Bill.

International Food Assistance

USDA participates in alleviating world hunger through Public Law 480, the Agricultural Trade Development and Assistance Act of 1954. The P.L. 480 food program consists of two parts. Title I/III concessional sales and Title II donations. Approximately 5.5 million meteric tons, grain equivalent, are programmed under P.L. 480 each year. The P.L. 480 authorizing legislation requires a minimum annual Title II commitment of 1.7 mmt.

The voluntary relief agencies that distribute the majority of the Title II food commodities are CARE, Inc., Catholic Relief Service, Lutheran World Relief, Church World Service, Seventh Day Adventists, and the American Jewish Joint Distribution Committee. Food is also donated to the World Food Program to fulfill the U.S. Government's pledge obligations to foreign countries. In addition, small amounts of food commodities are donated to other foreign governments for use abroad in meeting famine or other urgent or extraordinary relief requirements, economic development and school lunch programs in friendly developing areas.

The Agricultural Stabilization and Conservation Service (ASCS) of the U.S. Department of Agriculture is in charge of P.L. 480 operations. At the present time, ASCS purchases 21 different commodities for the Title II programs. These commodities are wheat, sorghum, corn, flour, soy-fortified flour, bulgur, soy-fortified bulgur, corn meal, soy-fortified corn meal, wheat-soy blend, soya flour, soy-fortified sorghum grits, soy-fortified rolled oats, corn-soya milk (CSM), instant CSM, salad oil, nonfat dry milk, milled rice, peas, corn-soya blend (CSB), and wheat protein concentrate (WPC).

Safety and Wholesomeness of the Domestic Food Supply

In recent months, the safety and wholesomeness of this nation's meat and poultry supply have come under fire in the press and by certain consumer organizations.

One group claims that USDA's inspection program is inadequate; other critics allege that meat and poultry products contain toxic chemical residues and pose other unnecessary health risks.

Contrary to these charges, however, the American public is better protected today than perhaps it ever has been. Consider this: the Food Safety and Inspection Service, the USDA agency responsible for inspecting meat and poultry, is by far the largest health inspection force in the federal government -- both in absolute numbers and in the ratio of inspectors to regulated facilities. Close to $1 million is spent every day in the inspection of livestock, poultry, and processed products. Furthermore, since 1981, while many government programs have been reduced, both the Executive and the Legislative branches have seen to it that the meat and poultry inspection program remains intact.

In the face of an increasingly technological and productive industry, USDA is constantly seeking ways to efficiently improve procedures for inspecting slaughter and processing operations. A look at the record shows that the overall enforcement effort of the inspection program is nearly identical to that of the past.

As to the longstanding problem of drug and chemical residues, USDA has had great success in their prevention and control. The Department does not test every bird and animal carcass for every possible compound that may be in the food supply; that would be impractical and extremely costly. What we do instead is monitor those compounds posing the greatest threat by analyzing randomly-selected tissue samples in all species and test tissues from specified suspect animals before permitting their release into commerce. In addition, the

Department conducts the Residue Avoidance Program — a cooperative effort between government and industry that teaches farmers to eliminate potential problems at their source.

Of course, the only true measure of consumer confidence comes from consumers themselves, and this is confirmed each year by a consistently high per capita consumption of meat and poultry. Also, a recent nationwide survey by the Good Housekeeping Institute indicates the public has retained its trust — recent faultfinding notwithstanding. One of the Good Housekeeping survey questions asked participants to rate the success of USDA and the Department of Health and Human Services' Food and Drug Administration in carrying out our food protection responsibilities. Regarding the degree to which we ensure the safety of food, we were found to be "good" or "very good" by 76 percent.

We at the Department have every intention of ensuring that this confidence endures. Maintaining effective communications with the public we serve is one important way this is accomplished. Last year, the Food Safety and Inspection Service distributed nearly one million free publications to help consumers prevent food poisoning and combat other food-borne health hazards. The Agency also initiated the meat and poultry hotline, providing fast and easy telephone and mail access for answers to concerns about the safety, wholesomeness, and proper labeling of meat and poultry products. And, for the third year, students from every elementary school in the country had the opportunity to learn safe food handling practices through USDA's Food Safety Poster Contest. This year's contest reached upwards of a half million school children and attracted nearly 70,000 entries.

IV. Nutrition Information

Since the beginning of its human nutrition program in the 1890's, the Department of Agriculture has conducted research and developed knowledge and techniques for improving professional and public understanding of nutrition. Primary research areas are the nutritional needs of people, the nutritive value of foods, the nutritional adequacy of diets and food supplies, and the selection and handling of foods.

Several USDA agencies share responsibility for conducting nutrition research and interpreting it for consumers. The Agricultural Research Service, in its five regional laboratories, studies human nutritional requirements at various stages of the life cycle. The Human Nutrition Information Service develops standard reference tables on the nutrient composition of foods, conducts periodic national surveys to monitor the nutritional levels of U.S. diets, and develops and communicates information on a variety of food and nutrition consumer issues. The Extension Service, with its network of State specialists and agents in essentially every county in the country, translates USDA-developed nutrition information for consumers at all economic levels.

The Department's emphasis at the Federal level is to provide nutrition information to professionals, such as Extension Agents and other community leaders who in turn interpret the information for helping to solve consumer problems. Toward this end, research results are published in reports, USDA periodicals, and professional journals. In 1982, the Human Nutrition Information Service alone published over 80 such items.

New technical information was published on the nutritional content of about 160 breakfast cereals, 300 fruits and fruit juices, and the content of 275 food items. More consumer-oriented publications present the nutritive value of about 800 commonly used foods, the sodium content of foods, and a pocket calorie guide.

Reports from the Nationwide Food Consumption Survey showed the food and nutrient intakes of men, women, and children of different ages. The changes in average food consumption patterns of individuals required to meet specified dietary standards, such as the Recommended Dietary Allowances, were determined. Newly revised family food plans at different costs illustrate how families can get nutritious diets they can afford.

An annotated bibliography of nutrition education materials was published to help state and local staff in the Special Supplemental Program for Women, Infants, and Children (WIC) select, acquire, and develop materials for program participants.

USDA agencies cooperate with other public and private organizations in the preparation of research-based information for consumers. An example is the Human Nutrition Information Service's cooperation with the American National Red Cross in developing a nutrition course for the general public. This course, now being field-tested in 60 Red Cross chapters nationwide, is designed to help participants build the knowledge and skills for making food choices. In six two-hour sessions, the course covers topics such as nutrition through the lifecycle, food composition, energy balance, fitness, and dietary adequacy.

The American Red Cross initiated this project in response to specific requests from local communities and an assessment of need for a nutrition course for the public. The Red Cross is providing the funding as well as staff support and publication costs. The Human Nutrition Information Service is providing scientific expertise and technical assistance in the development and testing of the program. USDA's Extension Service is working with HNIS to assist the Red Cross program coordination and delivery.

Teleconferences and workshops are other ways the Department communicates nutrition information to professionals -- and through them to consumers. A recent nationwide video-teleconference for nutrition and health professionals in all 50 States presented the newest nutrition findings as they relate to maternal and infant health. The teleconference was sponsored jointly by the Departments of Agriculture and Health and Human Services.

The Department is conducting a series of seven regional workshops for nutrition education and health leaders. This program, Making Food Dollars Count, focuses on nutrition and food selection problems of the economically disadvantaged. The workshops are coordinated through the Food and Nutrition Service's regional offices. In the workshops in Atlanta and Dallas, USDA agencies presented research-based sample meal plans to show how a four-person family can have nutritious and appetizing meals for $58 a week -- the full food stamp allotment level. Workshop participants will use these and local materials and resources to help consumers, especially those with low incomes, to make their food dollars count for good nutrition.

The Department is sometimes faulted for failing to tell consumers what to eat to be healthy. The truth, is we do not know how. Although nutrition research has answered many questions during the 20th century and the Department is dedicated to finding more answers, much is not yet known. In the interim, the nutrition advice to consumers from the Departments of Agriculture and Health and Human Services was presented in Nutrition and Your Health . . . Dietary Guidelines for Americans. Briefly, these guidelines suggest that we select moderate amounts of a variety of food daily from our abundant food supply and maintain body weight through exercise and controlling calories.

As stipulated by the Senate Appropriations Committee, a Dietary Guidelines Advisory Committee has been established to review comments received on the Dietary Guidelines pamphlet since its release in 1980 and to make any recommendations it deems appropriate. The Committee has nine members -- three representatives each from the Departments of Agriculture and Health and Human Services and three selected from a list of nominees recommended by the National Academy of Sciences. The organizational meeting of the Committee is planned for this summer.

This concludes my remarks. I appreciate the opportunity to appear before this Committee and will be pleased to answer any questions you may have at this time.

Senator JEPSEN. I think that we will proceed with each of your statements, and then we will get into the questions.

Now, I welcome Rodney Leonard, executive director, Community Nutrition Institute. Please proceed as you wish, Mr. Leonard.

STATEMENT OF RODNEY E. LEONARD, EXECUTIVE DIRECTOR, COMMUNITY NUTRITION INSTITUTE, WASHINGTON, D.C.

Mr. LEONARD. The American food system is going through a classic supply crisis today. It appears that we are producing more food than we can consume or sell, but that really isn't a very accurate description.

The source of the crisis is the failure to develop in consumption economics the same experience and expertise and institutional capacity that we now devote to supply economics.

The fact that JEC has called these hearings is irrefutable evidence that the Federal Government feels an historic obligation to intervene when U.S. policy fails the farm economy. The fact that we will be spending this year over $30 billion on farm income programs indicates how massive that intervention has become and how ineffective the programs of production economics are today.

The desperate nature of the crisis clearly suggests the need to incorporate consumption economics into U.S. food policy if we are to fully exploit in the next 20 years the achievement of over a century of supply economics.

It is a great achievement. We can produce today all the food we need, but when our system fails to distribute it we don't know what to do.

We still believe that the solution to hunger in the United States and the world is to increase food production. Supply has never been a problem in modern times in the world. It is simply the fact that we don't know how to distribute the food that we have.

I think consumption economics holds the key to solving that problem.

First, it can provide a ration economic framework for rebuilding U.S. export markets and reestablishing American leadership in world efforts to end hunger.

Second, it will incorporate the impact of consumer food practices into the dynamics of U.S. food policy.

Third, it will develop the research processes and data sources that are missing now, and which would contribute to correcting the structural lapses in food policy.

We have always had a supply crisis in the United States in the 20th century. Beginning in the 1920's and in each decade following, we have always dealt with a supply crisis.

The crisis in 1983 is different in two significant aspects. It is the first time that the American food system can neither be isolated from world food conditions nor ignore human nutrition or the relationship of diet to health.

In the 1970's there were three very significant changes in our food system. It was a period when consumption economics began to dominate the American food system but not American food policy.

First, in the 1970's millions of American, who were at nutritional risk largely because of economic conditions, were able to gain access for the first time to the commercial food distribution system.

In the 1960's the programs were created. In the 1970's the funds became available which allowed those programs to achieve their nutritional objective.

The food stamp program increased from a participation of somewhat under 23 million in the late 1960's to about 23 or 24 million by 1980. You can see in chart No. 1 of my prepared statement how that participation grew and the relationship of that participation to unemployment, which is a basic economic indicator.

The school lunch program was able to increase the participation of children from low-income families from less than 2 million to somewhat over 10 million and to increase the total participation in the school lunch program to 27 million by 1980.

In 1970 we didn't have a WIC program; we didn't have a program of nutrition for the elderly. By 1980 over 1 million women and infants were receiving a much more adequate diet because of the WIC program, and somewhat over 2 or 3 million elderly at one time or another during the year are participating in the nutrition program for the elderly.

So what happened in the 1970's is we greatly expanded food consumption in the United States through an intervention on the consumption side.

Second, the dietary practices in the American population began to change in the early 1970's, initiating a shift in consumption patterns that continues today. In chart No. 2 of my prepared statement, you can see pretty much what happened.

Poultry consumption increased somewhat over 20 percent from 1970 on. The meat line is somewhat deceptive. It appears as though it is flat. It is flat only because pork consumption increased slightly, while beef consumption dropped something over 20 percent.

The consumption of dairy products has remained somewhat flat, but that simply is an indicator of an increase in cheese consumption. Egg consumption has dropped.

The Department and the Congress gave little note to these developments. The data has been relegated primarily to the statistical dust bin. These figures come out of the USDA data series.

If the change in the dietary practices had little impact on farm and food policy, they are having profound consequences in agriculture and the farm economy. If the changes in red meat, poultry, and dairy consumption are translated into its feed equivalent, the average consumer today now requires four fewer bushels of corn than 10 years ago to obtain a diet that is lower in animal fat and cholesterol.

If the American people ate the same diet today as in 1972, the food sector would require 800 million more bushels of corn in 1983 than would be the case. Translating that further, corn would be selling for $3.50 to $3.60 a bushel and there would be no supply crisis for feed grains.

Consumption economics has a certain logic. It rewards the more efficient. A steer requires about 10 pounds of feed to produce a pound of weight grain, and a broiler achieves 1 pound of weight gain from less than 2 pounds of feed.

Hog producers also have a decided advantage over beef. Most of the broiler gain, in addition, is in meat, while the steer gains a large portion of fat.

The third big change in the seventies was an explosion in farm exports, somewhat at a rate of 17 percent each year. That rate of growth completely masked the stagnant condition in domestic consumption, and it left U.S. farmers in a euphoric state that seemed to justify almost any risk entailed in expanding output.

By the eighties, more land was in crop production than ever before, and the ratio of farm debt to farm assets was at a record level. That ratio is even worse today because since 1980 farm land values have actually decreased but farm debts have not changed that much. The world consumers seem to display a limitless demand for U.S. food commodities.

So, in a period of 10 years, which is a very short time in agriculture policy history, these changes occurred:

We adopted a world consumption perspective in our economic calculations;

Consumption in the domestic markets had moderated for a traditional dietary pattern emphasizing feed grains and oilseeds, and the use of these bellwether crops no longer expanded with population growth. If you look at table 6 of my prepared statement, corn—disappearance in the domestic markets—has remained essentially flat through the 1970's;

Third, food programs were measurably important, both to the Nation's food economy as well as to its health status.

Although consumption economics was playing a dominant role in the U.S. food system, that fact appears to have escaped both the Reagan administration and the Congress.

In 1981, the administration led off with a slashing attack on food programs, proposing a sharp funding cut in food stamps and child nutrition programs that Congress adopted. The Congress, in turn, wrote a farm program that the President signed, raising loan rates on farm-stored grains and the target price below which the Federal Government would compensate farmers for making up the difference between the market and what they got.

The stage was set for a fall, and U.S. monetary policy pushed agriculture over the edge. Between 1980 and 1982, the value of the dollar rose more than 25 percent, increasing the cost of American grain on world markets by a fourth just as the Congress and the USDA raised grain prices.

The boom ended, and farm exports dropped in 1981 and 1982, and they are projected to drop another 8 percent today.

Secretary Block blames the Nixon and Carter administration embargoes, which is a peculiar evaluation considering that we raised grain prices and pushed up the world floor price for grain. The United States is no more unreliable a supplier than any other nation. Today we are just the most expensive.

Consumer nations found an abundance of grain, enough at prices lower than those offered by the United States to fill their needs. U.S. producers could safely ignore the competition, even describe it as unfair, and sell everything to the Federal Government.

There was a stock buildup on, and the problem was actually visible as early as 1978, when U.S. grain stocks began a steady annual increase. The alarm bells began to ring in 1981, when we spent $12 billion without any effect. We actually had a sharper increase in stock buildup than in any other year.

Now we have PIK, which really isn't going to have any impact other than to show that farm program costs were beginning to increase geometrically.

While monetary policy was accelerating the cost of our domestic farm commodity programs, the Reagan administration was initiating a consumption economics program domestically that was exactly the wrong policy at the worst possible time.

The U.S. economy plunged into its most severe depression since the 1930's. Unemployment rose to over 10 percent by late 1982, yet food stamp participation, which always rises during these periods, actually dropped. People who needed help were not getting any. Millions were cut off, and benefit levels for everyone were reduced.

School lunch participation fell by more than 3 million students, from 27 to 23.3 million, in part because of higher prices charged to compensate for the loss of Federal support and in part because of new eligibility requirements designed by USDA to cut participation.

No one thought to examine the consumption impact of this. If they had, I think that they might possibly have taken a less drastic step, because the studies that are available indicate that school lunch and breakfast meals supplement the meals consumed at home; that is, consuming meals or food in school does not reduce food intake in the home, or put another way, food consumption drops by the amount the child nutrition programs are cut.

If you want to have the same impact to the school lunch program in the general domestic consumption, you have to increase family income $9 for every dollar you cut out of the school lunch program.

Also, a study of the food stamp program made some rather striking findings. First, food stamps increase slightly the overall level of food purchasers, but most significantly, it helps families maintain the level of food consumption that they had, even though their incomes fall.

So, in other words, the purchases among those who are not able to obtain help will drop in proportion to the decline in family income.

It is unlikely that a more disastrous consumption policy could have been devised than those which were implemented after 1980. It would have taken a $20 billion increase in family income to make up for the loss and the cuts in the school lunch program, but family income actually dropped. If we had wanted to maintain national food consumption through the recession, we could have done so, and at far less cost than it will now incur this year alone with the PIK program.

Coupled with a dairy program that requires the Federal Government to spend $3 billion to buy 12 to 14 percent of all milk produced, supply economic policies of the Department of Agriculture are costing taxpayers over $21 billion in direct outlays this year and an additional expenditure of $12 to $14 billion for the PIK program. We probably will transfer between $34 and $36 billion to farmers in 1983.

PIK is the wrong answer to a supply economic crisis because it turns the surplus back on the farmer. It dumps the surplus on the people who produced it, and it means that farmers have to sell what they grow this year with what they grew in the years past plus compete with what is being grown now around the world.

Looking at world production figures today, it is quite clear that world producers are making up almost exactly the amount of grain we are cutting out of our own domestic production this year through PIK.

PIK fails because it is based on the conceit that agriculture can isolate itself from the influence of world consumption and competition.

Consumption is distribution economics. It involves an ability to understand and exploit marketing techniques and concepts.

The Federal Government, particularly USDA, is woefully equipped to work in distributional economics, primarily because the institutions of consumption economics do not exist, and those that were being developed have been carefully destroyed by the Reagan administration.

Simply put, the Congress and the administration must develop policies that increase consumption, and, couple that with a conservation policy to conserve surplus production resources until the day the food they can produce is needed. This will exclude long-term as well as immediate steps to expand food consumption, to create new and future markets, and to equip the United States with an institutional capacity to employ consumption economics in team with supply economics.

Let me outline a few things that this would involve.

First, since the crisis of 1983 means that the Federal Government will be spending heavily in the food sector over the next 3 to 4 years, the real policy issue is how those funds can best be spent. In this context, consumption economics has the better answer.

These include:

On the domestic side, to expand food consumption among low-income households, among children in school, and among the groups at nutritional risk;

On the international side, it would involve a long-term food aid and development assistance program, a commitment that the United States would put 30 million tons of grain into a world food reserve, including 12 million tons of wheat and 18 to 20 million tons of corn.

If you look at chart 7 of my prepared statement, based on export trends in the 1970's and on the growth prospects for the 1980's, the markets with the most potential for expansion are Third World countries, but these countries do not wish to increase their reliance on donor country grain exports unless they can be assured of a reliable source of supplies under all kinds of marketing conditions.

Many of them need a temporary boost, which concessional food aid now can provide. In southern Africa, particularly, a substantial amount of food aid is going to be needed, perhaps as much as 4 million tons of corn this year, with similar increases available next year, and additional stocks positioned as reserves for the area.

This would be both a multilateral and a bilateral program, and it must be carried out over a 15-to-20-year period of time. We recognized long ago in agricultural research that to develop new and improved crops and production techniques we have to take a 20-year timeframe to develop those, and we have now got to extend that timeframe concept through consumption economics to develop future markets.

There was a Library of Congress study last year which pretty much shows that if you follow a program of expanded food aid and development assistance in the magnitude that I have described you can have a very significant impact on farm income, a very positive impact on farm income, within 2 to 4 years.

Second, expansion of consumption in commercial world markets requires that the United States cease its efforts to prop world grain and commodity prices. Current loan rates are forcing the United States to convert potential exports into surplus. Those loan rates need to be reduced.

Third, consumption economics holds the promise of a better future for most farmers than does conventional supply economics. The reason is the structural change that has occurred in U.S. agriculture over the past generation. Most farm families reside on farms today, but earn their income from off-farm employment and other sources.

A recent study by the University of Illinois, for example, found that families on small farms in that State deliberately chose to combine nonfarm work with a small farming operation which they did not rely on for current income. They are middle-income families who are enthusiastic about farm life.

Commodity programs that are now the traditional component of U.S. farm policy do not help these farmers. In fact, those commodity programs force them to compete in a way they are sure to lose. They cannot grow corn or soybeans in competition with the large industrial farm, but supply economics gives them no option.

If they wish to earn more from farming, U.S. policy should assist them to produce food or other products for nearby markets that is differentiated from what their neighbors produce. There is no such policy today.

Fourth, given the change in domestic food consumption and the trends in animal livestock breeding that will further improve feed conversion ratios, perhaps as many as 15 million acres of cropland should be withdrawn in 1984 from cultivation and placed in a conserving reserve. A long-term program to place those acres in conservation uses would be a worthwhile public investment. The program could include, in addition, incentives to producers who would adopt soil and water conserving practices that would regenerate the productive capacity of those resources but which also would lower yields.

Fifth, the major expansion in research and program development for consumption economics should begin immediately in the food sector. The sparse research that is now being done in food stamps, child nutrition. WIC, elderly nutrition, and other areas is either mandated by the Congress for some particular reason or is conducted as a graduate program in a few universities.

Very little is being done because there is no coherent strategy. There is no consensus on research needs. There is no sense of commitment by the Federal Government. Yet the data needed to plan, manage, and evaluate those programs will have to come from the Government. It comes from no other place.

We are proceeding in a similarly blind fashion in directing the immediate scope and direction of food programs.

For example, Congress passed the jobs bill and added $100 million for the WIC program. Well, the State WIC directors were enthused about that, but nobody had asked them for an estimate of what they needed, and, further, community projects were unprepared and had been more or less reacting to USDA activities over the last 2 years of cutbacks in quotas and casual redistribution—all policy actions to encourage the elimination of the WIC program.

That is no way to manage programs, and no food program is managed coherently today. USDA simply establishes a budget target. It argues with the OMB over what that amount should be, and then it presents that figure to the Congress, and people assume that somehow it is related to a particular need in the United States.

If the process were to be rationally organized, Congress would look to local communities to assess the level of nutritional need among their residents through a planning process, and those evaluations would be compiled by each State and forwarded to enlighten Congress and the Department of Agriculture.

That way Congress, as well as the executive branch, could fund programs at whatever level they chose, but then they would know whether they were meeting 40 percent, 60 percent, or all of the nutritional needs of individuals at nutritional risk in the United States.

Food programs are community resources. They are created by the Federal Government to enable the community to be more responsive to the needs of their own citizens. We should begin now to evaluate them effectively and manage them appropriately, and that begins with a planning process. The funding of that is an essential Federal obligation.

Another institutional linkage that is missing in the policy process is information that would enable consumption economists, the food industry, and the Federal Government to follow the trends in food consumption practices among consumers—individually, regionally, and as a family.

Many agencies gather some dietary information, but no data can be assembled to provide policymakers or program managers or anyone else with an ongoing assessment of nutrition in the United States. We know how to conduct surveys; we know how to perform longitudinal studies; we know how to examine dietary practices as they affect the consumption of individual commodities; but we are unable to do this today because Congress does not understand its importance and does not authorize funds nor the data collection and analysis.

The crisis that we face today is as much a failure to exploit and develop the structures and institutions of consumption economics as to the failures in management of supply economics.

If we were to take some of those steps, there are about seven that I would recommend:

First, that world consumption economics should determine the basic structure of commodity programs, which means the United States can no longer rely on traditional price support mechanisms;

Second, that we have to develop a crop acreage conservation program;

Third, that we have to develop farm programs to encourage smaller producers to differentiate output;

Fourth, we have to develop a long-term commitment to assist countries, less developed countries, with the emphasis on the use of American food resources;

Fifth, we have to expand domestic food programs to rebuild food consumption in the United States;

Sixth, we must support research in consumption economics, including programs of study and training in universities and colleges; and

Seventh, we must develop a program to enhance the safety of American food supply, particularly an initiative to secure the adoption of product standards, labeling practices, nutritional survey methods, and a food safety convention that is universal among all trading nations.

By any reckoning, we have come to the end of an era in which food policy was essentially a supply economics issue. We no longer are isolated from the world, and we no longer can use economic regulation to isolate U.S. agriculture from the American consumer.

Any policy that seeks to ignore those conditions will fail, and those that incorporate them will succeed.

Thank you.

Senator JEPSEN. Thank you, Mr. Leonard.

[The prepared statement of Mr. Leonard follows:]

Prepared Statement of Rodney E. Leonard

The American food system is going through a classic supply crisis. It appears we are producing more food today than we can sell, but that would not be an accurate description of the condition. The source of the crisis is our failure to develop in consumption economics the same experience and expertise — an institutional capacity, if you will — that we now devote to supply economics in the food system.

The Joint Economic Committee has called this series of hearings to consider the agricultural crisis in America, irrefutable evidence that the Federal government feels an historic obligation to intervene when U.S. policy fails the farm economy. The fact that the Federal government will spend in 1983 alone more than $30 billion on farm income programs indicates how massive this intervention has become; and, how ineffective the programs of production economics are today to maintain stability in the food system at minimal cost. The desperate nature of the crisis clearly suggests the need to incorporate consumption economics into U.S. food policy if we are to fully exploit in the 1980s and 90s the achievement of a century of supply economics.

It is a great achievement. We can produce all the food we need, but when the economic system fails to distribute the food that is available, we do not know what to do. We still believe, as did the TV newscaster who recently extolled genetic engineering, that more production is the future hope for ending world hunger. The reporter said that science could bring more useful crops and productive animals to commercial agriculture. Supply, however, has never been the food problem for the world in modern times. We produce enough food to eliminate hunger throughout the globe, but we are unable to do that. Instead, we become concerned either when surpluses threaten to swamp the farm economy, or when shortages threaten to raise food prices sharply and suddenly.

Consumption economics holds the key to solving this boom or bust cycle in the American food system because it:

1. Provides a rational economic framework for rebuilding U.S. export markets and re-establishing American leadership in world efforts to end hunger;

2. Incorporates the impact of consumer food practices into the dynamics of U.S. food policies and programs; and

3. Develops the research processes and data sources that are missing from, and which would contribute to correcting the structural lapses in food policy.

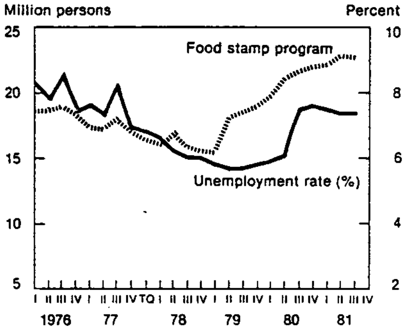
The crisis of 1983 isn't the first crisis of supply economics. We have experienced this condition regularly in nearly every decade since the end of World War I. A panel of distinguished businessmen was appointed by President Coolidge to study the problem in the late 20s; the New Deal farm programs were the response to the crisis in the 1930s, and the "fourth plate" concept was advanced in the 1940s after World War II. P.L. 480, the Food for Peace program, was the safety valve to the crisis after the Korean war. And, supply management was the theme of programs for the 1960s. In every case, the proposed solution was based in supply economics.

The crisis of 83 is different from all others in two significant aspects: It is the first in which the American food system — agriculture, or food production, particularly — neither can be isolated from world food conditions nor ignore human nutrition, the relationship of diet to health.

The transition occurred in the 1970s, a period when consumption economics began to dominate the American food system — but not U.S. food policy. Three events of consumption economics occcurred in that decade that is causing the food marketplace to diverge increasingly from the current objectives of U.S. food policy.

1. Millions of Americans who are at nutritional risk, largely because of economic conditions, were able to gain access for the first time in the 1970s to the commercial food distribution system on the same basis as anyone else. Although the food stamp and child nutrition programs were legislated in the 1960s, the funding necessary for the programs to achieve their nutritional objectives was provided after 1969. The food stamp program served fewer than 4 million persons in 1969, but reached nearly 23 million Americans in 1980 (Chart 1); and, the school lunch program that served less than 2 million children from low and moderate income families in 1969 was reaching more than 10 million in 1980. More importantly, federal funding allowed school lunches to remain at very reasonable cost for every child, regardless of family income, all through the decade. The food stamp program was a vital nutritional asset to 22 million Americans by 1980. The economic importance of this program to the food system can be measured by the fact that retail food profits were approximately the same in 1980 as the value of food purchased with stamps. In 1969, malnutrition among pregnant women and infants was simply acknowledged as a problem; yet by 1980 nearly one million mothers and babies were able to obtain vastly improved diets through the WIC program at a cost of about $750 million dollars. Federal policies in the 1970s were responsible for a significant expansion in food consumption and the moderation of hunger and malnutrition, an economic action that will provide socially beneficial economic windfalls in lower medical and health costs in future years to American society. We acknowledged in 1961 that producing wholesome food was not enough; that malnutrition could be corrected by providing adequate amounts of wholesome foods in a wholesome diet.

Unemployment Rate and Participation in the Food Stamp Program



Fiscal years. 1981 preliminary.

CHART 1

2. Dietary practices of the American people began to change in the early 70s, initiating a shift in consumption patterns that continues today (Chart 2). Per capita consumption of beef reached a record high in 1975, and has declined by more than 20 percent since then. Poultry consumption rose by nearly 25 percent per person, and pork has increased about 8 percent (Chart 3). Consumption of fresh and frozen fruits and vegetables has increased steadily, while consumers are eating smaller asmounts of eggs, whole milk, butter — many dairy products other than cheese (Chart 4). The consumer found that wholesome food is not enough; they want to eat wholesome foods in a wholesome diet.

USDA and the Congress gave little note to these developments, relegating the data to the statistical dustbin. If the change in dietary practices had little impact on farm and food policy, however, the consequences are profound for agriculture and the farm economy. For example, if the change in red meat, poultry and dairy consumption is translated into its feed equivalent, the average consumer now requires four fewer bushels of corn than 10 years ago to obtain a diet that is lower in animal fat and cholesterol. If Americans ate the same diet today as in 1972, the food sector would require 800 million more bushels of corn in 1983 than will be the case. Translating that further, corn would be selling for about $3.50 to $3.60 a bushel, and there would be no supply crisis for feed grains.

Consumption economics has a certain logic — i.e., it rewards the more efficient. A steer requires about 10 pounds of feed to produce a pound of weight gain, and a broiler achieves a pound of weight from less

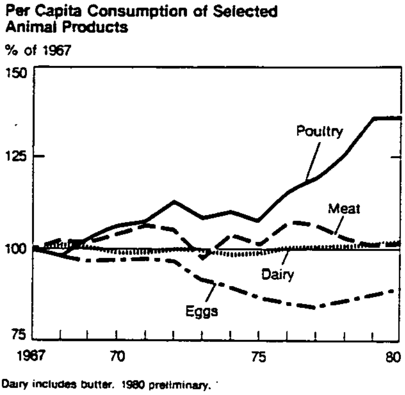


CHART 2

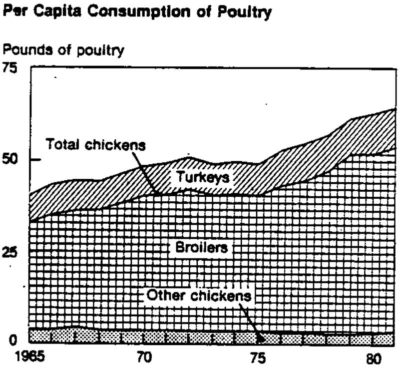


CHART 3

than two pounds of feed. Hog producers have a decided advantage over beef, as well. Most of the broiler gain is in meat, while the steer gains a larger portion of fat.

3. Farm exports, primarily grains and oilseeds, exploded in the 1970s, averaging a nearly 17 percent annual growth. The rate of growth completely masked the stagnant condition in domestic consumption, and left U.S. farmers in a euphoric state that seemed to justify almost any risk entailed in expanding output. By the 1980s, more land was in crop production than ever before, and the ratio of farm debt to farm assets was at record levels (Chart 5). If the rate of growth was unsustainable, few said so. World consumers seemed to display a limitless demand for U.S. food commodities.

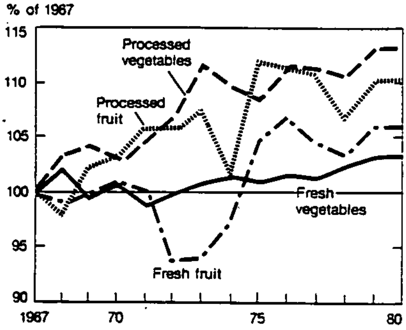
Thus, in the span of a decade, these fundamental changes occurred:

1. U.S. agriculture had adopted a world consumption perspective in its economic calculations;

2. Consumption in domestic markets had moderated for a traditional dietary pattern emphasizing feed grain and oilseed, and the use of these bellweather crops no longer expanded with population growth (Chart 6);

3. Food programs were measurably important both to the nation's food economy as well as its health status.

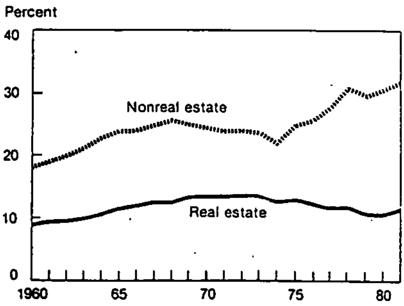
Per Capita Consumption of Fruits and Vegetables



1980 preliminary.

CHART 4

Farm Debts as Percentage of Assets



Debt is shown as percentage real estate debts to real estate assets and percentage nonreal estate debts to normal estate assets. Data as of January 1.

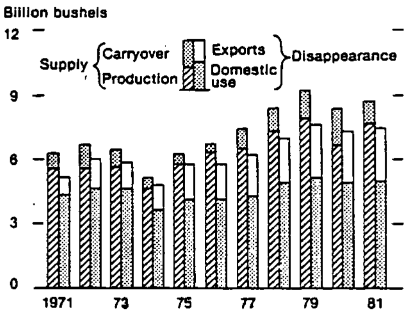
CHART 5

Although consumption economics was playing a dominant role in the U.S. food system, the fact apparently escaped both the Reagan administration and the Congress. The administration led off in 1981 with a slashing attack on food programs, proposing a sharp funding cut in both food stamps and child nutrition programs that Congress adopted. The Congress, in turn, wrote a farm program the President signed that raised the loan rates on farm-stored grains and the target price below which the Federal government will compensate farmers by making up the difference if the market is less than the target.

The stage was set for a fall, and U.S. monetary policy helped push agriculture over the edge. Between 1980 and 1982, the value of the dollar rose more than 25 percent, increasing the cost of American grain on world markets by a fourth just as the Congress and USDA raised U.S. grain prices.

Then the boom ended. Farm exports dropped in 1981 and in 1982, and they are projected to drop another 8 percent in 1983. Secretary Block blames the export embargoes of the Nixon and Carter administrations, a peculiar evaluation considering that we raised grain prices and pushed up the world floor price for grain. We are no more unreliable a supplier than other nations, we're just the most expensive. Consumer nations found an abundance of grain, enough at prices lower than those offered by the U.S. to fill their needs. U.S. producers could safely ignore the competition — even describe it as unfair — and sell everything to the Federal government. The stock buildup was on, a problem that was visible as early as 1978 when U.S. grain stocks began a steady annual increase. The alarm bells began to ring in 1981. A poorly conceived acreage diversion program by USDA in 1982 cost the taxpayer $12 billion, but stocks grew sharply; the PIK program in 1983 will have little real impact, other than to demonstrate that farm program costs now are rising geometrically each year.

Corn Supply and Use



Supply includes imports. Year beginning October 1. 1980 estimated; 1981 projected.

CHART 6

While monetary policy was accelerating the cost of farm commodity programs, the Reagan administration was initiating a consumption economics program domestically that was exactly the wrong food policy at the worst possible time. The U.S. economy in 1981 plunged into its most severe depression since the 1930s, and unemployment rose to over 10 percent by late 1982. Food stamp participation, which always rises during these periods, actually dropped. People who needed help were not getting any, and millions of others no longer eligible under the Reagan rules were cut off. Benefit levels were reduced for everyone. School lunch participation fell by more than 3 million students, from 27 million to 23.3 million in part because of higher prices charged to compensate for the loss of Federal support and in part because of new eligibility requirements designed by USDA to cut participation.

No one thought to examine the consumption impact. If they had, the data might have been sobering enough to cause second thoughts. A recent USDA study of the school lunch and breakfast program is instructive. It concluded that:

1. School lunch and breakfast meals supplement the meals consumed at home — i.e., reducing school lunch intake does not increase food consumed at home; or, put another way, food consumption drops by the amount that child nutrition programs are reduced;

2. Family income must grow by $9 to match the equivalent food purchases of a dollar spent on child nutrition programs.

Similarly, a study — not funded by USDA — of the effect of the food stamp program on food purchases makes these striking findings:

1. Food stamps increase slightly the overall level of food purchases in families recently thrust into poverty;

2. However, the families who receive food stamps tend to continue food purchases as though family income had not fallen; purchases among those who are not able to obtain help will drop in proportion to the decline in family income.

It is unlikely that more disastrous consumption policies could have been devised than those which were implemented after 1980. Had the Reagan administration wanted to replace the loss in consumption caused by reducing spending for school food programs, family income should have been increased by $20 billion. Family income dropped, however. Had the administration wanted to maintain national food consumption through the 81-82 recession, it could have done so — and at far less cost than it will incur this year alone in the PIK program.

Coupled with a dairy program that requires the Federal government to spend $3 billion to buy 12 to 14 percent of all milk produced in the U.S., the supply economics policies of USDA are costing taxpayers over $21 billion in direct budget outlays in 1983 and an additional expenditure of $12 to $14 billion for the PIK program, a budget cost that will not appear until 1984 or 1985 — i.e., farm income programs will transfer $34 to $36 billion to farmers in 1983.

The PIK program is the wrong answer to a supply economics crisis, and it is perhaps the most expensive single farm program ever devised. Certainly it is shaping up as the biggest failure in farm programs ever recorded. It is doomed to fail because it turns agriculture in on itself; PIK dumps the surplus on those who produced it — poetic justice perhaps, but hardly sound economics. When farmers sell their PIK grain this summer and fall, grain supplies will be the greatest in history because they will be marketing new crop grain at the same time they sell PIK grain. They also will be selling in competition with producers from other countries. Increases in world grain output outside the U.S. appear to nearly offset the impact on world supplies of large U.S. acreage cutbacks, a situation that indicates consumer nations will have plenty of grain at very reasonable prices.

Thus, PIK fails because it is based on the conceit that U.S. agriculture can isolate itself from the influence of world consumption and competition. Food policies that use domestic supply economic solutions to solve economic woes caused by global conditions will not succeed, nor will policies that ignore the impact of consumption patterns and trends among U.S. consumers.

Consumption is distribution economics; it involves an ability to understand and exploit marketing techniques and concepts. The Federal government, particularly USDA, is woefully equipped to work in distributional economics, primarily because the institutions of consumption economics do not exist — and those that were being developed have been carefully destroyed by the Reagan administration.

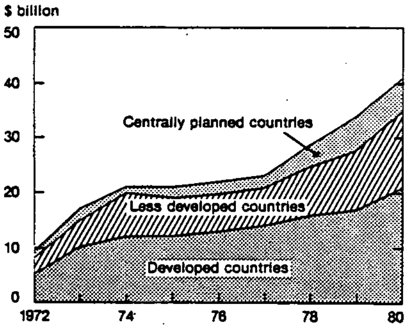
Simply put, the Congress and the administration must develop policies that increase consumption; and, couple that with a conservatuion policy to conserve surplus production resources until the day the food they can produce is needed. This will include long term as well as immediate steps to expand food consumption, to create new and future markets and to equip the U.S. with an institutional capacity to employ consumption economics in team with supply economics. Let me outline what this would involve.

First, since the crisis of 1983 means the Federal government will be spending heavily in the food sector over the next three to four years, the real policy issue is how those funds can best be spent. In this context, consumption economic has the better policy options. These include:

1. On the domestic side, food stamps should be made available to the several millions of persons who still need help, but who were excluded by various strategies, such as raising income eligibility criteria as well as requiring a vow of poverty. Similarly, eligibility requirements that restrict access to school food service programs should be dropped, and reimbursement levels for all students should be increased. Participation in the WIC program should be increased by at least a third, with similar improvements in the nutrition program for older Americans. These steps would involve an increase in FY 84 of about $4 billion, with further increases in the following years.

2. On the international side, the U.S. should initiate a long term food aid and development assistance program for Third World countries (Chart 7). This would involve a U.S. commitment of 30 million tons of grain for a world food security reserve, including about 12 million tons of wheat and 18 to 20 million tons of corn. Based on export trends in the 1970s and on growth prospects for the 1980s, the markets with the most potential for expansion are in Third World countries. But these countries do not wish to increase their reliance on donor country grain exports unless they can be assured of reliable sources of supplies under all kinds of marketing conditions. Further, many of them need a temporary boost which concessional food aid now can provide. In southern Africa, particularly, a substantial amount of food aid is going to be needed, perhaps

U.S. Agricultural Exports to Major Areas



Adjusted for transshipments through Canada.

CHART 7

as much as four million tons of corn this year, with similar levels available next year, and additional stocks positioned as a reserve for the area.

This program would require both multilateral as well as bilateral arrangements, and involve a commitment by the U.S. to support development assistance efforts at an expanded level for the next 15 to 20 years. We recognized long ago that agricultural research programs to develop new and improved crops and production techniques required a 20-year development timeframe, and we now must extend that timeframe concept through consumption economics to develop future markets.

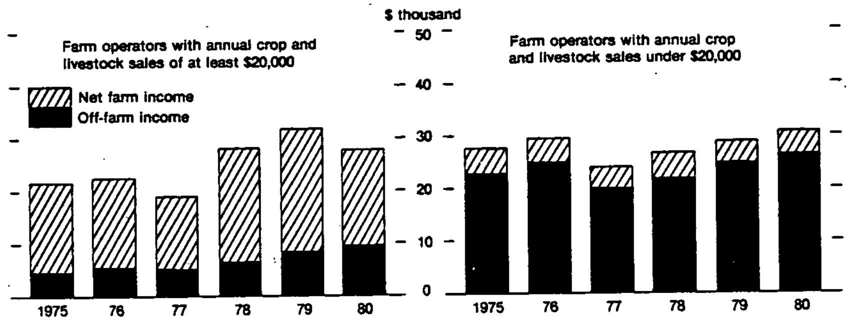
A study earlier this year by the Library of The Congress projected that a food aid program on the scale I have described would have a strong impact on farm income within one to three years, suggesting that the need for direct income transfers to producers could be significantly reduced by 1985. Trade in finished goods and further processed foods will increase, as well, as this trend requires a set of international standards and conventions — i.e., institutional structures — that we do not now possess.

Second, expansion of consumption in commercial world markets requires that the U.S. cease its efforts to prop world grain and commodity prices. Current loan rates are forcing the U.S. to convert potential exports into surpluses; and, those loan rates need to be reduced. Congress attempted in 1981 to assure producers they would receive at least the cost of production, a misleading concept as well as a destructive promise. Price supports, or loan levels, should be pegged closer to the marginal cost of production since that is the level at which producers will continue to plant and harvest. Target prices need to be scaled back in proportion.

These changes will expand consumption; and, they will foster stable food prices in the U.S. while they help restore the competitive ability of the U.S. to trade successfully in world markets.

Third, consumption economics holds the promise of a better future for most farmers than does conventional supply economics. The reason is the structural change that has occurred in U.S. agriculture over the past generation (Chart 8). Most farm families reside on farms today but earn their income from off farm employment and other sources. A recent study in Illinois, for example, found that families on small farms in the state deliberately chose to combine non-farm work with a small farming operation which they did not rely on for current income. They are middle income families who are enthusiastic about farmlife.

Average Farm Family Income All Sources



Net income before adjustment for inventory change. Beginning in 1977, farm income data reflect a change in the farm definition from a place of 10 or more acres with $50 in agricultural product sales and under 10 acres with $250 in sales to a place with $1,000 in sales.

CHART 8

Commodity programs that now are the traditional component of U.S. farm policy do not help these farmers; in fact, commodity programs force them to compete in a way they are sure to lose; they cannot grow corn or soybeans in competition with the large industrial farm, but supply economics gives them no option. If they wish to earn more from farming, the U.S. policy that would help them the most is one that assists them to produce food or other products for nearby markets that is differentiated from what their neighbors produce. There is no such policy, however. Market differentiation is a concept of consumption economics, and it requires skills and experience that few professionals in agriculture now possess.

Fourth, given the change in domestic food consumption and the trends in animal livestock breeding that will further improve feed conversion ratios, perhaps as many as 15 million acres of cropland should be withdrawn in 1984 from cultivation and placed in a conserving reserve. A long-term program to place these acres in conservation uses would be a worthwhile public investment. A conserving program could include, in addition, incentives to producers who would adopt soil and water conserving practices that would regenerate the productive capability of these resources but which would lower yields.

Fifth, a major expansion in research and program development for consumption economics should begin immediately in the food sector. The sparse research that is now being done in food stamps, child nutrition, WIC, elderly nutrition and other areas is either mandated by the Congress for some particular reason, or is conducted as a graduate program in a few universities. Very little is being done because there is no coherent strategy, no consensus on research needs and no sense of commitment by the Federal government. The data needed to plan, manage and evaluate the programs, however, will come from no place else.

We are proceeding in a similarly blind fashion in directing the immediate scope and direction of food programs. Earlier this year, for example, the Congress, in passing the jobs bill, added $100 million to the WIC program. State WIC directors were enthused about the action, but no one asked them for an estimate of program needs; community projects were unprepared, and suddenly found they could expand participation after two years of threatened cutbacks of quotas and casual redistribution — all policy action to encourage elimination of the program. This is no way to manage programs, and no food program is coherently managed today. USDA simply establishes a budget target, argues with OMB over the amount, and presents a figure to the Congress that people assume is somehow related to a particular need in the United States. If the process were to be organized rationally, the Congress would look to local communities to assess the level of nutritional need among their residents through a planning process, and those evaluations would be compiled by each state and forwarded to enlighten the USDA and the Congressional budgeting process. Members of Congress as well as the Executive branch could fund the programs at levels they deem appropriate, but they would know whether the U.S. is meeting 40 percent or 60 percent or all of the nutritional needs of individuals at nutritional risk in the U.S. Food programs are community resources, in truth, created by the Federal government, and we should begin now to evaluate them effectively and manage them appropriately. Those steps begin with a planning process, the funding of which is an essential Federal obligation.

Another institutional linkage that is missing in the policy process is information that will enable consumption economists, the food industry and the Federal government to follow the trends in food consumption practices among American consumers individually and regionally, and as a family. While many agencies gather some dietary information, no data can be assembled to provide policy makers or program managers or anyone else with an ongoing assessment of nutrition in the U.S. that is anywhere comparable to the data available on crops and livestock. We know how to conduct surveys and perform longitudinal studies, we know how to examine dietary practices as they affect the consumption of individual commodities, but we are unable to do this today because Congress does not understand its importance and does not authorize the funds nor the data collection and analysis.

The crisis of 1983 is as much due to this failure of the Congress and the farm policy leadership to develop and exploit the structure and institutions of consumption economics in food policy as it is to the failures in management of supply economics by the Reagan administration; the management lapses only make the problem so bad that the responses to correct them are easier to understand. They include:

1. World consumption economics should determine the basic structure of commodity programs, which means the U.S. can no longer rely on traditional price support mechanisms.

2. Crop acreage that is producing excess quantities of grain should be put to conserving uses, and Federal policy should encourage and support land use practices that emphasize resource regeneration over maximum productivity.

3. The development of farm programs to encourage smaller producers to differentiate output for consumption in nearby urban centers.

4. A U.S. commitment to a long-term development assistance program for less developed countries, with emphasis on the use of America's food resources in that effort.

5. Expansion of domestic food programs to rebuild food consumption in the U.S. recognizing that Congress has created a new set of resources in food programs that enable communities to eliminate hunger and malnutrition.

6. Support for research in consumption economics, including programs of study and training in universities and colleges, for gathering and assembling data on consumption patterns and practices, and for the monitoring of the nutritional status of the consumer in America.

7. Develop a program to enhance the safety of the American food supply, including an initiative to secure the adoption of product standards, labeling practices, nutritional survey methods and a food safety convention that is universal among all trading nations.

By almost any reckoning, the U.S. is coming to the end of an era in which food policy was essentially a supply economics issue. We are no longer isolated from world trends, which means we must compete for consumers who will buy our products; nor can U.S. agriculture isolate itself through economic regulation from the American consumer. Any policy that seeks to ignore these conditions will fail, and those that incorporate them will succeed.

Senator JEPSEN. Mr. Farrell, please proceed as you wish.

STATEMENT OF KENNETH R. FARRELL, DIRECTOR, FOOD AND AGRICULTURAL POLICY PROGRAM, RESOURCES FOR THE FUTURE, WASHINGTON, D.C.

Mr. FARRELL. Thank you, Mr. Chairman and Senator Abdnor. We appreciate this opportunity to discuss with you current and emerging public policy issues concerning food and agriculture. I will summarize my prepared statement which you have kindly agreed to insert in the record in full.

I would like to acknowledge, before I proceed, help in preparing my prepared statement by a colleague of mine, Ford Runge of the University of Minnesota.

While this hearing has been designed to explore specifically consumer interests in farm policy, in our paper we have chosen to approach the subject from a rather broad perspective, emphasizing the plurality and the interdependence of interests, including consumer interests, in agricultural policy.

We contend that future agricultural policy should be developed within a framework that explicitly recognizes both the complementarities and the conflicts among what we term the three dimensions of agricultural policy, that is, farm policy, food policy, and foreign policy.

Crosscutting and constraining these three general dimensions are the imperatives of the national and international economies to which U.S. agriculture has become inextricably linked and the restraints on future Federal Government expenditures which will be required if we are to control burgeoning budget deficits. We contend also that agricultural policy narrowly drawn to promote the interests of any one group without recognizing the interdependence of the 1980's is likely to prove either unattainable or untenable.

Now, turning more specifically to the setting in which policy will be made in 1985 and beyond, it is apparent that U.S. agricultural policy is no longer the province of a self-contained set of congressional committees, USDA policymakers, and farm interests. It is increasingly linked not only to the nonfarm domestic economy but to world markets and international political forces. A clear understanding of these linkages, some of which have been touched upon in previous hearings of this committee, is essential for development of stable, long-term agricultural policies.

Traditionally, farm legislation has involved the interplay of well defined groups of farmers and consumers seeking to accommodate demands for high or higher farm prices on the one hand, and for low or lower food costs on the other. Although difficult to negotiate, this legislation was possible during the past decade, when increases in American agricultural output and rapidly expanding export markets were the norm.

Technological advances in agriculture coupled with increased amounts of land and capital resources in the sector and with expanding market demand made it possible, simultaneously, to improve farm incomes, maintain food prices at low real levels relative to consumers' disposable income, enlarge our favorable balance of agricultural trade, and keep Treasury outlays for farm programs low—what we call a positive-sum game in which some reward was possible for everyone through some reasonable compromise.

But the prospects of unprecedented future fiscal imbalance in the United States make linkages between farmers, consumers, and taxpayers more of a zero-sum game. Fighting for a shrinking pie means that the gains of one are likely to be the losses of one or both of the others.

Agricultural policy must thus widen its scope to account not only for consumer interests but for national fiscal impacts.

The scope of agricultural policy has also widened in the international arena. As Professor Schuh noted in testimony before this committee on May 26, the impact of international economic conditions on agriculture has increased as American farmers have come more and more to rely on export markets to supplement domestic demand. Over the decade from 1972 to 1982, the dependence of American agriculture on foreign trade more than doubled. Hence, agricultural policy is now tied inextricably to a wide range of international economic issues.

A third factor widening the scope of agricultural policy is its link to foreign policy. The Carter-Reagan grain embargo, declared as a reaction to the Soviet invasion of Afghanistan, was the fifth agricultural trade ban in 10 years. In the last decade, the interaction of oversupply with significant increases in exports to the Soviet Union has meant that American agriculture is increasingly tied to foreign policy. Last month, the Soviet Union agreed to begin negotiations on a new long-term grain agreement. Whether such an agreement is concluded will depend, of course, on a host of factors independent of agricultural issues, among them, strategic arms negotiations and the continuing situation in Afghanistan, Poland, and the Middle East.

In short, Mr. Chairman, agricultural policy is not just farm policy; it is also food policy, and it is foreign policy.

The triangle of interests, as we describe them, defining these three dimensions of policy, is the central dilemma before this committee and the Congress as you consider legislation for 1985 and beyond. Each of the three dimensions of agricultural policy has a set of well established clients, some of which agree, but most of whom disadgree, about the direction agricultural legislation in the Congress should take.

Farmers and farm interest groups in general argue for higher producer prices and expanded exports, financed by taxpayers through the loan program, target prices, or credit subsidies to foreign buyers. Agricultural policy to them is farm policy.

Consumers and nonfarm interests, together with the growing group of farm policymakers themselves, question the increasing costs of these programs. Consumer groups, naturally, focus on the impact of agriculture on the domestic food economy, insisting on the need to keep food prices low in real terms. Drawing attention to the many structural issues in American agriculture, these same groups also question the efficiency and the equity of current farm programs. These are what we might call the food policy advocates.

Finally, foreign policymakers and advocates of agricultural development assistance sometimes express a different set of priorities. To many U.S. foreign policymakers agriculture is a bargaining chip, and sometimes a weapon to be used in the latest diplomatic exchange or ideological skirmish.

Food, farm, and foreign policy agendas come together in what we call agricultural policy, to create a triangle of interests which are sometimes complementary but, as I have said, very often conflicting. Those conflicting objectives, coupled with the necessity of fiscal constraints, magnify the problems of constructing coherent agricultural policy legislation. Yet there really is no escape from these multiple objectives and conflicts. The triangle of interests forms the basis on which future agricultural policy must succeed or fail. One thing is certain: We cannot return to the days when agricultural policy was only farm policy.

Let me illustrate further by citing some cases. The Carter-Reagan grain embargo provides a recent and troubling example of how foreign policy experts' use of the so-called food weapon temporarily captured agricultural policy from both farm and food interests.

A recent report by the Office of Technology Assessment reveals that such embargos may have damaged U.S. agriculture both directly and indirectly without appreciably influencing Soviet behavior in Afghanistan and Poland. In addition, the sanctions appear to have diversified supply sources for Soviet imports, reducing demand, possibly, for future U.S. exports.

In response to these trade sanctions, farm interests succeeded in introducing the embargo provisions of the 1981 farm bill. Those provisions shift, essentially, the burden of selective embargoes from farm interests to the Treasury, and make them prohibitively expensive, especially in periods of budget deficit.

Although I think understandable as a response to the ill considered declaration of sanctions in the first place, we do not think this sort of burden-shifting really addresses the underlying problems and objectives of agricultural policy.

A second case in point is the problem of farmer-owned reserves. Rather than serving the broader objective of agricultural price stability, the reserve program, it seems to us, has been managed so that it serves mainly as an extension of farm commodity price policies, thereby, in itself, generating greater uncertainty overall. Again, the question is whether it is good agricultural policy to use reserves, as we have in large part, to pursue only or primarily farm policy, as distinct from food policy or foreign policy.

Burdensome supplies in 1981 and 1982 could have been adjusted through acreage reduction, expansion of U.S. commitments to the multilateral food reserve, or major use of Public Law 480 authority. Instead, commodities were enticed into the farmer-owner reserve by highly favorable loan and storage payments, creating, thus, a reserve of unmanageable size and intolerable cost to the U.S. Treasury. This instability led to PIK, and withdrawal of some 80 million acres of cropland in 1983. To the extent that PIK raises farm commodity prices, it is in conflict with both consumer and foreign trade objectives. Barring a major shortfall in 1983–84 production in the United States and abroad, the sheer magnitude of the farmer-owned reserves may prevent a major run-up in commodity prices. Yet, it seems to us that the potential costs of the 1983–84 programs to the Treasury could well jeopardize the credibility to taxpayers of all future commodity programs, however well conceived.

Now, a little closer look at consumer interests in agricultural policy. The examples I have cited, which have been drawn from experiences of the past few years, dramatize conflicts in the triangle of interests as we have described it.

But there also are complementary interests. The question before the Congress is, how can these areas of complementarity be identified and expanded? There are basically two ways in which complementarity might be advanced.

One would be to raise the expected returns of agriculture simultaneously to farmers, consumers, or foreign policy interests, in other words, to resort to the "positive-sum" game described previously. But I suspect that game will be very difficult to reenact—in the immediate future, at least.

A second way, and the one that we argue most forcefully for here, is to promote complementarity by reducing the uncertainty which the three interests face together and which each, to some extent, creates for the other.

For example, a dependable, ample supply of food to serve the interests of consumers requires a viable, profitable and progressive farm sector, which in turn requires access to foreign markets and a vibrant foreign trade conducted in a stable diplomatic environment. It is our belief that complementarity between farm, food, and foreign policy may in the long run require higher real prices of food.

In balancing those interests, consumers and taxpayers have every right to insist upon farm policies which are forward looking, adaptable, equitable, and responsive to consumer needs. At the very least, consumers should expect farm policies that are not in themselves sources of instability and that do not distort the adjustment of agriculture to changing domestic and global needs for food and fiber.

The difficulty of developing and administering agricultural policy to serve multiple objectives can be everywhere reduced if the uncertainty and instability, including political and diplomatic instability that attends globally interdependent food and fiber systems of the 1980's can be minimized.

Not all such uncertainty, of course, can be eliminated, because economic conditions in world markets are impossible to forecast with accuracy year by year, let along longer run. Economists' projections of agricultural supply, demand, price conditions for the next decade or so vary widely. However, as in the past, it seems to us the most plausible scenario upon which to base agricultural policy for the 1980's is one marked by alternating short-term periods of relatively surpluses and shortages of commodities.

In that case, policies and policy instruments must be designed to be sufficiently flexible to cope with that instability. While there is widespread disagreement on the specifics of such policies within and among the triangle of interests, it does seem that some general elements of those policies can at least be identified.

One element to which we return is that of commodity reserves. I think that most analysts agree that the private sector is unlikely to carry by itself enough interseasonal stocks of commodities to offset potential swings in agricultural production of the magnitude of recent decades as a result of variability of weather on a global basis.

Public intervention to create more than "pipeline" stocks is acceptable in principle to most interest groups. The size, ownership, and management rules for an appropriate stock policy are matters of widespread disagreement, however, and deserving of much further study in advance of the 1985 farm bill.

As noted previously, objectives of current stock policy, in our judgment, need to be clearly differentiated. Greater emphasis and more disciplined management rules must be directed toward price stability as distinct from simply producer price enhancement.

Currently, the United States carries a large share of the world's food reserves. The globally interdependent food system means we should continue to strive for coordinated multilateral reserve policy despite the limited success of the past. We believe that it is in the long-run interest of both U.S. foreign and economic policies to participate, perhaps even expand our participation, in the so-called International Emergency Food Reserve. The initiatives taken under auspices of the U.N. Food Council to strengthen world food security and the international Monetary Fund facilities for financing cereal imports in the low-income developing countries deserve our serious consideration and study for the same reasons.

But instability in world food markets derives from more than natural phenomena. Professor Schuh has argued persuasively, I think, that international monetary policies, particularly the stop-and-go monetary policies of the United States in the past decade, have been major sources of instability in farm prices, as well as other prices. Likewise, farm policies themselves here and abroad have created additional instability in world markets by distorting adjustments required by those markets, or by encouraging actions by farmers which turned out to be costly and unwise. Removing or reducing these sources of instability are fully as important as the development of adequate reserve policies to mitigate weather-related disturbances.

Some of the basic principles required for an agricultural policy adaptable to the needs of an uncertain, unstable world food economy are embedded in the Agricultural Act of 1981. In general, that legislation provides substantial discretion to the Secretary of Agriculture to adjust programs to market shortages or surpluses; however, the legislation is not without some obvious and serious limitations.

We refer particularly to the provisions which have forced target prices out of alignment with the current realities of world agricultural markets. This is an inflexible and costly response to uncertainty. The current dairy program provisions, in fact, delay adjustments in that industry in the interests of consumers, taxpayers, and in the long run dairy producers themselves.

Other distortions, such as loan rates which reduce our competitiveness in world markets, derive not so much from the legislation itself—although that is part of the problem—as from the administration's choice of policy instruments and executive branch program decisions. The executive branch and the Congress, it seems to us, must resist the temptation to consider only one dimension of agricultural policy at a time.

Now, we have emphasized in this statement consumer interests in agricultural policy as relates to the price and stability of food supplies. But food policy has other important features: nutritional adequacy, safety and quality of food, for example. About 65 percent of the retail costs of food are associated with costs and profits in moving food from farmer to consumer. Thus, consumers have an obvious interest in public policies which maintain competitiveness in the food marketing system and in a progressive, pluralistic food system which provides access to a wide variety of food choices. These elements of food policy and the role of public food assistance programs for low-income and nutritionally vulnerable persons must also be incorporated in a balanced agricultural policy.

Finally, we suggest that there is need for considering institutional innovation to improve our capacity and the design of agricultural policies for the future. By clearly recognizing the three dimensions of agricultural policy as we have described them, existing institutions can improve their capacity to weigh competing objectives and identify areas of complementarity. In the Congress, the fact that the Joint Economic Committee is holding these hearings is evidence in itself of the recognized need for broad inquiry into several dimensions of policymaking in agriculture. In the executive branch, it seems to us, something similar is required.

One possible innovation might be the establishment of an annual or semiannual formal agricultural policy review process in the executive branch, perhaps under the coordination of the Council of Economic Advisers. That review would include an analysis of current and prospective economic conditions in U.S. and world agriculture; a statement of provisional program plans of the executive branch 6 months or 1 year into the future, in keeping with legislative requirements; and presentatiion of views and program recommendations by a selected cross-section of nongovernmental organizations representing the triangle of interests we have described in agricultural policy.

That review as we have termed it would not bind the executive branch to a particular program decision. Information presented would be input to final decisions taken subsequently.

But it seems to us that such a process might serve several very useful objectives: one, to induce more effective forward planning and analysis in the executive branch; two, to force program decisionmaking into a broader public participation context; three, to provide for clear articulation and identification of the conflicts and the complementarities among the triangle of interests; and four, it could encourage the development of a broader consensus among conflicting interest groups on major farm program issues.

A more radical innovation would be to create a permanent Cabinet-level council similar in concept to, say, the Council on Environmental Quality, with the purpose of drawing together the many agencies involved in agricultural policy and providing authoritative analysis and policy leadership.

The point is, a variety of institutional innovations will be necessary to bring the three dimensions of agricultural policy into some greater accord. We hope that these hearings will stimulate further suggestions for reform within and between the multiple interests that we have discussed.

Mr. Chairman, that concludes my statement. I will be happy to respond to questions.

Senator JEPSEN. Thank you, Mr. Farrell.

[The prepared statement of Mr. Farrell follows:]

Prepared Statement of Kenneth R. Farrell

Three Dimensions of Agricultural Policy

Kenneth R. Farrell and C. Ford Runge*

Mr. Chairman, we appreciate this opportunity to discuss with you current and emerging public policy issues concerning food and agriculture. Although this hearing has been designed to explore specifically consumer interests in farm policy, we have chosen to approach the subject from a broad perspective emphasizing the plurality and interdependence of interests, including consumer interests, in agricultural policy. We contend that future agricultural policies should be developed within a framework that explicitly recognizes both the complementarities and conflicts among what we term three dimensions of agricultural policy - farm policy, food policy, and foreign policy. Cross-cutting and constraining these three dimensions are the imperatives of the national and international economies to which U.S. agriculture has become inextricably linked and the restraints on future federal government expenditures required if we are to control burgeoning budget deficits. Agricultural policy narrowly drawn to promote the interests of any one group without recognizing the interdependencies of the 1980s is likely to prove unattainable or untenable.

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I. The Policy Setting

U.S. agricultural policy is no longer the province of a self-contained set of congressional committees, USDA policymakers, and farm interests. It is increasingly linked not only to the non-farm domestic economy but to world markets and international political forces. A clear understanding of these linkages, some of which have been touched on in previous hearings of this committee, is essential for development of stable, long-term agricultural policies.

Traditionally, farm legislation has involved the interplay of well-defined groups of farmers and consumers seeking to accommodate demands for high farm prices on the one hand and for low food costs on the other. Although difficult to negotiate, this legislation was possible during the past decade when increases in American agricultural output and rapidly expanding export markets were the norm. Technological advances coupled with increased amounts of land and capital resources in agriculture and with expanding market demand made it possible simultaneously to improve farm incomes, maintain food prices at low real levels relative to consumers' disposable income, enlarge our favorable balance of agricultural trade, and keep Treasury outlays for farm programs low - a "positive-sum" game in which some reward was possible for everyone through compromise.

In recent years, farm output has continued to expand while recession-riddled demand, particularly export demand, has contracted. Farm prices and incomes have declined sharply and food prices have increased only slightly. Both farmers and consumers feel the pinch of an economy wracked by inflation in the 1970s and recession and high unemployment in the early 1980s. Costs of farm programs have ballooned to an estimated $21 billion in the current fiscal year compared to $3-4 billion per year in the 1970s.

These trends made the 1977 Farm Bill enormously difficult to negotiate, and the 1981 bill nearly impossible. In 1981, the domestic budget cuts created havoc in the agriculture committees, and raised questions over the capacity to continue under budget reconciliation in the face of austerity.[1] The prospects of unprecedented future fiscal imbalance make linkages between farmers and consumers more of a zero-sum game; fighting for a shrinking pie means that the gains of one are the losses of the other. Agricultural policy must thus widen its scope to account not only for consumer interests but for its national fiscal impacts.

The scope of agricultural policy also has widened in the international arena. As Professor Schuh noted in testimony before this committee on May 26, the impact of international economic conditions on agriculture has increased as American farmers have come more and more to rely on export markets to supplement domestic demand[2]. Over the decade from 1972 to 1982, the dependence of American agriculture on foreign trade more than doubled.

Linked as it is to the world economy, American agriculture has become increasingly sensitive to fluctuations in the dollar and changes

1. C.L. Infanger, W.C. Bailey and D.R. Dyer, "Agricultural Policy in Austerity: The Making of the 1981 Farm Bill," American Journal of Agricultural Economics, 65 (1983), pp. 1-9.

2. G. Edward Schuh, "U.S. Agricultural Policy in an Open World Economy," Testimony presented before the Joint Economic Committees of the U.S. Congress, May 26, 1983, Washington, D.C.

in foreign agricultural supply/demand conditions. An overvalued dollar, accompanied by target and loan rates set to encourage domestic and foreign production, has made American exports harder to promote and at the same time raised incentives for other nations to enter the markets in which America should exercise a comparative advantage. Meanwhile, U.S. budget deficits continue to put pressure on domestic interest rates, attracting foreign capital and further overvaluing the dollar. Hence, agricultural policy is now tied to a wide range of international economic issues.

A third factor widening the scope of agricultural policy is its link to foreign policy. The Carter-Reagan grain embargo, declared as a reaction to the Soviet invasion of Afghanistan, was the fifth agricultural trade ban in 10 years. In the last decade, the interaction of oversupply with significant increases in exports to the Soviet Union has meant that American agriculture is increasingly tied to foreign policy. Last month, the Soviet Union agreed to begin negotiations on a new long-term agreement. Whether such an agreement is concluded will depend on a host of factors, independent of agricultural issues, among them strategic arms negotiations and the continuing situation in Afghanistan, Poland and the Middle East.

II. The Triangle of Interests

In short, Mr. Chairman, agricultural policy is not just farm policy; it is also food policy and foreign policy. The triangle of interests defining these three dimensions of policy is the central dilemma before this committee and the Congress as you consider legislation for 1985 and beyond. Each of the three dimensions of agricultural policy has a set of well-established clients, some of whom agree but most of whom disagree about the direction agricultural legislation in the Congress should take.

Farmers and farm interest groups in general argue for higher producer prices and expanded exports, financed by taxpayers through the loan program, target prices, or credit subsidies to foreign buyers. Agricultural policy is farm policy to them. Consumers and non-farm interests (together with a growing group of farm policymakers themselves) question the increasing costs of these programs. Consumer groups focus on the impact of agriculture on the domestic food economy, insisting on the need for continued low real prices. Drawing attention to the many structural issues in American agriculture, these groups also question the efficiency and equity of current programs. These are the food policy advocates. Finally, foreign policymakers and advocates of agricultural development assistance express a different set of priorities. To many foreign policymakers, agriculture is a "bargaining chip" and sometimes a "weapon" to be used in the latest diplomatic exchange or ideological skirmish.

Food, farm, and foreign policy agendas come together in agricultural policy to create a triangle of interests which are sometimes complementary, but often conflicting. Conflicting objectives coupled with the necessity of fiscal constraints magnify the problems of constructing coherent legislation. Yet there is no escape from these multiple objectives and conflicts. The triangle of interests forms the basis on which future agricultural policy must succeed or fail. One thing is certain; we cannot return to the days when agricultural policy was only farm policy.

III. Some Cases in Point

Several cases may help to illustrate the relationship among the three dimensions of agricultural policy and the problems posed by their competing objectives. The Carter-Reagan grain embargo provides a recent and troubling example of how foreign policy experts' use of the "food weapon" temporarily captured agricultural policy from both farm and food interests. A recent report by the Office of Technology Assessment reveals that such embargoes may have damaged U.S. agriculture both directly and indirectly, without appreciably influencing Soviet behavior in Afghanistan and Poland[3]. In addition, the sanctions appear to have diversified supply sources for Soviet imports, reducing demand for future U.S. exports.

In response to these trade sanctions, farm interests succeeded in introducing the "embargo provisions" of the 1981 farm bill. These provisions call for compensation of farmers in the event of future selective embargoes at a loan rate equal to 100 percent of parity, with direct payments to producers equal to the difference between parity and the price of the embargoed commodities. The provisions shift the burden of selective embargoes from farm interests to the Treasury, and make them prohibitively expensive especially in periods of budget deficit. Although understandable as a response to the ill-considered declaration of sanctions, we do not think this sort of burden-shifting addresses the underlying objectives of agricultural policy.

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3. Office of Technology Assessment, Technology and East-West Trade: An Update, Washington, D.C., May, 1983.

The real issue is whether it is good agricultural policy to depend so much on Soviet imports as a form of farm policy. The basic question is one of stability. Current farm policy, by focusing on Soviet buyers, fails to emphasize broader programs of export expansion. Variability in Soviet demand is a basic source of this instability. Several recent developments suggest that Soviet export demand and its impact on U.S. farm policy will continue to be difficult to predict in the next decade. On the one hand, both weather and the inherent inefficiency of socialist central planning make poor harvests a likely scenario in the USSR. On the other hand, even if Soviet agriculture remains inefficient, the diversification of Soviet imports during and after the recent embargo means that poor Soviet harvests will not translate into automatic U.S. exports. Despite the "embargo provisions" of the farm bill, attempts to court these exports (however obsequious) will be affected by unpredictable foreign policy considerations. In addition, declines in oil and gold prices have imposed a foreign exchange constraint on Soviet ability to purchase U.S. exports. Oil and gold prices in international markets were high in the 1970s, providing the Soviets with the foreign exchange to buy U.S. grain. As OPEC fails to support the price of oil (and indirectly, gold) earned by the USSR, this foreign exchange constraint will also reduce overall demands for U.S. farm output. In short, farm exports must be conducted with foreign policy and the international economy in mind. It seems to us, Mr. Chairman, that if the Soviet Union is diversifying its purchases, the direction of U.S. policy should be to diversify its sales.

A second case in point is the problem of farmer-owned reserves. Rather than serving the broader objective of agricultural price stability, the reserve program has been managed so that it serves mainly as an extension of farm commodity price policies generating greater uncertainty overall. Again, the question is whether it is good agricultural policy to use reserves as we have to pursue only farm policy. Burdensome supplies in 1981 and 1982 could have been adjusted through acreage reduction, expansion of U.S. commitments to the multilateral food reserve, or major use of P.L. 480 authority. Instead, commodities were enticed into the farmer-owned-reserve by highly favorable loan and storage payments, creating a reserve of unmanageable size and intolerable cost to the U.S. Treasury. This instability led to P.I.K. and withdrawal of some 80 million acres of cropland in 1983. To the extent that P.I.K. raises farm commodity prices it is in conflict with both consumer and foreign trade objectives. Barring a major shortfall in 1983-84 production in the U.S. and abroad, the sheer magnitude of farmer-owned-reserves may prevent a major increase in commodity prices. Yet, the potential costs of 1983-84 programs to the Treasury could well jeopardize the credibility to taxpayers of all future farm commodity programs however well conceived.

IV. A Closer Look at Consumer Interests in Agricultural Policy

The foregoing examples drawn from experiences of the past few years dramatize conflicts in the triangle of interests. But there also are complementary interests. The question before the Congress is: how can these areas of complementarity be identified and expanded? There are two ways in which complementarity can be advanced. One is to raise the expected returns of agriculture to farmers, consumers, or foreign policy interests. A second way to promote complementarity is to reduce the uncertainty which the interests face together and which each creates for the others.

For example, a dependable, ample supply of food to serve the interests of consumers requires a viable, profitable, and progressive farm sector, which in turn requires access to foreign markets and vibrant foreign trade conducted in a stable dimplomatic environment. It is our belief that complementarity between farm, food and foreign policy may well require higher real prices of food in the long run. In balancing those interests, consumers and taxpayers have every right to insist upon farm policies which are forward-looking, adaptable, equitable, and responsive to consumer needs. At the very least, consumers should expect farm policies that are not, in themselves, sources of instability and that do not distort the adjustment of agriculture to changing domestic and global needs for food and fiber.

The difficulty of developing and administering agricultural policy to serve multiple objectives can be everywhere reduced if the uncertainty and instability, - including political and diplomatic instability, - that attends globally interdependent food and fiber systems of the 1980s can be minimized. Not all such uncertainty can be eliminated because economic conditions in world markets are impossible to forecast with accuracy year-by-year let alone long term. Economists' projections of agricultural supply-demand-price conditions for the next decade or two vary widely. However, as in the past, the most plausible scenario upon which to base agricultural policy for the

1980s is one marked by alternating short-term periods of relative surpluses and shortages of commodities. In that case, policies and policy instruments must be designed to be sufficiently flexible to cope with instability. Moderating that instability can occur both within farm, food and foreign policy and between them where they join and overlap. Although there is widespread disagreement on the specifics of such policies within and among the triangle of interests, some general elements of those policies can be identified.

One element is that of commodity reserves. Most analysts agree that the private sector is unlikely to carry by itself enough interseasonal stocks of commodities to offset swings in production of the magnitude of those occurring in recent decades as a result of variability of weather on a global basis. Public intervention to create more than "pipeline" stocks is acceptable in principle to most interest groups. The size, ownership, and management rules for an appropriate stock policy are matters of widespread disagreement and deserving of much further study in advance of the 1985 farm bill. As noted previously, objectives of current stock policy need to be clearly differentiated. Greater emphasis and more disciplined management must be directed toward price stability as distinct from producer price enhancement.

Currently the United States carries a large share of the world's food reserves. The globally interdependent food system means we should continue to strive for coordinated multilateral reserve policies despite limited success in the past. We believe that is in the long run interest of both U.S. foreign and economic policies to participate, perhaps even expand our participation, in the so-called International

Emergency Food Reserve. The initiatives taken under auspices of the U.N. Food Council to strengthen world food security and the International Monetary Fund facilities for financing cereal imports in the low-income developing countries deserve our serious consideration for the same reasons.[4]

Instability in world food markets derives from more than natural phenomena. Professor Schuh has argued persuasively that international monetary policies, particularly the stop-and-go monetary policies of the United States, have been major sources of instability in farm prices in the past decade.[5] Likewise farm policies themselves here and abroad have created additional instability by distorting adjustments required by markets or by encouraging actions by farmers which turned out to be costly and unwise. Removing or reducing these sources of instability are fully as important as the development of adequate reserves policies to mitigate weather-related disturbances.

Some of the basic principles required for an agricultural policy adaptable to the needs of an uncertain, unstable world food economy are embedded in the Agricultural Act of 1981. In general, that legislation

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4. Committee on World Food Security, Director General's Report on World Food Security: A Reappraisal of the Concepts and Approaches, Eighth Session, Rome, April 13-20, 1983.

5. Schuh, op. cit.

provides substantial discretion to the Secretary of Agriculture to adjust programs to market shortages or surpluses. However, the legislation is not without some serious limitations. We refer particularly to provisions which have forced target prices out of alignment with current realities of agricultural markets. This is a totally inflexible and costly response to uncertainty. The current dairy program provisions delay adjustments in that industry in the interests of consumers, taxpayers, and in the long-run, dairy producers themselves. Other distortions such as loan rates which reduce our competitiveness in world markets derive not so much from the legislation itself as from the administration's choice of policy instruments and executive branch program decisions. The executive branch and the Congress must resist the temptation to consider only one dimension of agricultural policy at a time.

We have emphasized consumer interests in agricultural policy as it relates to the price and stability of food supplies. But food policy has other important features: nutritional adequacy, safety, and quality, for example. About 65 percent of the retail costs of food are associated with costs and profits in moving food from farmer to consumer. Thus, consumers also have interest in policies which maintain competitiveness in the food marketing system and in a progressive, pluralistic food system which provides access to a wide variety of food choices. These elements of food policy and the role of public food assistance programs for low income and nutritionally vulnerable persons also must be incorporated in a balanced agricultural policy. We trust that these elements will be examined by others at this hearing or in subsequent hearings by your committee.

V. The Need for Institutional Innovation

By clearly recognizing the three dimensions of agricultural policy, existing institutions can improve their capacity to weigh competing objectives and identify areas of complementarity. In the Congress, the fact that the Joint Economic Committee is holding these hearings is evidence of the recognized need for broad inquiry into the several dimensions of policymaking in agriculture. We hope that your colleagues, especially those who represent districts in which one or another of these interests is dominant, will take time to study the relationship between their own constituents' needs and the broader dimensions of agriculture in the domestic and world economy. If the farm, food and foreign policy linkages of agriculture are fully treated in these and future hearings, we suspect that virtually all of the members of Congress will come to recognize that their constituents will be directly affected by the outcome of the next farm bill.

In the executive branch, a similar exercise is required. Because of the many linkages we have discussed, we believe that there is merit to proposals calling on the President to draw together representatives from USDA, Treasury, State, AID, Interior and the National Security Council to develop long-range policies compatible with congressional interests.[6] One possible innovation might be the establishment of an annual or semi-annual agricultural policy review process in the executive branch perhaps under coordination of the Council of Economic

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6. R.F. Hopkins, "Food Policy Making", in Food Policy and Farm Programs, D.F. Hadwiger and Ross B. Talbot eds., New York, The Academy of Political Science, 1982.

Advisors. The review would include an analysis of current and prospective economic conditions in U.S. and world agriculture, provisional program plans of the executive branch six months or one year into the future in keeping with legislative requirements, and presentation of views and program recommendations by a cross-section of non-governmental organizations representing the triangle of interests in agricultural policy. The review would not bind the executive branch to particular program decisions; information presented would be input to final decisions taken subsequently. Such a process might serve several objectives - to induce more effective forward planning and analysis in the executive branch; to force program decision making into a broader public participation context; to provide for clearer articulation of conflicts and complementarities among the triangle of interests; and to encourage broader concensus among conflicting interest groups on program issues.

A more radical innovation would be to create a permanent cabinet level Council similar in concept to the Council on Environmental Quality with the purpose of drawing together the many agencies involved in agricultural policy and providing authoritative analysis and policy leadership. A variety of institutional innovations will be necessary to bring the three dimensions of agricultural policy into accord. We hope that these hearings will stimulate further suggestions for reform within and between the multiple interests we have discussed.

Mr. Chairman, that concludes our statement. I will be happy to respond to your questions.

Senator Jepsen. Ms. Jarratt, right or wrong, consumers often hear that they bear the brunt of aggressive Federal farm policies by paying higher domestic food prices and yet from April of last year to April of this year the price index of food consumed at home rose by 0.8 percent. That's less than one-fourth the rate of increase in the consumer price index for all commodities and services.

Why is this? Well, while the costs of processing, packing, marketing, and transporting food rose 5 percent during 1982, prices received by the farmer for wheat dropped over 9 percent, corn prices plunged almost 19 percent, soybean prices declined over 16 percent, the price of potatoes was down almost 27 percent, grapefruit prices were off 40 percent and, with the exception of hogs, all prices received by farmers for livestock products, including poultry, declined during 1982.

Now, in your liaison role between farmers and consumers, to your knowledge, has this story been communicated? Is it being told? This isn't what I read in the media, or hear, or view. Are they inaccurate?

Ms. Jarratt. I think they are, Mr. Chairman. I'd like to address that. Before I do, if you give me the liberty, I'd like to address one misstatement of fact that occurred in Mr. Leonard's testimony that I feel needs to be corrected for the record, because his testimony indicates that there has been a drastic cutback in feeding program participants as a result of inhumane inconsideration by the Reagan administration.

That simply is not the fact. I'm hearing that all over town by people who may have an interest in espousing that idea, but the fact of the matter is that we are spending this year about \$18½ billion on domestic feeding programs.

What the Reagan administration proposed and what the Congress adopted and what we believe is sound policy for this country was to curb the rate of growth in these programs and to better target the benefits to the neediest portion of our population.

We are spending, as I indicated, about \$18½ billion this year. Without those proposed reforms which the Congress adopted, we would have been spending something in excess of \$20 billion this year.

Now with regard to the drop in school lunch enrollment, it is true that school lunch participation is down, but along with that, overall school enrollment is down in this country and when the Congress adopted these changes with the 1981 Omnibus Budget Reconciliation Act, they said because so many children are participating in this program on false statements of income, that is, getting a higher benefit than that to which they are entitled, and the evidence is that about one child in five is doing so, they mandated that we begin collecting the social security numbers on the applications.

That has had a deterrent effect on false reporting of income. So now we did have a drop last year, but school lunch participation is up and I would point out that we are feeding a higher percentage of poor children, the ones we totally subsidized, than we were before the cuts.

And with regard to food stamp participation, millions were not cut from the roll; 875,000 people were no longer eligible as a result of the 1981 reconciliation activity and those people all had incomes above 130 percent of poverty, or for that year, it meant that they were from a family of four with an income above \$12,000 a year.

With 1 American in 10 on food stamps, I don't think we need to say that we in the administration or that you in the Congress were insensitive or inhumane to the needs of poor people.

Now we are subsidizing either in whole or in part about 95 million meals a day at the rate of $18½ billion. So I wanted to make that point perfectly clear for the record.

We are providing for the needs of low-income people and we have virtually eliminated in this country low-income caused malnutrition. We still need to better refine health-risk detection techniques and to better target our programs, but we can say to the public that we have better developed these programs so that they are meeting the needs of low-income people and that they are more responsive to the economy.

Now turning to your question about what is happening with consumers in the fluctuating circumstances in the agricultural economy, I don't know if it's fair to say that consumers really feel that they are being disadvantages, or that consumer advocacy groups contend this.

I think that it's important to remember that everyone in this country, including the poor, bedraggled farmer, is a consumer, and I think he's entitled to his fair share of the price that his product brings on the market——

Senator JEPSEN. Excuse me—I do too—and I would point out that I made a special point to make it very clear——

Ms. JARRATT. That's right.

Senator JEPSEN. And my question was, What is your department, or someone, doing about it?

Ms. JARRATT. The fact is that our prices, the qualiity of our food, the variety of our food is better, in a better state, than any other country in the world, and I think that we should indeed be grateful for what we have in this country, and that we do need to constantly assess our stocks are up. Greater export activity is not in the shortrun going look at what that would do for the consumer price.

But the fact of the matter is right now that our exports are down, our stocks are up. Greater export activity is not in the short run going to negatively impact the consumer. If the export activity were so expanded that it did, we would need to look at that.

We certainly want the consumer to have a fair price, but we certainly want to get that farm income up, and for the price of food that we have, which is very fair and equitable in this country, the farmer certainly is not getting his portion of it.

Senator JEPSEN. I thank you, and I thank you for pointing out the items that you mentioned. Had you not done that, I was going to explore them further with Mr. Leonard since in most of these items I was personally involved as a member of the Agriculture Committee and, in fact, the school lunch program. We did find and try to correct the fact that many in very high-income tax brackets were receiving assistance and moneys, and the goal of this administration, the goal of my colleagues, certainly mine and most of my colleagues—and I hasten to point out, on both sides of the aisle—has been to see that the folks who really need it get it.

I would rather see those who do not have a sufficient diet, have a sufficient diet than spread out Government handouts and have a half diet for a whole lot of folks. We would end up by really complicating the problem that has existed over years in the hurry to redistribute things that we have in this country with some—I'm sorry to say—political motivation, resulting in those folks who do have insufficient diets and insufficient nutrition still ending up the same way.

The point, and the intelligent and the compassionate approach in this program, which this administration has followed, is to provide diets that are adequate for those who really need it; not to pile on additional commodities and other foodstuffs to those who do have adequate diet for whatever reason.

I would suggest and would state for the record that the hearings that we are holding—as they have been conducted and I intend to keep them—are on a nonpartisan and realistic basis. At the same time, as long as we do have them and I am chairing, I assure you that the continued distortions of the administration's record are not acceptable, and we will correct them also.

I was somewhat surprised to hear, Mr. Farrell, that we have now a Carter-Reagan embargo. That's the first time I've heard of that.

I didn't realize that, since Mr. Reagan lifted the embargo, it was his embargo.

I never, in my entire 4 years in the Senate, or since the embargo was laid on by President Carter, ever heard it named Carter-Reagan embargo until today.

Where did you get that?

Mr. FARRELL. Well, following your cue in the interest of being nonpartisan, I came up with it. [Laughter.]

No; seriously, Mr. Chairman, you're quite correct that the embargo was initiated by President Carter; it was considered by and finally modified by President Reagan.

Senator JEPSEN. OK. And I'm glad that we got it straight. I thought maybe I'd missed something.

Ms. Jarratt, did you analyze your survey results, referred to in your prepared statement. You said that 24 percent, or everyone except 24 percent, gave a rating of good or better in the general safety area. I was wondering what happened to the other 24 percent.

Would you care to elaborate on that? I'll be specific here in that paragraph. Second paragraph: "With regard to the degree to which we ensure the safety of food, we are found to be good or very good by 76 percent."

Now, I am just curious; what's happened to the other 24 percent? What is their rating, or where does it come from?

Ms. JARRATT. Accompanying me today is Mr. Donald Houston, Administrator, Food Safety and Inspection Service, Department of Agriculture.

May I defer that question to him?

Mr. HOUSTON. Mr. Chairman, that figure came out of a food-labeling study prepared by the Good Housekeeping Institute and their consumer research department which was published in March 1983.

Among the questions which were asked by the research group was to ask consumers to rate the job done by FDA and USDA in several areas, one of which was how well do FDA and USDA protect the safety of your food?

Twenty-six percent of the respondents said that FDA and USDA protect the safety of the food "very good." Another 50 percent said "good," and that is where the 76-percent figure came; 18½ percent said "fair," and 4 percent said "poor."

So, stated another way, 96 percent of the people, or only 4 percent of the people I should say, said the Government is doing a bad job in that area.

Senator JEPSEN. Was that analyzed to try to decide or to find out what specific area it came from?

Because I think if there's any area where there is a lack of confidence in the safety of food, it certainly ought to be looked into or brought above board or publicized.

Do you know where that particular——

Mr. HOUSTON. No; the survey was a national survey run by Good Housekeeping, and it was run earlier this year, and as I said, the report published in March.

We think those are very good figures when three out of four Americans feel that the Government's doing a good job and only 4 percent think it's doing a bad job.

Senator JEPSEN. I don't dispute the fact that they may be good figures, but when you talk about safety in food and people eating and their concern about whether their food is contaminated or not, I think the only acceptable figure, ideally, would be a four out of four.

I would hope that something is being done with Good Housekeeping, in conjunction with them or whoever ran that survey, to find out where this pocket or this area is—or to analyze this small percentage.

I don't mean to be picking the specks out of pepper, but it's a little difficult for me to appreciate how anyone can say, "Well, if one out of four of our people in this country don't feel that there's an adequate job being done or that they are concerned about the safety of the food that they're consuming, I think that we ought, like Hertz, to try harder."

Mr. HOUSTON. Well, it was a perception survey for the most part, and I don't believe the reporters specifically took the reasons of those individuals who had a bad perception of what the Government was doing.

Senator JEPSEN. Thank you. Senator Abdnor.

Senator ABDNOR. Thank you, Mr. Chairman. I had many questions come to mind as I listened to the testimony here. I wish I could remember more, I tried to make notes.

I think today's testimony is good because it's the kind of information we have to have. People like you, Mr. Leonard and Mr. Farrell, represent a great many people.

I like to see where we're coming from. Let me ask you: Do any of you know of any other country in the world that puts food out at a cheaper price and takes less as a percent of income than it does here in this country? Ms. Jarratt, is there any country that even comes close to it?

Ms. JARRATT. Not to my knowledge.

Senator ABDNOR. As I remember, 16½ percent of a family's average take-home pay goes for food. I know in Europe it starts at over 22 percent, and goes way up to 28 percent. But when I was over there, they told me what it is like to be without food. They're willing to pay for it.

But over here I keep hearing about this cheap food, and I'm wondering, Mr. Leonard, do you think food prices are reasonable?

Mr. LEONARD. I don't think there's any consumer that is unwilling to pay a fair price——

Senator ABDNOR. But what's fair in your mind? It's a fact that farmers are going broke today and the prices are low—they're not breaking even. I happen to be a farmer, it's awfully nice to have the $60,000 income on the side that I make down here, but I want to tell you something, you think they're making money, I got news for you: they're not, they're hurting.

You know we're paying unemployment compensation to people, and that's fine, to people you probably even represent, that's good. But as I pointed out one time when we had the jobs bill on the floor, I could show you one heck of a lot of people who have a job that's costing them money to go to work.

I'm not saying it's anyone's fault, but I am saying that we have to work together, and I'm wondering, do you think that food prices ought to go up so that we can get some money on the market, if we could devise a program.

I agree with you completely, Mr. Farrell. It's a triangle, and we have to look at all angles, but I'm wondering if we have somewhere to start. Are we going to agree? The final answer is that farmers have to receive a greater income.

Mr. LEONARD. I don't think the question is one that we can solve the problem by raising consumer prices. The problem is that we are now spending, like I said, somewhere between $30 and $35 billion in taxpayers' funds, budget costs, direct spending this year, to maintain farm income.

What it means is that the farm programs that we have, which are supposed to be designed to maintain stability in agriculture and to provide a fair return to the farmers, are not working, and that's the issue that we're——

Senator ABDNOR. OK. Let's say we agree on it. Let's say we come up with a program that's going to do it. Do you think the consumers will gladly pay it, particularly if it isn't going to cost the Government?

Are they going to be willing to pay considerably more for their food if it went to the farmer?

Do you ever take time, in your issues and statements to the people, to tell the real farm story, how much of the food dollar goes to the farmer?

Over here I saw Ms. Jarratt's figures and I think they're very accurate. They show how food went up. But yet farm prices in some cases actually want down.

Do your people understand that? When I go out and talk to people, they just don't understand it. It's amazing.

Mr. LEONARD. I don't think that you understand the position that we're trying to present, which is that the present farm programs, the present structure of agriculture is such that somewhere around 70 percent of the people who live on farms today earn practically all of their income from off-farm sources, which means that——

Senator ABDNOR. Do you know how much they produce of the total? I mean, that's interesting. They produce about 7, 8, or 10 percent of the total products.

Mr. LEONARD. Somewhat less than 10 percent of all farms produce 90 percent——

Senator ABDNOR. Well, then what's your idea of a family farm? Let me hear you——

Mr. LEONARD. My idea of a family farm is a farm that will support a family.

Senator ABDNOR. Do you know how big that would be?

Mr. LEONARD. Well, of course, it's going to be different than a wheat farm, than it's going to be on a farm in Michigan producing fruit. It's going to be different on a dairy farm.

Senator ABDNOR. I guess most of the costs that you're complaining about and that we're talking about are going into this kind of a farm. I think that's where Ms. Jarratt lists the areas which are under Government price controls.

But what do you think a farm should be? Do you think everybody should work off the farm and come home at night and do a little farming. I mean, I have people out my way who farm 2,000 acres and they do it by themselves.

Is that a family farm?

Mr. LEONARD. It is where you're from, sure.

Senator ABDNOR. OK.

Mr. LEONARD. But the problem that you're dealing with is that almost three-fourths of the people who live on farms today have recognized that the farm programs we have do not enable them to make a living from agriculture.

They want to live on farms—really, Senator, you should look at the study that the University of Illinois did on small farms in that State. What they found is that people want to live on the farm, they want the experience of a rural life, they want their children to be raised in the rural areas, they want to go to rural schools, but they know that in order to do that, the agriculture programs we have today will not enable them to achieve that.

So in order for them to do that, they've got to work off the farm.

Senator ABDNOR. Do you have any idea what it would cost this guy to go into farming, to really go into farming to make a living?

Mr. LEONARD. Sure.

Senator ABDNOR. I mean, what it costs to buy a few acres—the $40,000 tract that you started up with, the overhead cost. I mean, it would be great. I know little guys who would like to go into small business too, but you just can't—I have a lot of young men come up to me and say "I want to go farming."

Do you think someone should be responsible to say that every guy is entitled to go on a farm? I mean, these are changing times. Maybe the country would be better off with people out my way farming one and two quarters instead of three, four, or five sections.

But that's progress, I guess. Maybe we would be better off with a team of horses and a buggy too, instead of the car, but this isn't happening. I think we've got to put the picture in the real perspective.

Mr. Farrell, what do you think? Am I clear off base in saying some of these things?

Mr. FARRELL. No, I don't think what you said is generally off base. As I say in my prepared statement, I think that in the longer run food prices—farm and food prices—are going to have to be higher.

I think one reason for that is that prospective demand for commodities on a global context and at the capacity of this country and others to produce, will eventually force higher prices.

And I think you're absolutely right. As I say in my statement, it is in the interest of both consumers and farmers to have a viable, profitable, and progressive agriculture. You cannot have food security, you cannot have ample supplies and stability of supplies without a strong, vibrant agriculture.

I think Mr. Leonard has stated the issue quite well, and I think that's the dilemma that we're in: How do we achieve this with a set of agricultural policies which are equitable and which cost less for the Treasury?

That's the heart of the problem, and I don't have ready solutions to that.

Senator ABDNOR. Let me say this: Where I would disagree with Mr. Leonard is that he would assume this is all beneficial to the farmer. If I know of any group that benefits from this big Government expenditure, it's the consumer.

The programs that created the surpluses have kept food prices down. Most of the farmers go to the Government to get the extra money they need through price support programs to do it. The market price of the crop and a lot of these grains are way below the target prices that the Government makes up.

Probably what would have happened—we are on a collision course the way we're going, and we do have to try to come up with some new approach to agriculture. That's really what we're trying to do, but the question is, are the consumers willing to pay more if we find the right way to go about it—and I want to hear Mr. Leonard tell me they will.

Mr. LEONARD. Senator, from 1970 to——

Senator ABDNOR. No, just tell me.

Mr. LEONARD. Let me say it. Between 1970 and 1980 consumer food prices in the United States rose about 130 to 140 percent. Food prices went up very sharply year after year; we had 3 years in which we had double-digit inflation in food.

Consumers grumbled about it. They didn't get out and lead a revolution, but they do begin to wonder how come if food prices increase as much as they did in that 10-year period, we're still in the same kind of mess we are in agriculture, and are we being asked to pay a triple or quadruple increase in prices.

Senator ABDNOR. What bothers me, Mr. Leonard, is you're saying it right there. You said food prices were not doubled. Did you follow the price that farmers received, or are you looking at what you paid for the product when you went down to buy it?

People like their food packaged, they like their bread sliced, they like it prepared properly with the latest new methods of precooked food, and look where the costs are going.

I think that in one of your statements here you said that on a 10-percent increase, 1 percent went for farm prices, and 1 percent went for imports.

Ms. JARRETT. Not at the increase that occurred. One-tenth went to the farmer, one-tenth went to the higher cost of imported foods, and then eight-tenths represent the farm-to-retail price.

Senator ABDNOR. From the time it left the farm until it got to the people's kitchens. Now, why don't you complain about that? I don't remember reading that——

Mr. LEONARD. Senator, all I'm saying is that consumers are willing to accept increases in food prices if it looks like it's going to help solve the problem, but we have this situation: Prices went up quite sharply in the 1970's and we still have this problem.

Senator ABDNOR. My point is this: What can the Department of Agriculture, my party, or the other party do? I used to hear it all the time, that every time we make a sale and do something that may help farm prices, there's always an extra sentence onto that article that says "this should not make consumers prices rise," because that is the No. 1 concern of politicians and everyone else.

And that's why I am amazed at what you're saying, because I don't know of anyone who is more concerned about keeping consumers happy than the people down here in Congress. There's a heck of a lot more consumers than there are guys producing it. That's a fact of life.

And right now, I just want to know if we're starting out, attempting to devise a profarm program, if we go to some new technique of exporting that puts us in competition, are you going to back us up and say the consumers are going to have to be ready to pay more for their food?

Are you going to be ready to tell your people that?

Mr. LEONARD. Sure.

Senator ABDNOR. OK. That's great. I am happy to hear it. The other thing I wanted to discuss is exporting. If we're going to try to go away from the Treasury and into the marketplace, then exports must be increased. There's no two ways about it, since 60 percent of the wheat we produce today has got to be exported. Have you followed the European Community and what they are doing to us in the export business in some of these countries?

How are you going to be equitable and how are you going to have a farm program if we don't fight fire with fire? Do you think that everything is fair to these farm groups that are trying to make oversea sales?

Our foreign sales dropped last year, it's true, but other countries are continually increasing. How did you respond, how did your group respond to that grain flour sale we made to Egypt? You thought that was a good move?

Mr. LEONARD. No, I thought it was argumentative and didn't achieve anything. All it did is lead us further down the road to a commodity war with the European Economic Community.

Senator ABDNOR. To turn the other cheek, but this is what they've been doing to us for years.

Mr. LEONARD. It's not turning the other cheek, the question is, Do we want to get into a commodity war with the Common Market?

Senator ABDNOR. What's the answer?

Mr. LEONARD. We don't.

Senator ABDNOR. What's the answer?

Mr. LEONARD. The answer is——

Senator ABDNOR. Do we keep letting them take our markets because they sell for less? Do you know what they pay for price supports in Europe?

Mr. LEONARD. Right.

Senator ABDNOR. Is it much higher than it is in this country?

Mr. LEONARD. Right.

Senator ABDNOR. The consumer is willing to pay for it, though.

Mr. LEONARD. It's costing——

Senator ABDNOR. Then they sell it for way less than we can—and less than it costs to produce. They even offer a lower rate of interest on it than we do. So where are the buyers going to go? They go to those countries.

Now, do we just let that happen then?

Mr. LEONARD. No.

Senator ABDNOR. What do we do?

Mr. LEONARD. It's like I tried to point out in my testimony, that the long-term interest of the United States is in developing export markets. It's quite clear that we have to do as long-term planning and development in exports as we do in long-term planning development and research in agriculture technology.

So that it means that we've got to invite the Common Market into a program of development assistance in Third World Countries on a long-term basis and start using some of the money that we're pouring into this commodity war into market development.

Senator ABDNOR. Well, that's not bad—in fact, it would be great because that's a big part of the problem. I mean, how would you approach this situation then, Mr. Farrell?

I mean, how do you think we ought to handle it?

Mr. FARRELL. You're asking about the trade side particularly?

Senator ABDNOR. Yes, on the trade.

Mr. FARRELL. Well, first, there's no doubt that there are very serious trade constraints in agricultural markets, some which significantly deter our capacity to export.

I think in the short run the most important thing to do is to get appropriate monetary and fiscal policies here and abroad that starts economic growth. That will in and of itself recreate some demand for our commodities.

It is not just a matter of trade constraints.

Second, I think we have to continue to pursue through multilateral trade institutions such as the GATT—hopefully some more effective institutions—a general reduction in tariff barriers for agricultural commodities around the world. And, there are some things that we can do, have tried to do, have done, bilaterally—for example with the Japanese—to open that market up.

I think we just have to continue to persist in those efforts.

With respect to the Egyptian wheat flour sale, I can very well understand why it was important for us to—I think the verbiage was to fire a shot across the bow, to illustrate our seriousness.

I think that in a realistic context that has to be done occasionally, but like Mr. Leonard, I hope that that will not degenerate into a commodity trade war in which we're all losers and which would simply add to the cost across the world.

So there isn't an easy solution. I certainly don't have an easy solution. We simply have to proceed and persist in the kinds of things that we've been trying for several years, to open up markets.

Senator ABDNOR. How are you going to get away from the Government—we're going to have to go out and find those foreign markets, right?

Mr. FARRELL. Absolutely, I think the private sector is very——

Senator ABDNOR. I mean, there's no other way to go. And until we get their attention, until at least they'll talk to us so we can go to GATT and we can discuss this sensibly. But they seem to think that it's their inherent right.

I talked with some of those countries over there. They're mad at us, because we dared undercut them with the Egyptian sale. And yet they're doing that same thing, and we've been such nice people for so long.

I think we do have to give them a message. It may take more than one try with some to respond to the first charge. Then give them a second one and hope it comes around.

I think we're going to have to do something like that before we get done here because they've got to listen. This is real business.

Another way to go, I guess, is for farmers to get organized like big labor. I think I'd hate to see that happen. I think that would have this country on their knees, because I don't know of any one thing that's more important to this Nation than food commodities.

And if they ever got so they raised just enough to keep these people happy, they could make them pay dearly, just like gas went up to about $1.50 a gallon and they were willing to pay for it, they got in line to do it.

That might be the other answer. Your people wouldn't like that. So we're asking today, and going to in the days ahead, to try to find some answers that are not going to cost this Government this kind of money to continue on with farm policy. I look at it as giving the people the guarantee they're going to have all the food they need.

We've got better-fed and clothed people in this country than any other country of the world, No. 1. Not No. 2. And no other country can compete with us in the price of what we can produce food for.

And this situation shouldn't be this way, and that's why we're looking to you folks for some answers. We do recognize, as Mr. Farrell said, to have a good program, it's got to be acceptable to this triangle as you suggested. And that's what makes it so necessary.

Sorry I took all the time.

Senator JEPSEN. Thank you, Senator. I think in getting the perspective, I would repeat a part of my opening statement: our concern here is to look to developing a future farm policy; the next generation. In doing so, we ask witnesses here today, in considering the direction of farm policy, to recognize and appreciate the importance of the consumer's perspective. Indeed, any future farm policy must effectively accommodate both farmer and consumer interests and goals.

I hope that rather than an adversarial relationship we have one of sitting down and working out all of our goals and all of our policies together.

I view the achievement of that accommodation as one of the most difficult tasks, especially as current food surpluses are eliminated.

But the task of Congress today is to develop a sound farm and food policy that takes into account the relationship between farm production and food consumption. That was where the remarks were addressed for the most part here today.

Along that line, Mr. Farrell, your triangle of interest theme for future farm policy has a bellweather ring to it. I think it's critically important. I think it was a very positive and constructive observation.

I am sure you perceive the interrelationships between farm and food and foreign policy as one thing in dealing with them; back here I saw something else. How do we incorporate this interdependence of interests in the 1985 farm bill? Do you have some suggestions?

Mr. FARRELL. I don't have specific recommendations. I can visualize some parts of a process, in which might help us to have a clearer articulation of interests and begin to more carefully look at the tradeoffs where they are in conflict.

This hearing in and of itself is a very good start. It does seem to me that somewhere in the Congress and/or the executive branch that we need to proceed further.

That is to say, we need somehow to get beyond the general kinds of statements that we have had today to some of the specifics, and some realistic options to deal with these.

This can be done in a variety of ways through perhaps some additional hearings that are focused down on specific issues, issues that you know are of major import.

It might be done by some special effort in the executive branch along with the Congress. I have suggested a forum or a process which I think would help in the long run.

I think that you can, the Congress and others can, stimulate more effective policy analyses in the private sector and in other organizations—my own included—that will try to get the options and issues more clearly and sharply defined.

So it seems to me there is a second step. Now when it's all said and done, somebody has to make judgments, and that's where the Congress comes in.

I would encourage the committee to explore such possibilities.

Senator JEPSEN. I thank you. Mr. Leonard, you recommend that the Congress develop policies that increase food consumption coupled with a policy to conserve surplus production resources until the day the food they can produce is needed.

I'm interested in this. Would you please elaborate? What is your conservation proposal? What do you mean by it?

Mr. LEONARD. It would be to return to some of the practices that we developed in the 1960's when we had a somewhat similar problem of a very sharp increase in surplus, and over that 10-year period a program was carried out which put land into various conserving uses.

I would couple that with a much greater emphasis than we've ever been able to bring into the Department of Agriculture to develop through the Extension Service and through the other rural institutions an effort to focus more on a regenerative agriculture policy in which we encourage producers to follow practices which maintain the fertility and productivity of the soil, but are not necessarily going to return as large yields as now occur under the rather intensive forced production that we've had.

If you look at the studies that are now coming out from the various soil conservation and resource conservation groups, there's a good deal of concern that we're losing the soil fertility, particularly in the Midwest—Iowa for example, and that we've got to begin looking at how we can develop more effective conservation programs, regenerative programs.

There are a number of groups that are now working on that, but the Department of Agriculture generally does not believe this is a reasonable policy to follow.

Senator JEPSEN. Well, I couldn't agree with you more. As you know, I am chairman of the Soil and Water Conservation Subcommittee of the Agriculture Committee and we are holding hearings across this country, and your statements with regard to losing not only the soil itself but the fertility of the soil is accurate.

We do have, as has been expressed here several times in different ways this morning, a pretty good quality of food available. It's kind of taken for granted that we walk in a supermarket, that we just pick the best of everything and have it available and always fresh and always there.

I don't think anyone has ever given a second thought—very often anyway, and very few if any—as to what it would be like if we ever should become, in this country, dependent on someone else for our food supply. I think we'd have a very serious national security problem among other things, and it would be very serious indeed.

So the conservation of our soil is extremely important.

Mr. Leonard, you recommend substantial increases in the traditional public food programs such as food stamps and school lunch programs. I believe your objectives for these programs are the same as mine, and that's to provide a nutritional diet for those who lack resources to purchase such a diet from their earnings, at a minimum cost to taxpayers.

Now do you believe these existing programs are presently designed and operated in an efficient, equitable, and effective-enough manner that we can just simply add more dollars to them?

In your recommendation, I think you recommend a $4-billion increase for fiscal year 1984.

Mr. LEONARD. Yes, $4 billion. I don't think the programs are run as well as they should be. The problem is combining an intelligent management program with an adequate funding level. That involves a set of institutional devices that simply are not in place now.

If you look at the way the programs operate today, they are essentially Federal resources that are brought back into the community, and this allows the community to do a better job of responding to the hunger and malnutrition needs of the various groups in the community.

If you look at the impact of the changes that were made in 1980—1981 rather—it forced communities to go to a set of emergency programs, a throwback to the 1930's and to the period after World War II in that communities were simply overrun by the demand for food from people who couldn't afford it.

Every community in the United States has set up emergency food distribution programs and in every case they're simply being overrun. They cannot meet that need, particularly a community that has relatively poor resources, if a community is suffering extensively because of the recession.

What it means is that we're forcing a community that has relatively less capability of responding to the nutritional needs of its residents to do so at a time when they are simply unable to do that.

So that if you were to develop a better set of institutional mechanisms, particularly a planning mechanism that would allow Congress to evaluate the need as it's stated by the communities that are trying to respond to it, then you would have an opportunity to say you wanted to respond to all of it, or to part of it.

But as it is now you don't know; you simply don't know. The Department doesn't know, the Office of Management and Budget doesn't know, because they're simply taking target figures for budget purposes. And then that's when you have to rely on essentially the use of words like safety nets and the truly needy, because there's no definition of those terms.

So that part of the institutional reform that we need to take on this broader scale is to begin using planning as a tool, so that Congress can be more responsive to the communities who are trying to meet the needs of hungry people who live there.

Senator JEPSEN. Along these lines—I appreciate your remarks—which should come first, the well-designed food aid program or funding for the food aid program?

I mean, maybe we ought to clean up the one we have before we just simply add more money to it. It's a little bit of what we've been trying to do.

Mr. LEONARD. I don't think waste or abuse in the food stamp program has been any worse than waste or abuse in the PIK program or the farm price support program. There are always going to be problems with those programs. If you focus on the management and administration of those programs, you reduce those kinds of problems. I don't think the problems of abuse are widespread and I think the program could easily take an increase in the funding, particularly in the range that I have discussed.

Also, on the school lunch program, just let me make one point there, is that those programs are very well managed, and when you examine how the Federal Government provides support to those programs, there are about four different income flows, but once those income flows reach the school, it becomes available as cash to maintain a school lunch program. So one of the things that Congress might look at is the degree to which it requires Federal support to maintain a viable school lunch program, regardless of the so-called income sources, because now we provide funds for low-income children, that is, Congress appropriates money for children who don't pay anything, they appropriate money for children who pay less than what other children are paying, and then they appropriate money for all meal support, so that every child gets some kind of subsidy on school lunch, but the school lunch program then takes that money and just puts it in one pot and pays for the operation of the program.

So that when those cuts came the way they did in the early—in 1981 and 1982, it forced the schools to adjust their budgets. A lot of schools dropped out, and almost every school had to increase prices across-the-board. Now, I am not sure that that was what the intent was, so far as Congress was concerned.

Senator JEPSEN. Well, just a couple of more questions, and then I will be able to wind this up. If we talk about just adding more money to programs, sort of a blank check basis, we get—and I think appropriately so—questioned. And I certainly question. We might take something that is more specifically defined, for example, then the blank-check attitude that some say exists in the defense program. Put more money on it.

I think maybe, sometimes, not being specific and not showing exactly how this is going to be administered, and why it is needed and so on, damages the credibility of it. Along those lines, in these programs, do you believe that there is any relationship between economic conditions such as unemployment and the need for public food welfare programs? You have indicated, I think, you do.

Mr. LEONARD. Clearly the history of the food stamp program is that it rises and falls as general economic conditions rise and fall, so that when you have a period of sharply increasing unemployment, food stamps become one of the major cushions so that the economic consequences of the changes in the economy are not totally visited upon the poor or the people that are unemployed.

Senator JEPSEN. Now, watch this—I am exploring this with you—if unemployment drops to 8 or 7 percent in the next couple of years, and there is a strong and sustained economic growth, which we have every reason to believe there should be, then would your recommendations for substantially increased public spending on domestic food aid programs be any different?

Mr. LEONARD. Probably not, because if you look at the changes in employment with the—what appears to be the beginning of a recovery, a lot of the jobs that were once available in the Great Lakes state area, in the industrial heartland, are simply not there anymore, so that there is an enormous adjustment problem that is going to take years and years to work out.

The cost of that needs to be absorbed by the Federal Government through various devices, and the food stamp program is clearly going to be one of those, because with economic recovery, I don't think we are going to see as sharp a drop in unemployment as everyone would hope. So the costs of those programs are still going to be rather large.

Senator JEPSEN. Thank you.

I indicated, Mr. Farrell, that the triangle of interests that you pointed out is critical, in developing agricultural policies. Producers were here at a hearing a couple of weeks ago. Next week representatives from the field of agricultural trade, Daniel—I believe it is—Amstutz. Under Secretary for International Affairs; Robert Lighthizer, Deputy U.S. Trade Representative, Office of U.S. Trade Representative, and Richard McCormack, Assistant Secretary for

Economic and Business Affairs, U.S. Department of State will appear. So where we had producers 2 weeks ago, we have the general area of the consumers today, we have covered the area of trade, and we're taking this path.

So I am very interested and will look forward to working and corresponding and visiting with you more in the future about this area, because I think it is probably the keystone to developing a realistic farm policy in this country, and that is you have got to get everybody working together.

Senator Abdnor, do you have——

Senator ABDNOR. Now, if I could just pursue, for a second, the comments you have made. I feel that we have to hear from all who are involved with farm policy, food policy, and foreign policy, all of which makes up that triangle you speak of.

I guess that's why I sometimes get so enthused about making the public aware. I think we have to. You know, my first year down here, Mr. Leonard, farm prices were totally deplorable. It was sad. A great number of ranchers in from my area got together with the consumer groups of this country, and I will never forget, we were on that platform down at the Department of Agriculture, looking at all of these people.

I remember one guy who called himself a consumer, so help me, he told my farmers and ranchers, "There is no reason why you shouldn't be getting a third more, and we ought to be buying it for a third less." I scratched my head and I thought, how did he ever figure that out, you know? [Laughter.]

That's great. But we have got to make people realize that there is a problem. I get very discouraged, and I can find misconceptions even in South Dakota where our principal industry is agriculture. But people just don't understand the difficulties and the excessive costs that farmers have in this economic picture today.

We have to do something about it. You were saying, Mr. Leonard, that commodity loan rates should be reduced and target prices should be scaled back in proportion.

Now, what are you thinking, in terms of how much? You are not the only one to say this, and I am just wondering what we're talking about and what we ought to do.

Mr. LEONARD. Well, saying that in the perspective of how one goes about trying to expand exports, and it seems fairly clear that in the world market today that it's a pricing question. So that the issue, then, is at what price can we—or first, the first question, then, is how does the United States get out of the position it's in now of essentially setting a floor price for world grain so that we are in effect protecting every producer in the world?

The result of that is that the United States then is holding practically all of the grain supply that is available. Somewhere over 60 percent of the grain supply in the world today is in the United States. We can't sell it. So that it means that our commodity price—our commodity programs, the price support levels, have got to be related to world marketing conditions, and that means bringing the price, the loan rate, down closer to the marginal cost of production.

Senator ABDNOR. Yes; but let me stop you there. This is where we go back to where we were 2 months ago.

Mr. LEONARD. We're always going to get back to——

Senator ABDNOR. We have got those other countries who are cutting prices below our targets, but they're not making money—their costs are higher than ours are. Their subsidies and their guarantees are higher than ours. They give considerably more.

But they sell for less than we do. So how do we handle that? This is part of the complex problem we are trying to deal with.

Let me point out one thing. You were talking about the $31 or $32 billion that those programs cost you. What's farm net income? $19 billion——

Mr. LEONARD. Pardon?

Senator ABDNOR. I say net farm income——

Mr. LEONARD. Yes.

Senator ABDNOR [continuing]. Is $19 billion.

Mr. LEONARD. It might be $20 billion, too, but——

Senator ABDNOR. So, we can't say we're making the farmers rich——

Mr. LEONARD. No.

Senator ABDNOR [continuing]. Unless we go into other places, too, so by cutting back more until we come up with something better, do we let them go broke? Is that the way to go?

Mr. LEONARD. No.

Senator ABDNOR. And is that the way to let it go, so if we have got to go to foreign markets we don't try to make these other countries either—we either take them on in a price war—which I admit is not the way to go, if we could possibly avoid it. But until they don't want to talk sense to us, what do we do?

I mean, you just said lower our price supports and competition—well, they will break us, because they are not low in their prices supports. They are guaranteeing their farmers more money. Let's talk about that. We have taken acres out of production. I have to keep getting out my statistics here; when we're all through, we took out 80 million acres, but what does it amount to in being effective? Now, it increased 50 million in the rest of the world, while we have been cutting back.

So if we can keep cutting back, and if the rest of the world is going to keep producing, where are we going to end up? We're going to give our foreign markets away? And it's very important to you as a consumer, and everyone else.

Mr. LEONARD. Absolutely.

Senator ABDNOR. It's absolutely part of the balance of trade.

Mr. LEONARD. I am just as sympathetic to the problem as you are.

Senator ABDNOR. This is so complex—that's why you have got to help us solve it. I mean you have got to give us some good help and input here.

You have also said, Mr. Farrell, we have got to drop these prices. How far can we go down with them and keep these guys afloat? The support targets, and ——

Mr. FARRELL. I don't have a dollar number. The major point I was trying to make was that we not adopt farm policies which include adjusters, or which include index provisions which will force us out of line in world markets.

In other words, I would like to see much more flexibility in loan and target price provisions. In general, we should be shooting for loan rates which are generally at the variable costs of a good, efficient producers in this country. Now, that's going to rise, if the costs of production rise, or inflation impacts it. I would like to keep flexibility, to be able to move with the circumstances of the time.

I don't really think that the loan rate is currently that far out of line with world market prices. But I would point out that it is not just a matter of the loan rate; it's the question of the value of the U.S. dollar and the impacts which monetary and fiscal policy and budget deficits have in our position in world markets. We tend to overlook that.

Senator ABDNOR. So the dollar in relation to the other monetary systems of the world is certainly a——

Mr. FARRELL. A very key variable that accounts in part for our relatively weak competitive position, at the moment.

Senator ABDNOR. Then one last thing, and I know we have got to go, and you probably have some additional questions, but let us discuss grain reserves. We have talked a lot about that.

Do you think that when they get so big, we don't keep them sealed off? They have a terribly depressing effect on a farmer's markets and his prices. We must have half the wheat for the world stored right here.

Mr. FARRELL. About 60 percent, I think the number is.

Senator ABDNOR. So is it our responsibility? Should we continue on with these huge grain reserves, a depressed market? Some consumer groups feel that we are—and farm groups, even, have said that, you know, are really worried about running out of grain and food for the rest of the world, and what our reserves are to do. But should it be carried only by America, or should some other countries help with this?

Mr. FARRELL. Not at all. I think that the size of our current reserve is clearly too high. It's intolerable, both from a standpoint of its effects in the market and from the standpoint of treasury costs.

But I think that a reserve in this country, hopefully coordinated with other major grain producers, is absolutely an essential part of good agricultural policy.

Senator ABDNOR. Yes.

Mr. FARRELL. Where we get into difficulty is just as we have in the past 3 or 4 years, we developed a perfectly good concept, the notion of a farmer-held reserve, but set up rules, and then jimmied the rules in such a way that we created problems. Farmers like the reserve, of course, when prices are low. It's a means of enhancing farm prices. But I got to go both ways, if you are really interested in creating some price stability in world and domestic food markets.

It's true that in times of high prices a reserve will tend to depress farm prices. But farm interests have got to consider some trade-off, if you will, for having the reserve in the first place.

I think there are fundamentally very good policy concepts in the 1981 legislature. But it's the way in which we administer or manage or jockey these provisions to meet short-term crisis conditions that gives us problems. We simply can't have viable long-term policies if those policies are going to be violated every time there is an emergency.

Senator ABDNOR. Well, thank you. Mr. Chairman, thank you.

Senator JEPSEN. Thank you.

Senator ABDNOR. I know it's late, and you people gave us some very valuable information. I'm sorry we didn't keep Ms. Jarratt busier over there.

Senator JEPSEN. I have a question for Ms. Jarratt before we conclude, but I thank you, Senator. One of the things I think of is, among a number of positive things that have come out of this hearing, the fact that there are no easy answers; that there is a great need for cooperation, and working together from all aspects. We cannot afford the luxury in this country, anymore, of an adversary relationship, either between consumers-producers, management-labor, or government-private sector. That luxury we can no longer afford, if we are to continue to maintain our leadership role in the world.

To further illustrate the point, the difficulty and Catch-22 situation that we come up against when we talk about these things—and it's obvious from the conversation here—is that to the extent that PIK raises farm commodity prices it is in conflict with both consumer and foreign trade objectives. And that's sort of a Catch-22 situation.

The front page of the local newspaper here this morning talks about the fact that there is a problem now, that the Department of Agriculture—if this story is accurate, and I don't believe all I read in the papers all the time, but there may be something to this—does not have the wheat it needs to compensate farmers who have signed up to idle part of their land under the administration's new payment in kind, PIK, program. We're going to have a shortage of wheat. Sort of a quick Catch-22 situation.

In any event, there are no easy answers. Before I ask for any closing remarks that any of the panelists would like to make, I would like to ask Mary Jarratt—so you don't think that we have been ignoring you here, Mary—about the decision to scale back the surplus cheese distribution program to about 25 million pounds a month.

On what basis was this decision made?

Ms. JARRATT. Well, Senator, as you know, the program was started back in 1981. During the early life of the cheese distribution, the monthly volume was rather low, about 11 or 12 million pounds a month, until it caught on. Then around this past Christmas and shortly thereafter, the monthly volume got quite high, and actually we gave more than 50 million pounds during the month of March. We had been concerned about displacement of commercial sales during this period of time, but until it reached a certain level we saw no measurable impact.

Once it got to that level, we did begin to get both from the outside community and from our own internal analysis evidence of displacement of commercial sales. Also, we knew that that high a level probably was affecting more people than what would be in the needy category of participants. In other words, the distribution standards perhaps needed to be refined.

So we made a decision to scale back the monthly level to 25 to 35 million pounds a month, to look at it and see what happens as we distribute at that rate. Even doing that level of distribution, the 25 to 35 million pounds a month will provide the equivalent of more than 11 pounds of cheese a year for every person in the country below poverty—and that represents more than twice their average consumption.

So we feel that this level of distribution accommodates the needy. It makes no sense for us to be a revolving door in the market, so it helps to deal with displacement factor. And we are going to monitor the distribution at that level.

Senator JEPSEN. Well, given the large surplus of the dairy products that we have, were there other alternatives, or policies, considered? I mean, for example, were such things as tightening the eligibility requirements for the recipients so that——

Senator ABDNOR. Would the Senator yield?

Senator JEPSEN. Yes.

Senator ABDNOR. Do you have any way to set standards? They must be difficult to set.

Ms. JARRATT. The way the Department has handled this volunteer distribution is to turn the commodity over to the State, the State defines need, and they have usually used the evidence of food stamp participation, of AFDC participation. Some States give the cheese to an elderly person regardless of need.

Senator ABDNOR. Right.

Ms. JARRATT. I think that needs to be reviewed, and we have asked our regional administrators to tell the States that, you know, perhaps they might want to eliminate that category of person.

But no, we don't have Federal standards on need. The States define it.

Senator JEPSEN. I certainly agree with Congressman Cooper Evans of Iowa, who has asked the GAO to evaluate the impact of this give-away program on the commercial cheese sales in our State.

We have made local surveys in our State, especially in one of the major metropolitan areas. In the Cedar Rapids area, a man named Russ Profit, who is chairman of the food task force of the Lynn Human Services Emergency Survival Needs Committee, tells us they made their own surveys of the commercial outlets, and that they had little or no impact on retail sales. So we are looking into it.

Is this cutback, finally, any indication of any future administration policy along this line, or is it something that you are just groping with and coping with now, at this time?

Ms. JARRATT. We are groping with it, because the level at which displacement is severely adversely impacted is something that we have had to do on a monthly basis, and monitor. But as long as we have the huge inventories of food that we do with some of our commodities, like rice, and cheese and so forth, we feel that they should be made available, not only abroad for people in need, but here at home, also.

And to help accommodate relief for some people—the so-called new poor that Mr. Leonard was referring to, people who have recently become unemployed but maybe have incomes too high for the food stamp program that—or resources that are too high to allow them to participate, to be one of those 22 million Americans in the food stamp program, we do have these household distributions of food, of commodities, that we have an abundant supply, to help alleviate that concern.

They also, of course, go to all kinds of charitable outlets, the Salvation Army feeding centers, and that kind of service.

But, I think as long as we have abundant food supply, the President has directed us to look at these for relief, for humanitarian reasons. both at home and abroad, and we are doing that.

Mr. LEONARD. Mr. Chairman.

Senator JEPSEN. Yes, Mr. Leonard.

Mr. LEONARD. I think this illustrates a point that I want to make about consumption economics, that as early as March it was evident that the Department of Agriculture was sharply increasing the purchase of cheese under the surplus removal program. In fact, they were purchasing 70 percent more cheese than at the same time a year ago. This was a very clear indicator that the cheese giveaway program was dislocating commercial sales.

If you had projected that program out over a whole year, we would have been spending $1 billion to remove dairy surplus by buying cheese, turning around, giving it to the poor, unemployed, and others, and turning around and buying that back again, so that we would have spent $1 billion by the end of this dairy marketing year, and we would have ended up with more cheese in stock than we began with.

But if you look at the consumption impact of the food stamp program on dairy and dairy products, food stamp families consume almost 25 percent more milk and dairy products than do nonfood stamp families, so that if you want to increase the consumption of cheese and dairy products and milk, the way to do it is through the food stamp program.

That's what I mean by using programs, managing them wisely, and having an impact that benefits both farmers and consumers.

Ms. JARRATT. The administration certainly agrees, Mr. Chairman, that the food stamp program should always be the basic relief for low-income Americans, but I think that Mr. Leonard, even, would agree with me that when we have this surplus that we do, because of the price support structure that we have been unable to get an adjustment, to send the signal to the farmer to produce less, then I don't think he would suggest that we not give it away. The administration, of course, supports getting that price support level down so that the level of production will be down. If we had not been going to a greater purchase of cheese, which we were doing to facilitate domestic distribution, we would have been increasing, even more than we were taking in, the amount of nonfat dry milk.

The reason to go to an increased purchase of cheese was so that we would have it in a ready form to give to these people who were going to be buying it one way or the other. Under the current legislation, we need to change that price support structure.

Senator JEPSEN. I thank you. Are there any final comments that you would like to make for the record?

Mr. Farrell.

Mr. FARRELL. Merely to say, Mr. Chairman, that I have appreciated the opportunity to participate in the hearing, and would be happy to help in any way that you think would be useful in the future.

Senator JEPSEN. Thank you.

Mr. Leonard.

Mr. LEONARD. I do appreciate the committee opening this subject up. I think we all share a responsibility in trying to develop better programs and it would be my desire and willingness to work with the committee any way I could.

Senator JEPSEN. I thank you, Mr. Leonard.

Ms. Jarratt.

Ms. JARRATT. I certainly concur in the statements that have just been made, Mr. Chairman, and we're happy to appear here and look forward to working with you.

Senator JEPSEN. I thank the witnesses.

Senator Abdnor, do you have any closing statement?

Senator ABDNOR. No, Mr. Chairman.

Senator JEPSEN. I thank the Senator and the witnesses for their interest. I really do feel that a lot more light than heat has been generated, even though at times it might not have felt that way. [Laughter.] I thank everyone for the contribution today.

The committee is adjourned.

[Whereupon, at 12:40 p.m., the committee adjourned, subject to the call of the Chair.]