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S. HRG. 99-545

THE SPREADING IMPACT OF THE FARM CRISIS

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-NINTH CONGRESS

FIRST SESSION

SEPTEMBER 19, 1985

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

58-046 O WASHINGTON : 1986

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

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THE SPREADING IMPACT OF THE FARM CRISIS

THURSDAY, SEPTEMBER 19, 1985

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

The committee met, pursuant to notice, at 10 a.m., in room 210, Cannon House Office Building, Hon. David R. Obey (chairman of the committee) presiding.

Present: Representatives Obey and Snowe; and Senators Mattingly and D'Amato.

Also present: Robert J. Tosterud, deputy director; and Dena Stoner and Dale Jahr, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE OBEY, CHAIRMAN

Representative OBEY. Good morning.

Last February, this committee held a hearing to hear reports on the farm credit crisis from the State legislators representing 10 Farm Belt States. Those reports included sobering testimony about the extremely difficult situation farmers were facing in trying to make ends meet, stay in business, or just hang on to their farms.

In the 7 months since that February hearing, despite what we have heard about the overall national economic recovery, the farm economy has gone from bad to worse. For example, net farm income is now expected to drop this year by almost 40 percent, while farm production costs are still increasing. That means that many more farmers are going to be squeezed tighter and tighter. That has significant implications not just for the farming community but for the rural community as well.

We are convening another hearing this morning at a time when there is clearly an economic crisis in rural America as it relates to agriculture. But this crisis is not just ravaging farmers, it's spreading far beyond that. It is affecting small rural banks and the entire farm credit system, agriculture-related business and main street shops, farm equipment and machinery suppliers, and workers in the factories who build that equipment.

It affects local schools in their ability to maintain local tax support for their school systems in the face of extreme economic difficulty. And it is taking a terribly heavy toll in human terms on millions of people in rural America.

We are holding this hearing at the same time that the Congress is about to begin debate on the 1985 farm bill. In fact, immediately after this hearing is concluded, I have to go to the Rules Committee to testify on amendments that a number of us will be offering to the farm bill when it hits the floor.

The House debate will begin on that bill on Friday and continue on next week. That debate is likely to be contentious, to put it politely. I hope it will also be an informed debate.

One of the problems, frankly, that a number of us from rural areas face is that farm programs are complicated, and farm problems are complicated. If you live in the kind of a district which does not share those problems, it is very difficult to understand the complexity, much less the implications of farm and credit policy in rural America.

One of the reasons for this hearing this morning is to try to increase our ability to convey to people from urban districts in this country, perhaps not an intricate understanding of farm problems and the problems of rural America in a technical sense, but certainly we would like to increase the understanding that urban America has about the human, economic, sociological problems being faced by rural America which are really every bit as important to this country as the numbers which mask them.

Unfortunately, the shape of the debate is largely being determined by an attitude which I think Secretary Block expressed most clearly when he indicated that the policy of deregulating agriculture is likely to hurt farmers, decrease food supplies, and increase prices. But that is a small price to pay for saving the U.S. agricultural industry.

Archie noted once that it is very easy to find comfort in time of trouble, when the trouble is somebody else's trouble.

I think all too often that is what we do. It is very easy to urge someone else to exercise discipline, even while we don't do it ourselves. We certainly have that example at the Federal level on the budget deficit question.

It is often easy to ask someone else to endure economic pain and social pain, if that pain is not ours to bear.

What I am anxious to do this morning is to hear from three gentlemen on the first panel who represent States who have serious problems in the farming community.

We will be then hearing from another panel which will describe in more detail what is happening in human terms in areas that they deal with every day. I do want to do one thing. I want to insert at the end of my remarks, a copy of the opening statement that vice chairman, Senator James Abdnor would have made had he been able to be here. We scheduled this hearing at a time when both of us had clear schedules. But as a member of the House Appropriations Committee, I can fully appreciate his problem because he serves on the Senate Appropriations Subcommittee on Agriculture. He was greeted yesterday by a sudden meeting of that committee, the markup of their bill, which obviously requires his attention there this morning, because it is dealing with real dollars. I wanted to put his statement in the record and indicate that he shares our concern about the problems we will be discussing.

[The written opening statement of Senator Abdnor follows:]

Written Opening Statement of Senator Abdnor, Vice Chairman

IT IS A PLEASURE FOR ME TO EXTEND A WARM WELCOME TO OUR DISTINGUISHED WITNESSES, WHO HAVE VOLUNTEERED THEIR TIME AND ENERGY TO BE WITH US THIS MORNING.

AND I THANK THE CHAIRMAN FOR CONVENING THIS IMPORTANT AND TIMELY HEARING. FOR MY FIVE YEARS IN THE SENATE, I HAVE FELT LIKE A LONE WOLF CRYING IN THE WILDERNESS ABOUT THE PROBLEMS OF AGRICULTURE AND THE ENTIRE RURAL ECONOMY, AND I AM GRATEFUL TO THE CHAIRMAN FOR HIS INTEREST IN THE SUBJECT.

IT'S HIGH TIME FOR WASHINGTON TO WAKE UP TO THE FACT THAT AMERICA'S HEARTLAND AND AMERICA'S NUMBER ONE INDUSTRY ARE ON THE ROPES. MY PRIORITY ON THIS COMMITTEE HAS BEEN TO GIVE THE VITAL AND IMPORTANT RURAL SECTOR ITS DUE RECOGNITION AMONGST THE SO-CALLED WASHINGTON ELITE -- THE POLICY MAKERS AND PUBLIC OPINION MOLDERS. IT'S A CRYING SHAME THAT IT TAKES PROBLEMS OF CRISIS-MAGNITUDE TO GET PEOPLE OUT HERE TO WAKE UP.

RURAL ISSUES ARE NOTHING NEW FOR ME ON THE JOINT ECONOMIC COMMITTEE. WHEN I JOINED THE COMMITTEE SOME 5-1/2 YEARS AGO, WE CREATED A SUBCOMMITTEE ON AGRICULTURE WHICH I STILL CHAIR. NO SUBCOMMITTEE HAS BEEN MORE ACTIVE, I DARE VENTURE TO SAY, SINCE THE FULL COMMITTEE WAS CREATED IN 1946. THIS YEAR, MY SUBCOMMITTEE HAS LAUNCHED A RURAL ISSUES INITIATIVE UNRIVALED IN BREADTH AND SCOPE.

WE ARE IN THE MIDST OF A COMPREHENSIVE EVALUATION OF THE ENTIRE RURAL ECONOMY AND SOCIETY. AMONG THE TOPICS WE ARE ADDRESSING ARE ECONOMIC DEVELOPMENT AND THE CONDITION OF MAIN STREET, THE RURAL LABOR FORCE, COMMUNITY SERVICES, EDUCATION, HEALTH CARE, RURAL FINANCE, PUBLIC WORKS AND INFRASTRUCTURE, TECHNOLOGY AND A HOST OF OTHER PUBLIC POLICY ISSUES.

RURAL AMERICA IS FACING SOME FORMIDABLE CHALLENGES IN TODAY'S RAPIDLY CHANGING ECONOMIC ENVIRONMENT. NOT ONLY ARE RURAL INDUSTRIES COMPETING WITH DOMESTIC RIVALS, BUT THEY ARE BEING BARRAGED BY FOREIGN COMPETITION AS WELL. AND THIS INTERNATIONAL COMPETITION TOO OFTEN RESULTS NOT FROM COMPARATIVE ADVANTAGE BUT FROM ARTIFICIAL ADVANTAGES SUCH AS THE EXCHANGE VALUE OF THE DOLLAR, GOVERNMENT SUBSIDIES AND THE LIKE. AND OUR INDUSTRIES AREN'T ALLOWED THEIR DUE EXPORTS BECAUSE OF TARIFFS, QUOTAS AND OTHER TRADE BARRIERS.

THE U.S. ECONOMY IS NO LONGER IN THE INDUSTRIAL AGE. IT IS TRANSFORMING INTO AN INFORMATION- AND SERVICES-BASED ECONOMY IN WHICH THE RURAL ECONOMY MUST DEFINE AND ESTABLISH ITS NEW ECONOMIC IDENTITY. THAT IS NO EASY TASK. DETERMINING THE NEW ROLE OF RURAL AMERICA IN THIS CHANGING ECONOMIC SETTING IS GOING TO REQUIRE THE COMMITMENT OF EVERYONE, AND I AM CONFIDENT THAT RURAL AMERICANS POSSESS THE TALENT AND DETERMINATION TO IMPROVE THE RURAL WAY OF LIFE.

AS VICE CHAIRMAN OF THIS COMMITTEE, I AM GIVING CONCENTRATED ATTENTION TO REVITALIZING RURAL AMERICA AND CREATING NEW ECONOMIC OPPORTUNITIES FOR OUR RESIDENTS. BUT I AM ALSO COMMITTED TO MY RURAL INITIATIVE BECAUSE I KNOW THAT THE UNITED STATES CANNOT MAINTAIN ITS ECONOMIC MIGHT AND GLOBAL PROMINENCE IF ITS HEARTLAND IS HURTING. AND THAT JEOPARDIZES OUR NATION'S SECURITY AND THE FUTURE OF OUR CHILDREN. WE CERTAINLY CANNOT AFFORD FOR THAT TO HAPPEN.

I'M VERY PROUD AND HONORED TO HAVE TWO FELLOW SOUTH DAKOTANS ON THE PANELS HERE BEFORE US TODAY. FIRST, WE HAVE THE HONORABLE WILLIAM JANKLOW, GOVERNOR OF OUR FINE STATE. OUR OTHER SOUTH DAKOTAN IS AN OUSTANDING SPOKESMAN OF THE BUSINESS COMMUNITY, MR. DEAN RANDALL, EXECUTIVE DIRECTOR OF THE SOUTH DAKOTA RETAILERS ASSOCIATION. BY VIRTUE OF THEIR CLOSE CONTACT WITH THE ECONOMY OF SOUTH DAKOTA AND NEIGHBORING STATES, THEIR COMMENTS WILL BE MOST INSIGHTFUL.

AGAIN, WELCOME TO ALL OUR PANELISTS AND MY THANKS IN ADVANCE FOR SHARING YOUR EXPERTISE AND THOUGHTS WITH ALL OF US.

Representative OBEY. Testifying on the first panel today, we will have three Governors; Gov. Ted Schwinden from Montana, Gov. Bill Clinton of Arkansas, and Gov. William Janklow of South Dakota.

I rather like that ratio. I wish we had it in the House. But I guess from what I know of Governor Janklow, he will be able to take care of his side of the aisle.

Governor Schwinden is chairman of AgFocus, a project developed by America's Governors, Inc., to increase national awareness of problems faced by American agriculture. Governor Clinton is vice chairman of America's Governors, Inc., and represents the Southern States on the AgFocus panel, and Governor Janklow represents the Western States.

I would ask Governor Schwinden to begin, but before I do that, I would ask Congresswoman Snowe if she has any initial comments.

Representative SNOWE. I don't have an opening statement, but I do want to welcome our first panel of Governors to share with us their perspective of what is a major crisis in this country. Coming from a farm State, we certainly have our share of problems as well. I am pleased that you are able to contribute your time, particularly at a time when we are going to be considering the farm bill on the floor in the next week and in the weeks following.

I think your perspective and your opinions on this issue are extremely important to the committee and to other Members of Congress. I thank you and I thank you, Mr. Chairman.

Representative OBEY. Please begin, Governor Schwinden.

STATEMENT OF HON. TED SCHWINDEN, GOVERNOR, STATE OF MONTANA

Governor SCHWINDEN. Thank you very much, Mr. Chairman. Let me tell you and Congresswoman Snowe that we are delighted to have the opportunity to visit with you briefly this morning about an industry that is clearly essential, not only to the present but to the future—to strengthening the prosperity of this country—agriculture.

Today I wear three hats. First of all, as you have indicated, I am the Governor of a State that, at least in better years, boasts agriculture as its No. 1 industry. Second, I am a third generation wheat farmer, still actively involved in my family grain operation in northeastern Montana. And finally, I wear the hat of the chairman of the board of the national public education effort called AgFocus, a project of America's Governors, Inc. The other Governors appearing here today are members of that board.

I would also tell you that Governor Branstad, who is the chairman of the National Governors Association Committee on Agriculture, will submit his testimony here, also.

We are here today because we share a common conviction, a conviction that agriculture is so important to the well-being of this country that the policy choices about its future warrant better informed consideration by the American public, the people that you and I represent.

The three Governors are here today because we also share a common concern, a concern that the changes that are taking place in agriculture today, which you have referenced in your opening statement, are changes that are occurring at an accelerating rate. I noted that you said the last such hearing on the agricultural crisis was 7 months ago. We are starting earlier this season.

Those changes are occurring without an adequate understanding of the long-term implications on our economy, our resources, our food supply, our people, and indeed, our future.

We have come here this morning to convey to the committee and Congress our best information and our best sense of the changes that are underway in agriculture and what those changes mean for our States and for our country. By talking about agriculture and the complex economic and social interrelationships it involves, we hope and intend to emphasize the issues and the choices that are critical to setting effective agricultural policy, which you will be doing in the next 2 or 3 weeks.

We are here today not to promote policy positions but to try to widen the discussion between the confines of what historically has always been too narrow a farm debate.

The choices that face us as Americans today are broader than just commodity issues. Broader than wheat and corn and soybeans and the rest. They are broader than the trade and protectionist issues which dominate the news these days. They are broader than the concerns of the farm groups, representatives of the hands-on producer in this country. They are broader than partisan politics. That is why we have a representative group of Governors here this morning. They are broader than the battle to control the deficit. Our national discussion of agricultural issues must involve a comprehensive examination of fiscal, monetary, tax, export, resource, and social policies, as I am sure you will hear this morning.

The choices that are facing us in agriculture today are ones that I do not think that any committee in the Congress has ever had the opportunity to fully address. I think for good reason.

The American people, as you have indicated, really understand few of the major agriculture issues that face this country today, or more importantly, the long-term implications of the choices that we may or may not make in these next few weeks.

There is certainly no consensus about what we want or expect from our agricultural industry. We need consensus; we have confusion. As a political leader, I maintain a very firm and continuing confidence in the collective wisdom of the people of this country. But before they can exercise their wisdom and influence the Congress, the people first must have adequate and honest information and a clear understanding of the choices—the choices they have before them.

My hope is that with the kind of testimony that this committee is receiving today, we can begin to articulate the wider issues—the broader range of choices—that we can start to enlarge the agriculture policy debate to ultimately include the issues that affect the future of all Americans, all of the people that you and we represent.

AgFocus, the project of the Nation's Governors, among its earliest efforts undertook last December a Gallup poll of Americans' understanding and attitudes toward agriculture. That poll confirmed the need for more and better public information. It also indicated that the American public would be receptive to that kind of information.

The poll told us that the people of America do recognize the importance of agriculture to our economy, to our balance of trade. People are concerned about the long-term ability of our resources to provide adequate food and affordable food and fiber. They are concerned about hunger, both in this country and abroad. They recognize that the United States has both the ability and responsibility to address hunger here and around the world.

These and other poll results tell us that the public recognizes the importance of agriculture in terms of economic, resource, and food issues. As political and industry leaders, we have a responsibility to speak in clear terms about those issues, to make sure that the people of this country do have access to the information that they need to help us in the right decisions.

Finally, I am convinced that the American people believe that Government has a responsibility to maintain a healthy agricultural system. There is a disagreement about and great dissatisfaction with current Government farm programs. But that climate of confrontation must not be allowed to relieve the State or the Federal Government of our shared responsibility to make informed and effective decisions about agriculture and about this country's future.

As you well know, there are only 2.3 million people that are American farmers today; they represent less than 3 percent of our population, but they also account for 20 percent of our exports.

Our agricultural productivity has not always been so enviable.

After 1940, agricultural productivity jumped more than 6 percent a year. A noted economist points out that this dramatic improvement in productivity depended not upon good soil or favorable climate or hard-working farmers, because all three have existed during periods of failure. It depended upon deliberate and effective Federal policy. A policy of conservation and investments in the physical infrastructure, the REA, and lending institutions to stabilize farm income.

Today the agriculture industry, described by economist Lester Thurow a couple of years ago to the western Governors as America's last world-class industry, is again in trouble. But this time it is because of a new set of circumstances.

U.S. agriculture can remain a world class industry if we again institute a deliberate and conscious policy framework. A framework that responds with foresight and wisdom to the circumstances that today threaten to undermine the prosperity and the security of this country.

I would like to submit for the record a copy of my prepared statement, a summary for your information of the Gallup poll on public understanding of agriculture, and I would like to submit an AgFocus resource guide to some of the current analyses that are being done of the larger social and economic impacts of conditions in agriculture. I thank you very much, Congressman, for your interest.

Representative OBEY. Thank you, Governor Schwinden.

[The prepared statement of Governor Schwinden, together with the additional material referred to for the record, follows:]

PREPARED STATEMENT OF HON. TED SCHWINDEN

Chairman Obey, Senator Abnor, other distinguished members of the committee, ladies and gentlemen; I am honored to have the opportunity to talk with you this morning about an industry that is integral to the strength and prosperity of the United States -- agriculture.

I come here wearing three hats. First, I am governor of a state that, in better years, boasts agriculture as its number one industry. Second, I am a third generation wheat farmer, still actively involved in my family operation. And third, I am chairman of the board of a national public education effort called "AgFocus: A Project of America's Governors." The other governors who are appearing here today -- Governor Janklow and Governor Clinton -- are both members of the AgFocus board.

We are here because we share a common conviction: that agriculture is so important to the well-being of this country that the policy choices about its future warrant informed consideration by the American public -- by the people you and I represent. And we are here today because we share a common concern: that the changes taking place in agriculture -- changes that are occuring at an accelerating rate -- are occuring without adequate understanding of the long-term implications on our economy, our resources, our food supply, our people and our future.

We have come to convey to you our best information and our best sense of what the changes underway in agriculture mean for our states. By talking about agriculture and the complex economic and social interrelationships it involves, we intend to emphasize the issues and the choices that are critical to setting effective agricultural policy. We are here -- not to promote policy positions -- but to widen the discussion beyond the confines of a too-narrow farm debate.

The choices facing us as American citizens are broader than commodity issues, broader than trade and protectionist issues, broader than farm group concerns, broader than partisan politics, broader even than the battle to the control deficit. They must involve a comprehensive examination of the nation's fiscal, monetary, tax, export, resource and social policies.

The choices facing us in agriculture are ones that I don't believe any committee in Congress has fully addressed...and for good reason. The American people understand few agricultural issues or their long-term implications. There is no consensus about what we want from our agricultural industry. Where we need consensus, we have only confusion.

I maintain a firm and continuing confidence in the collective wisdom of the American people. But before they can exercise that wisdom, people must first have the information and a clear range of choices before them. My hope is that with the kind of testimony you will hear this morning, we can begin to articulate the wider issues, the broader range of choices -- that we can begin to enlarge the agricultural policy debate to ultimately include the issues that will affect the future of all those whom we represent.

AgFocus, among its earliest efforts, undertook a Gallup poll of Americans' understanding of agriculture. That poll confirmed the need for more and better public information. It also indicated that the public would be receptive to that information.

The people of America recognize the importance of agriculture to the economy and to our balance-of-trade. They are concerned about the long-term ability of our resources to provide adequate and affordable food and fiber. They are concerned about hunger, both in this country and abroad, and they recognize that the U.S. has both the ability and the responsibility to address hunger.

What these and other poll results say to me is that, if the public recognizes the importance of agriculture in terms of economic, resource, and food issues, then as leaders, we have a responsibility to speak in clear terms about those issues...to make sure that people have access to the information they need to help direct us in our decisions.

Finally, the American people believe that government has a responsibility to maintain a healthy agriculture system. There is disagreement about and great dissatisfaction with current government farm programs. But that climate of confrontation must not be allowed to relieve the state and federal government of our shared responsibility to make informed, effective decisions about agriculture and our future.

Today, only 2.3 million people, less than 3 percent of our population, account for 20 percent of our exports. And yet our agricultural productivity has not always been so enviable. From 1900 to

1940, U.S. agricultural productivity grew at less than 1 percent a year; after 1940, that jumped to more than 6 percent a year. Nobel laureate economist Lester Thurow points out that "this dramatic improvement depended not upon good soil, a favorable climate, or hardworking farmers -- all three existed during the period of failure" -- but upon deliberate, effective federal policy. Policy that encouraged R & D; dissemination of new developments through a vast network of county extension agents; conservation; major investments in the physical infrastructure of farming; the Rural Electrification Agency; new lending institutions; and efforts to stabilize farm income.

Today the agricultural industry, described by Thurow as America's "last world class industry," is again in trouble, but because of a new set of circumstances.

Agriculture can remain a world class industry if we again institute a deliberate policy framework -- a framework that responds with foresight and wisdom to the circumstances that today threaten to undermine the prosperity of America.

AG FOCUS

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FOR RELEASE May 8, 1985
10:00 a.m., E.S.T.

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GOVERNORS RELEASE NATIONAL GALLUP POLL

Washington, D.C. -- Three-quarters of Americans polled in a recent Gallup survey believe government assistance to farmers should be maintained at current or increased levels, but they disagree on what form the help should take. The poll, commissioned by "AgFocus: A Project of America's Governors," was undertaken to help governors elevate the importance of agriculture on the national agenda.

"Americans are removed increasingly from farming and rural life," said Montana Governor Ted Schwinden, who announced the poll and the AgFocus project today. "We must provide balanced, concise information about agriculture and about the tremendous transformation this industry is undergoing. Many of the nation's governors believe AgFocus will serve to bridge the gap between the farm and consumers, and will facilitate informed discussions about critical issues facing agriculture and the country." Governor Schwinden was joined in the national announcement by Governor John Evans of Idaho.

In what was an extensive landmark study of public attitudes about agriculture, the Gallup Organization conducted 1,507 telephone interviews in a nationally representative sample during December 1984. Gallup also interviewed federal government leaders and thought leaders employed in state governments, journalism, academia and business. The Gallup poll covered a spectrum of issues aimed at generating a statistical picture of the general public's understanding of agriculture.

According to the poll, most Americans (regardless of age, income or residence) hold agriculture in high esteem. Yet, a majority of the general public would not choose farming as a career for themselves or their children. Most Americans also agree that farming involves hard work and risk and requires considerable managerial abilities. Only six percent of those interviewed by Gallup say that farming is the kind of work they would most like to do. Conversely, 16 percent say farming is the type of work they would least like to do, making it one of the most unappealing occupations in the national work force. The perceived advantages of farming include "being one's own boss," a self-sufficient lifestyle, country living, and freedom and independence.

In its analysis of consumer concerns about food prices, Gallup found consumers do not blame farmers for high prices. Instead, they cite middlemen, retailers and distributors for rising food costs. On the average, the public believes that for every dollar they spend for food, middlemen get 45¢, retailers receive 32¢, and the farmer gets 22¢.

The Gallup Poll revealed that a near majority (49%) of the general public believe the government is not giving enough help to farmers but that Americans have mixed feelings about the impact of farm programs: 73 percent believe government policies help big farms only and not family-sized farms. Almost 60 percent of those surveyed believe farmers would be more efficient if price supports were eliminated.

Recognizing that the United States produces a surplus of food, 78 percent of Americans believe farmers should not cut back production but that the United States should be providing more food to poor people in this country and abroad and should sell more food overseas. Eighty-six percent of the public believe agricultural exports are important to the nation's economy.

Americans are concerned modern farming practices may have negative effects on the environment and on food safety and quality. A large number of Americans believe modern farming methods (e.g., chemicals, modern equipment and tillage practices) raise the cost of food.

AgFocus, which originated as the "Image of Agriculture" project of the Western Governors, is a national public education project designed to elevate the importance of agriculture on the nation's agenda. Governor Schwinden, who serves both as Chairman of AgFocus and of the Agriculture Committee of the National Governors' Association, developed the idea of a national educational effort two years ago. AgFocus was endorsed formally by the National Governors' Association in February 1985.

Governor Schwinden stressed that AgFocus is not policy-oriented. "AgFocus will serve as an information source," he said. "We will not advocate positions on issues. AgFocus is nonpartisan. Many segments of the industry are represented on our board: farmers, consumers, agricultural workers, agribusinesses, educators, policymakers, and governors."

AgFocus will sponsor seminars concerning agricultural issues in urban areas, a series of issue briefs, media information sessions, a national information clearinghouse for agriculture, and public service announcements about agricultural issues.

Initial support for AgFocus came from the Lincoln Institute of Land Policy, the State of Minnesota, and the State of Montana Wheat Research and Marketing Committee. Financial support for the Gallup poll came from Burlington Northern, Deere and Company, International Minerals and Chemicals Corporation, the Grand Trunk and Western Railroad, DuPont Company, Union Pacific Corporation, the Kroger Company, and Control Data Corporation.

In-kind assistance for the project has been provided by the Monsanto Company, the Office of the Governor of Minnesota, the Minnesota Department of Agriculture, the Montana Governor's Office and Department of Agriculture, and KUED-TV (University of Utah).

AG FOCUS

AGFOCUS: A Project of
America's Governors, Inc.

The Spreading Impact of the Economic Decline in Agriculture

A Resource Guide Compiled By
AgFocus: A Project of America's Governors, Inc.

September 1985

The Spreading Impact of the Economic Decline in Agriculture

AgFocus Resource Guide

The snowballing financial problems of American agriculture and the 1985 farm bill have produced an unprecedented explosion in research on agricultural economics and the plight of those people who depend directly or indirectly on agriculture for their livelihood.

AgFocus: A Project of America's Governors, Inc. has compiled this resource guide to list briefly many major studies, position papers and economic analyses that have been released this year and explain how to obtain more information.

The studies range from technical agricultural analysis to sociological studies of farm families to the growing body of evidence that the problems in agriculture go beyond the farm to communities, urban areas and major industries across the country.

Due to the farmer's loss of buying power, businesses directly related to agriculture — seed companies, fertilizer distributors, implement dealers and others — have felt devastating blows. However, the crunch also is being felt on Main Street, and is threatening the basic infrastructure of much of rural America. Tax bases that support schools, highways, economic development, and other vital services are at risk as are thousands of jobs beyond the agricultural sector.

The goal of AgFocus is to create greater awareness and understanding of the complex issues related to agriculture. Because agriculture's deeply-rooted problems are not going to be resolved simply or quickly, AgFocus is encouraging the pursuit and the dissemination of reliable, objective information on agriculture. This resource guide — the first in a series of reports on important agricultural issues — is a resource only and made available by AgFocus to assist policymakers, opinion leaders, and the media in obtaining a broad cross section of information about agriculture.

The project, begun by the Western Governors, was endorsed by the National Governors' Association in February 1985. Chaired by Montana Governor Ted Schwinden, AgFocus was officially launched in May 1985 with the release of a national Gallup Poll on Americans' perceptions of agriculture.

The following are brief summaries of sources of information which discuss the agricultural economic situation and contacts for obtaining copies of the reports:

- **Summary Report of the Economy-Wide Impacts of the Farm Financial Crisis** — a study by Food and Agricultural Policy Research Institute (FAPRI) in conjunction with Wharton Econometrics, July 22, 1985. Contact: Mike Hall 202-371-1450, National Corn Growers Association, Suite 201, 1015 15th Street, NW, Washington, D.C. 20005

Study links a Farm Journal survey and FAPRI farm income projections to farm loan losses and the Wharton Econometric model of the U.S. economy. "The financial condition of U.S. agriculture is critical and will not improve under most 1985 farm bill options being considered. Moreover, the financial crisis for agriculture, if not altered by corrective actions aimed directly at the debt load of highly leveraged farmers, is of sufficient magnitude to affect U.S. financial markets and the performance of the national economy."

- **Food and Agriculture Policies: Proposals for Change, Report of Study Group** — Center for National Policy, February 1985. Contact: Maureen Steinbruner 202-293-1080, Center for National Policy, 2300 M Street, NW, Suite 640, Washington, D.C. 20037

Report is based on a year-long review of the issues involved in our current set of domestic and international food and agriculture programs. It includes a discussion of the background of the programs and makes a series of specific recommendations for change. Edmund Muskie chaired the group.

- **Survey of Families Leaving Farming** — Dr. William Heffernan, Professor of Rural Sociology, and Judith Bortner Heffernan, Research Associate, University of Missouri-Columbia, April 1985. Contact: Dr. William Heffernan 314-882-4563, 106 Sociology Building, University of Missouri-Columbia, Columbia, Missouri 65211

Study focuses on 42 families in a North Central Missouri county who for financial reasons quit farming between January 1, 1980, and January 1, 1985. The study looks at educational level, size of families, history and financial conditions of farming operations, income levels, social support, family stress factors, social behaviorial changes (particularly in children and the school setting), and current and future well-being of the families.

• **Farm and Ranch Debt: Problems and Prospects,*** July 6, 1985, and **The Changing Rural Economy: Implications for Rural America,**** August 12, 1985 — Dr. Neil E. Harl, Professor of Economics, Iowa State University. Contact: Neil Harl 515-294-2210, Iowa State University, Department of Economics, Ames, Iowa 50011

*Paper discusses the factors contributing to the current difficult economic environment for agriculture and the data on financial conditions of farm and ranch operations. It also focuses on several solutions to the problem including debt restructuring and federal loan guarantees, the need for operating credit and a congressionally-chartered finance corporation.

**Paper discusses the current financial situation in agriculture and emphasizes the probable impacts on rural education both in terms of the capacity of the rural community to maintain programs in formal education and in terms of the demand for educational services as farmers and farm workers are displaced. The paper contains 1984 data on farmers in Iowa who left farming for financial reasons.

• **State of American Agriculture, 1984** — National Planning Association, Food and Agriculture Committee, November 1984. Contact: Arlene Thompson 515-286-4961, Food and Agriculture Committee, 800 High Street, Des Moines, Iowa 50307

Paperback has three main sections. Part 1 looks at the 50 years of New Deal farm programs, dating back to 1933. Part 2 is an economic analysis of the U.S. farming industry in the domestic economy and an agriculture which has become internationalized. Part 3 includes a discussion of seven policy issues for the future, written by members of the Food and Agriculture Committee.

• **Alternative Agricultural and Food Policies and the 1985 Farm Bill** — book edited by Gordon C. Rausser and Kenneth R. Farrell, January 1985. Cost: $18. Send request for publication GF 8318 (with check or money order payable to The Regents of the University of California) to Publications, University of California, Agriculture and Natural Resources, 6701 San Pablo Avenue, Oakland, CA 94608-1239

Book of papers analyzes the effects of different policy scenarios on a number of important performance measures. These measures relate to the behavior of commodity markets, the structure of U.S. agriculture, resource use, consumer prices, trade flows, and macroeconomic behavior.

• **Financial Characteristics of U.S. Farms, January 1985** — U.S. Department of Agriculture, Economic Research Service, July 1985, Agriculture Information Bulletin No. 495. Contact: Ken Erikson 202-786-1799, National Economics Division, ERS, USDA, Washington, D.C. 20005-4788

Study contains the most recent figures compiled by USDA on the financial situation on farms. "The number of farms experiencing financial stress continued abnormally large into 1985, especially for dairy, cash grain, and livestock producers in the Northern Plains, Lake States, and Corn Belt. USDA's Farm Cost and Returns Survey, conducted in the spring of 1985, indicated that almost 320,000 farms (18 percent of the survey's estimated number of farms) closed out the year with a debt load exceeding 40 percent of the value of assets. Farms with such high debt loads are susceptible to financial problems. Approximately 214,000 of those farms were estimated to be unable to cover production expenses, family living needs, and debt principal repayments out of current farm and nonfarm income."

• **Diversity in Crop Farming: Its Meaning for Income-Support Policy** — Congress of the United States, Congressional Budget Office, May 1985. Contact: James Vertrees 202-226-2946, Congressional Budget Office, House Annex #2, 2nd and D Streets, SW, Washington, D.C. 20515

Special study was conducted at the request of the Senate Budget Committee. Its purpose was to assist the Congress (as it considered new farm program legislation to replace the expiring Agriculture and Food Act of 1981) in examining alternative income-support policies for U.S. crop farmers.

• **Impact of the Farm Financial Crisis on Agribusiness Firms and Rural Communities** — Dr. Roger G. Ginder, Associate Professor, Dr. Kenneth Stone, Professor, and Dr. Daniel Otto, Assistant Professor, Department of Economics, Iowa State University, August 1985. Contact: Roger Ginder 515-294-7318, 460-A Heady Hall, Economics Department, Iowa State University, Ames, Iowa 50011

Paper examines the impact of the farm debt crisis on agribusiness firms in 10 North Central States (6th, 7th and 8th Farm Credit Districts) and on the retail sales sector in rural communities in Iowa. It also studies the impacts on the community such as where dislocated farms might go, on tax and economic bases, and on school and institution disruption.

• **The Agricultural Conservation Corporation, A Briefing on Proposed Legislation** — Farm Credit Council, June 12, 1985. Contact: Del Banner 202-466-4180, President, Farm Credit Council, 1800 Massachusetts Avenue, NW, Suite 604, Washington, D.C. 20036

Report provides information on "the Agricultural Conservation Corporation, a major legislative initiative to help address the severe financial plight of farmers and to help avoid economic fallout. The ACC will provide farmers a viable alternative for 'asset restucturing' and will serve as a stabilizer to prevent a quick, severe drop in asset values. The ACC would serve as a holding tank for land — absorbing the excess supply from the marketplace while serving as a new market for farmers needing financial restructuring."

• **Farm Financial Conditions Review** — Farm Sector Economics Associates. Annual subscription fee. Contact: Stephen C. Gabriel 202-898-1644, 1250 Eye Street, NW, Washington, D.C. 20005

Newsletter published monthly "provides a comprehensive analysis of agricultural finance and macroeconomic issues." Twenty-plus page report is written for agribusiness and farm policy experts.

• **The American Journal of Agricultural Economics* and Directory of Members of the American Agricultural Economics Association**** — American Agricultural Economics Association (AAEA). Cost: $10 for individual copies; free to members of AAEA. Contact: Department of Economics 515-294-8700, AAEA, 180 Heady Hall, Iowa State University, Ames, Iowa 50011

*Journal published five times a year is a collection of research papers that keeps readers abreast of developments in agricultural economic research.

**Directory lists names of AAEA membership which includes approximately 4,700 individual (economists) members and 50 institutional (corporate) members. "Membership in AAEA is open to individuals having a professional interest in agricultural economics."

• **Creating an Entrepeneurial Farm Economy** — Council of State Planning Agencies (CSPA), William Nothdurft, Roger Vaughan, and Mark Popovich, August 1985. Contact: Mark Popovich 202-624-5386, CSPA, 400 North Capitol Street, Suite 291, Washington, D.C. 20001

Policy paper provides a brief history of the plight of American agriculture, a review of current programs and the development of a new policy framework for state-initiated innovations in the farm economy.

• **Summary Report of the Conference on Agriculture in Transition, Sponsored by the National Governors' Association, May 29-31, 1985, Des Moines, Iowa,** Report by Dialogue Agricultural Policy Project, Monsanto (report to be available winter 1985). Contact: Bill Adams 202-833-3013, Monsanto Agricultural Products Co., c/o Suite 605, 1919 Pennsylvania Avenue, NW, Washington, D.C. 20006

Report provides highlights from speeches given at conference which addressed long-term agricultural issues by bringing together policy and decision makers and representatives from farming, government, business, religion and human services. Speakers highlighted include Iowa Governor Terry Branstad; Kansas Governor John Carlin; South Dakota Governor Bill Janklow; Daniel Amstutz, USDA Under Secretary of Agriculture for International Affairs and Commodity Programs; Iowa Senator Charles Grassley; Iowa Senator Tom Harkin; and Indiana Lieutenant Governor John Mutz.

• **Solution (Or Resolutions) of Financial Stress Problems From the Private and Public Sectors,** Dr. John R. Brake, Cornell University, Department of Agricultural Economics, and Dr. Michael D. Boehlje, Iowa State University (moving to University of Minnesota, Oct. 1985), Department of Agricultural Economics. Contact: Michael Boehlje 515-294-2518, Iowa State University, Department of Agricultural Economics, Curtiss Hall, Ames, Iowa, 50011

Paper discusses possible and likely adjustments to the economic decline by the agricultural sector, support firm owners and public policymakers as the economic decline in agriculture worsens.

• **Agricultural and Credit Outlook 1985,*** January 1985, and **Agricultural Situation Report **** — Farm Credit Administration (FCA). Contact: Steve Guebert 703-883-4068, Farm Credit Administration, 1501 Farm Credit Drive, McLean, VA 22102-5090

*Annual report interprets the commodity situation and outlook and gives special attention to the financial condition of lenders and farm borrowers.

**Newsletter published weekly reviews the most topical agricultural issues to keep senior staff of the FCA and farm credit officials apprised of current developments in agricultural credit. The topics of the one-page summary range from interpreting USDA releases to reporting policy developments. It also provides interpretations of the credit implications of commodity developments.

• **Agricultural Bankers Annual Mid-Year Survey** — American Bankers Association (ABA). Contact: Sheldon Golub 202-467-4338, ABA, 1120 Connecticut Avenue, NW, Washington, D.C. 20036

Survey provides early sample of agricultural bankers' response to the ABA's farm credit survey. Approximately 800 bankers have responded to the survey at this point. Final results including a breakdown of responses by agricultural region and bank size will be available mid-November 1985. "ABA represents America's full service banks including many agricultural and rural banks."

• **Statements by the Independent Bankers Association of America Before Congressional Hearings** — Independent Bankers Association of America (IBAA). Contact: Weldon Barton 202-332-8980, IBAA, 1625 Massachusetts Avenue, NW, Suite 202, Washington, D.C. 20036

Statements made by IBAA president, vice-president, and agriculture-rural committee chairman discuss farm credit problems and agricultural legislation. Testimony before various banking and agriculture committees and subcommittees includes the views of "IBAA, representing some 7,800 small and medium-sized banks throughout the United States."

• **National Farm Survey on Financial Stress** — survey by Farm Journal; FAPRI Staff Report 6-85, July 1985. Contact: Roger Randall 215-829-4708, Farm Journal, 230 West Washington Square, Philadelphia, Pennsylvania 19105.

Survey was conducted by Farm Journal with assistance from University of Missouri-Columbia (Dr. Abner Womack) and Iowa State University (Dr. Stanley Johnson). The team surveyed a random selection of farm operators from Farm Journal's subscribers. The scientific sample included 2000 names from each of the four regions: the South, East, Central and West. Data was used to project estimates about farm debt such as how large the problem was, in terms of numbers and dollars, and to forecast when and what is going to happen in the future. Tentative findings were first reported in the March 1985 issue of the 108 year-old Farm Journal magazine, and the final results were reported in the FAPRI staff report in July.

• **Agricultural Finance Databook** (Statistical Release E.15)* and **"Financial Perspective on Agriculture,"**** an article from the Federal Reserve Bulletin, January 1984 — Federal Reserve Board. Publications available free from Publications Services, Federal Reserve Board, Washington, D.C. 20551. Contact: Emanual Melichar 202-452-3599, Senior Economist, Agricultural Credit and Banking, Federal Reserve Board, Washington, D.C. 20551.

*Report published quarterly (approximately 50 pages) is a compilation of data on agricultural finance.

**Article from journal provides background on the origins of current farm financial problems.

• **Resources** — Resources for the Future. Contact: Kenneth Farrell 202-328-5000, Resources for the Future, Inc., Institutional Relations, 1616 P Street, NW, Washington, D.C. 20036

Periodical published quarterly provides analytical perspectives on the development, conservation, and use of natural resources and the quality of the environment.

• A Tough Row to Hoe — a book by William Galston. Cost: $9.95 in paperback; $19.95 in cloth. 171 pages. Hamilton Press, 4720 Boston Way, Lanham, Maryland 20706

Book looks at legislation authorizing federal farm programs and "examines the alternatives: keeping the status quo; imposing rigid production controls; allowing a totally free-market agricultural economy, or a new "mixed" approach."

• **AgFocus Gallup Poll** — AgFocus: A Project of America's Governors, Inc., May 1985. Contact: Nancy Matheson 406-444-3111 (or Tamara Cox 800-243-6287, in Washington, D.C., 333-7400), Office of the Governor, State Capitol, Helena, Montana 59620

Poll conducted by the Gallup Organization, Inc. for AgFocus determined the public understanding of agricultural issues. The poll studied public attitudes in the following areas: farming as a career, image of farming, contact with farming, knowledge of farming, food prices and economics, impact of modern farming methods, production and surpluses, farm policy, exports, government aid, and policy and the farm bill.

Representative OBEY. Please proceed, Governor Clinton.

STATEMENT OF HON. BILL CLINTON, GOVERNOR, STATE OF ARKANSAS

Governor CLINTON. Congressman Obey and Congresswoman Snowe, I have to tell you that I am here today out of my gratitude for hearing this testimony and out of my deep respect for my leader, Governor Schwinden of AgFocus and Governor Janklow. I noted with approval your comments that you wished the political distribution of the Congress was 2-to-1 Democrats to Republican. I can only say before you hear Mr. Janklow, that if all the Republicans felt like you about farm policy, it wouldn't matter what party any Member of Congress belonged to.

In spite of all that, I was fairly afraid I would be wasting your time and all these other people sitting in this room today because I have never come to the Congress to talk about agriculture when I wasn't really preaching for it to be saved.

One of the reasons I wanted to come today is because the other Governors have put together this AgFocus movement and asked me to serve on the board representing the southern agriculture States to try to reach beyond the limitations of those who already understand at a deep level the dimensions of the farm crisis and what the obligations of the Federal Government are.

I hope that these hearings today will permit you to use the information that we are providing to reach beyond the State and the Congress. I don't think there is much time left unless you want to preside over the most fundamental structural change in American agriculture in this century.

I have been asked to discuss the human dimensions of this problem, the stress on rural life in my State and in all of our farm States. I would like to begin by citing a story that appeared in the Arkansas Gazette a few days ago. There was a small white house on a farm near Harrisburg, AR, that is the home of a sixth generation farm family. The land has been farmed since 1840. The family has made ends meet only twice since 1978. Now these people are frightened and frustrated. Not only do they have deep roots on their land, but one of their sons is buried on a hill there under a tree. They are, therefore, faced with losing not only the land but a family heritage, a way of life, and self-esteem and control over their own lives, but also with the personal tragedy of what to do with their own dead son.

Governor Schwinden and Governor Janklow are going to speak more specifically to some of the details of national policy. I have been asked to talk a little about the human dilemma. When farmers think about what happened to them in the Great Depression, they can at least take solace in the fact that everybody was in trouble. Now they have to face the fact that they are being told by the National Government that the economy is in a great recovery, America is creating millions of jobs, things are going just as they should; if anything, the Government is doing too much for farmers. So they are out there feeling that they have been abandoned or betrayed or that if they accept the logic of the administration, that they themselves are horrible failures and that they have lost control over their own lives through some fault of their own. A lot of people who are out there thinking there must be something wrong with me, you and I are more or less the same age. I have a good friend at home who 4 years ago had a net worth in excess of $3 million. He has a degree in agriculture, works around the clock and farms thousands of acres with only nine people helping him. He has a negative net worth now and he has worked hard. The trouble he got into, he got into by doing just what the Government told him to do. Farm more land, buy more equipment, prepare for more production.

It is ironic that the people who make food for this country themselves are increasingly having trouble putting food on the table. I think that we now have to confront—and I think the Congress should confront—the dramatic increase in stress and strains and problems that are facing farmers.

I think the people know this. I think the urban representatives know this. That is why films like "Places in the Heart," "Country," and "River" are coming out. I think people know that something is desperately wrong in rural America. Somebody needs to do something about it.

I believe the people that are going to see the movies would support having their elected representatives do something about it.

Behind all the talk of economic statistics and percentages are real live people and their families. There are bankers who make farm loans and hope to keep on making them. If the FDIC really wanted to take a close look, as they are beginning to, at a lot of these farm loans and the collateral to support them, the administration could accelerate the demise of the family farmer in our country.

It is not just a farm problem. In my State, 48 percent of the people live in rural communities. In this whole country, this vast country of ours, 26 percent of the people live in rural communities. There is not a single solitary business enterprise not being gripped by the crisis on the farm. People are dying because of the stress. Now every time there is a suicide in rural Arkansas involving a farmer, people at least speculate about whether the farmer's problems have something to do with it.

The stress is apparent everywhere. In Arkansas, over 5,000 people in our rural communities have increased their ability to handle this stress by participating in the Agriculture Extension Service Stress Management Program. Whoever thought that the major focus of the Agriculture Extension Service in our State would—and perhaps in our Nation—be helping farmers cope with failure?

We have done everything we could in our State to increase funding to the extension services and supported them in anyway we could. But it is very frustrating to see that many of my friends who work for the Agriculture Extension Service think the main thing they are supposed to do now is to help farm people, help with failure.

In order to help farmers, we must first acknowledge that the situation creates stress on family life and then try to do something about it. As I said, we are trying to do something about it. Illinois and other States like Wisconsin with its Strategies for Survival

Program have tried to create some affirmative responses. I think all that is good. But fundamentally, the answer to this stressful problem is not to help farmers cope with failure. It is to try to be honest with the farmers of this country about what the cause of the problem is, what the future holds.

I believe that there is a policy today, which is unadmitted, that it would be good if 15 to 20 percent of the farmers went down. Their debts are too great. They will never get out of debt, with the high American dollar which is a precondition of controlling inflation, we are never going to be major farm exporters again as long as we have to run a big debt and have a high dollar to finance it.

Therefore, we ought to just flush these people out of the system.

Frankly, I think they would be able to deal with the stress and human trauma more if the administration would just stand up and say it. I believe that is a very shortsighted approach to this problem. Every country in the world has the national government heavily involved in supporting agriculture. You don't have all that many choices. You are either going to have to reduce support and let a lot of them go, or increase support or subsidize exports or restrict production or bring down the deficit so that we will have a weaker dollar relative to other currencies and we can sell farm products again or a combination of all of these.

I think you ought to give some thought to what you can do in the meanwhile to alleviate farm stress. Perhaps what the Federal Government can do is to train people to deal with these human problems.

Let me just mention two specific ones that my agriculture division in Arkansas came up with. A lot of farmers who have FHA mortgages live in old homes on their farms. There is a provision that a farmer, if he loses his farm and his home, can buy back his home from the FHA. But as you know, if a farmer quits and liquidates everything, then a significant IRS tax liability is almost always acquired.

That means that farmers find themselves still in debt to FHA and owing huge taxes, and in those circumstances, none of them will be able to get their homes back. If you want to send a signal to the farm community that you are concerned about the human dimensions of this problem, one specific thing you might do is to try to make it easier for people who have failed and feel miserable about it primarily because of Government policies.

If they have old homes, they ought to be able to keep the homes even if they lose the farmland.

Another thing that I think you should consider is the anomaly which you have now with the Federal Farm Credit Institution. The Farm Credit System should be having interest rates go down when interest rates go down in the country. But right now, interest rates are at least 1.5 percent over the rates charged by commercial banks because the Federal land banks are co-ops and because they have to spread the losses over new loans. But you can see how foolish a lot of the farmers feel being tied to a financing system that was set up to help them and it is now forcing them into higher interest rates. The stronger ones will get out and pay the commercial rates, making the system weaker, driving the interest rates higher. So in all these debates on reorganization of the credit system, I think you should consider what you can do in the short run. That is a gesture by the National Government that says, "We know this is not your fault. We are reaching out to you. We wanted to treat you with some dignity, some respect."

The only way you can reduce stress in rural America is to tell the farmers the truth. The National Government is going to either let 25 percent of them go or it is not. If it is not, it is going to have to adopt policy choices. Meanwhile, the farmers are out their twisting in the wind. They are miserable and it is exacting an unbelievable toll on the families that live in my State and the States represented here. I hope you will be able to get Congress to respond. Thank You.

Representative OBEY. Thank you, Governor Clinton.

[The prepared statement of Governor Clinton follows:]

Prepared Statement of Hon. Bill Clinton

There is a small white house near Harrisburg, Arkansas, where flowers grow in pots on the front porch and more bloom cheerfully inside. This is the home of a sixth-generation farm family in rural Arkansas. This land has been farmed since 1840, but the family has made ends meet only twice since 1978.

They are frightened and frustrated. Not only do they have deep personal roots in this land, but one of their sons is buried on a hill there, under a tree. They are faced with losing not only their land, a family heritage, a way of life, self-esteem and control over their own lives, but also with the personal tragedy of leaving their son who is buried on their land.

How much longer can we expect our farmers to feed the world while losing their shirts? How long can we continue to look the other way while farmers try to deal with the stress of "another bad year"? How much longer can farm families cope with the financial and emotional pressures imposed on them by factors outside their immediate control?

I believe that we can no longer ignore the very real problems facing farmers today. We ARE facing a farm crisis and farmers are facing a financial and personal crisis. More and more people are being forced off the land as fewer and fewer people control the resources necessary for food production. Farmers and rural communities refer more and more to the dark days of the 1930's. There is a dramatic difference for farmers, though, in the depression years of the 1930's and the crisis which is now upon us. During the Depression, everyone was having a tough time making ends meet; suffering was spread through all sectors of our economy then. Now, however, farmers are much more isolated in their crisis. They look around them and see other sectors of our economy flourishing and say to themselves: "There must be something wrong with me if I can't make it. My grandfather and my dad held on to our farm - why can't I?"

Governor Schwinden and Governor Janklow have explained in detail why the farmers can't make it financially in the 1980's. I will add another observation: will the economic recovery which the Reagan administration assures us is continuing have the stability and longevity required if it is not rooted in the recovery and vitality of American agriculture - the backbone of the food production and distribution industry?

The question I pose to you today concerns the personal and social costs of the farmers' financial plight. The human toll of the farm crisis is rising. The economic strain and the constant threat of liquidation take their toll in broken marriages and broken families; in substance abuse; in suicides; in the growing potential for violence; in the now raw relationships among neighbors; and among farmers and lenders, many of whom often occupy the pews of the same church in our rural communities.

Perhaps most ironic and most bitter is that many of the families who produce this nation's food are among the growing number of Americans who are barely able to put food on their own table.

We cannot ignore the fact that farmers are suffering more stress than ever before due to economic pressures, decision-making, high seasonal workloads, weather worries, family conflicts, too many off-farm activities, not to mention the more frightening prospect of losing their farm. Recent films such as "Country", "Places in the Heart", and "River" dramatically portray the plight of today's farmer. The success of these films demonstrates that the American public is sensitive to and concerned about the American farmer. Ten years ago, would you have read articles in farm journals on how to cope with divorce and how to avoid suicide? The answer is no. But today farm journals abound with such articles.

We cannot ignore the fact the behind the talk of economic statistics and percentages are real live farmers and their families, bankers who make farm loans and hope to keep on making them, merchants, civic clubs, churches, and other organizations which farm families are a part of. We cannot assume that the farm problem is only a farm problem. The ripple effects are too obvious. We are talking about rural communities - a very large part of my state - 48% - and our nation - 26%. America has a stake in the survival of the farmer and it's time we recognized it.

The stress on the American farmer is real; people are dying because of it. The farm crisis did not happen yesterday. Our farmers have been fearing the worst since 1979. Consequently, they are dealing with years of stress. Most coping mechanisms work in the short run, but wear thin over the years.

Farming is not a proactive business; it is reactive - to the weather, to economic conditions and government actions. It is difficult for the farm family to feel like they are in control of their lives. Our Extension Service Centers across the nation are trying to reach out to the farm families to offer them assistance in gaining some control over their lives. It is a difficult thing to do because the farmer feels out of control of his future and that of his family, because he can't create markets and cannot decide the price he will get for his goods. In Arkansas, over 5,000 people in our rural communities have increased their ability to handle stress by participating in our Extension Service stress management programs since 1984.

Other states, such as Illinois, are also working with their farm families to help ease the financial and emotional burdens. Wisconsin's "Strategies for Survival" program offers farm families individualized assistance in addition to ongoing Extension programs. Many states, including Arkansas, have increased state funding in support of these programs.

In order to help the farmer, we must first acknowledge that this situation creates stress on family farm life. Farmers are not superhuman; we must acknowledge that the continuing stress is destructive to the farm family and ultimately to our rural communities and our nation. Then we must act. We can encourage counseling centers to continue the work they are doing and fund the expansion of these centers with federal funds.

Our farmers and our rural communities need help and we must encourage them. We must communicate to them that we <u>are</u> concerned and that we support their efforts to receive help for the emotional problems they are dealing with. If we fail to communicate this concern to them, we further increase their sense of isolation.

Our society will suffer if the American farm family does not receive support and help with their problems. For example, we are living in a time when education is very, very important to us - a time when our children have to have a competitive educational opportunity because no matter where they live they are going to be swept up in a very competitive world economy that has been very tough on a lot of Americans in the last ten years. Most farm children's futures were ordained at an early age. Now, even for those who would not choose farming anyway, there is no guarantee of a college education. Add that to the fact that some of the communities are literally being wiped out as if by some natural disaster, and you have children who actually wonder where they'll be living next month. Many of these parents feel completely powerless and their children sense this.

So many aspects of rural community life as we know it now will be affected if we do not put into place a counseling/support system to help our farm families while we work together to solve the economic crisis on the American farm. Our schools, our churches, our local economies and financial systems - all of these will be changed if our farmers, who are usually community leaders, are forced out.

Clearly, problems for farmers and farm families become problems for all those dependent on agribusiness and all other business in rural America. With the private sector suffering, it will not be long before the public sector is affected. Rural newspapers tell the stories of property values declining and tax bases eroding. Officials are often faced with declining populations of taxpayers and shrinking public revenues at the same time that fixed costs of running county governments and school districts are increasing.

And maybe most important of all, if we do not act now, we may lose the future of agriculture in America. It is important that the teachers in our schools in rural America discuss the farm crisis. If the agricultural situation becomes a topic for discussion in the classroom, it will be much easier for children to deal with it happening to their family.

A lot of people are blaming the farmers for what is happening to them. But anyone who started farming in the 1970's is in trouble in the 1980's. And these are generally the younger farmers with children on the farm or nearby. It is vital, as Dr. Heffernan will tell you today, that children know that what is happening is not their parents' fault. We need to move everyone, including farm families, away from this 'blame the victim' mentality.

The farm problem is a government-created problem and I believe the government should take responsibility for it. The best answer to this problem is for Congress to pass decent farm legislation, admit the problem is the government's fault, and bail out the farmers. The problems of accumulated debts, declining asset values, and low crop prices were caused by international economic forces and governmental policies.

That is why the governors in America have been so aggressive in demanding:

*a reduction of the national debt;

*lowering of interest rates;

*lowering the value of the dollar;

*lowering the cost of credit;

*increasing the value of assets;

*increasing the competitiveness of our farm products.

Until progress is made on these fronts, rural America is going to continue suffering.

We must work for better farm prices, either through increased support and export subsidies or through acreage reduction. Our goal should be for America to be self-sufficient regarding our food supply and capable of exporting considerable quantities. If we let the present market forces continue, we are going to see a lot of our best farmers forced out.

All Americans have a stake in a healthy agriculture sector. Most of the people who are being forced out now are quite productive and efficient. The overwhelming evidence is that it is the government's decisions which put the farmers in the fix they are in. Therefore, the right thing to do is for the government to get the farmers out of this situation which the government created.

The farm crisis is indeed causing profound pain and suffering among the farming families most directly affected by it. It seems clear that in many families, two generations of farmers are being forced off the farm. In their wake, the impact of their departure on every institution in their rural communities is often devastating. The very fabric of rural society in agricultural communities is being threatened. If we fail to respond, we do so at our peril.

The story of the farm family in Harrisburg, Arkansas, was reported in the Arkansas Gazette, Page 1E, August 11, 1985.

Representative OBEY. Senator Mattingly, do you wish to comment?

Senator MATTINGLY. I would just like to say that I have some questions I would like to submit to the witnesses. I have to go back. I have to leave because I am a member of the Senate Appropriations Subcommittee on Agriculture. We are marking up a bill for which I think you probably would rather have me there than here. So with your kindness, would you excuse me from this area?

Representative OBEY. Surely. Senator Abdnor indicated he had the same problem.

Governor Janklow, please proceed.

STATEMENT OF HON. WILLIAM JANKLOW, GOVERNOR, STATE OF SOUTH DAKOTA

Governor JANKLOW. Mr. Chairman, I would like to say that I really also appreciate the opportunity, the indulgence that you gave us to come here to visit with you for a few minutes. I would like to pick up on the facts that Ed Schwinden and Bill Clinton have started. We hear a lot about this great economic recovery that we are going through. Tremendous news articles and a lot of beating on the chest and successful speaking about it. We have heard we have a $500 billion economic recovery underway. Except it cost us a trillion dollars to get this $500 billion recovery. Who can't expand an economy by $500 billion when you spend a trillion dollars to do it? We have a lot of debate about the national defense, what it means to have protection for America, what it means to the world to have a safe, strong America to provide what historically some people have felt is our leadership role in the world. We hear a lot of discussion about the military defense and might. But the greatest weapon for peace and the greatest weapon of protection this country has ever had is its ability to take care of the suffering and the malnutrition and the hungry people of the world who needed a helping hand.

You can go back to the Hoover Commission and recall from historical days what the ability of American agriculture and the rest of our industrial might to produce meant to hungry people in the world. You can go to the Marshall plan right after the Second World War as Europe lay there, easy prey for ideological forces alien to this country, and which really marshalled the necessary resources, founded upon food for hungry people, to bring forth democracies for the world. You can talk about the Food for Peace plan which brought from the ability of the American people 43 billion dollars' worth of food, involving about one-tenth of that in grants to the hungry people of the world.

As a matter of fact, 20 years later, those same 10 countries that received $3 billion in free food, purchased 37 billion dollars' worth of food from the American people. We can talk about things of a modern nature like Bangladesh, Somalia, Chad, Ethiopia; where does the rest of the world turn when there is always a disaster of human suffering with hunger? It has been the American people and the American farmer.

My philosopher is Mark Twain. Mark Twain once said that if you feed a hungry man then you feed a hungry dog. The dog in the future will never bite you. I submit those countries in the world, that the American people had opened up their hearts and arms to, have never bitten this country either, when we have needed them.

Some questions were submitted by the committee that I would like to respond to.

What is happening to the American farmers in my area under the current period of economic stress? We are going to lose in South Dakota this year 10 percent of all the farmers and ranchers in our State. We have undergone a continuing change since the depression and as agriculture has become more capital intensive. But this year we are flat going to lose 10 percent of all the agriculture producers in the State of South Dakota. Over the following 24 months after that, we will lose an additional 25 percent. These sound like big figures but they are accurate. We will lose an additional 25 percent of all the ag producers in the State of South Dakota on the farm and ranches extending out after December 31 of this year.

One of the most phenomenal statistics I have ever seen is one of recent nature: There are 2 percent of the American people engaged in farming. Their combined debt alone exceeds the debts of Brazil, Argentina, and Mexico.

We have a lot of news stories every day about what is going to happen if Mexico repudiates or Brazil can't pay its debt, but the combined debt of the American farmer exceeds the debt of all three of those countries.

I live in a State made up of small towns. We have 309 towns and cities in the State of South Dakota and 290 of them have a population of less than 5,000 people. We lose 1 small town business in our State for every 10 farmers and ranchers that we lose.

What are the social and human impacts of the farm crisis? We are not talking about just people. Although it is more appropriate that we talk about them than the other things: Schools in rural communities, hospitals, the ability to provide medical services, financial institutions like banks that communities can't survive without, churches in rural communities which have been part of the cultural and religious heritage and backbone of rural America, small town Main Streets; all of them together, really, we are talking about human beings. We are talking about human suffering, we are talking about family alienation which is a situation that for all practical purposes is historically a very small percentage in rural America. We are talking about domestic violence, something that has basically been unheard of over the years.

We are talking about increasing alcoholism and drug abuse. We are talking about mental health problems. But more than anything else, we are talking about true human despair.

We all joke that farmers love to complain. It is either too wet or too dry. It is too cold or too hot. It is too much this or too much that. But it has reached the point where I believe that farmers don't have anything to complain about any more. When a public figure walks into the room in a group of agriculture producers, they are silenced. They don't have anything to say. You ask them if they have any questions, they sit there and look at you because they have reached the point in human despair when they feel they not only have no place to turn, they just plain don't know what to do.

I am not talking about young people. I am not talking about risk takers who bought high-priced land on contracts for deed and took a chance that inflation would continue forever and guessed wrong. Let those people go broke. I am talking about people that are 50, and 60, and 65 years old who have been ag producers for 30, and 40, and 50 years, and they didn't get there that long by making dumb decisions or taking unnecessary risk. We talk about the question that has been asked: What measures can we take to deal with the pending farm crisis? This is probably obviously the most controversial of all; because of the factual things we have put forth, I guess none of you or none of the rest of people in America would disagree with: The deficit and the deficit alone, that is what is the backbone of this problem.

America is a net debtor nation.

As a matter of fact, the debt of this Nation and the other nations in the world exceeds the combined debt of all the other nations in the entire world combined. You can total up all their debt and it doesn't equal the debt of the American people to the rest of the world. We have two deficits that are now starting to continue the destruction of America. We have our fiscal deficit and we have our balance of trade deficit, which will run about $130 billion this year, which is the greatest Marshall plan in reverse in the history of the world. It is the greatest transfer of wealth from one country to a series of countries in the entire history of the world. The lifeblood of America is literally being sent away under this trade deficit as we, frankly, all destroy ourselves with our fiscal deficit.

Nobody in America honestly believes the budget is going to be balanced. We all throw that rhetoric around, but nobody believes it. The question is: Can we bring it in a better balance? Can we make the tough, hard decisions to do what is necessary to approach fiscal sanity, assuming that we are never going to be totally fiscally sane?

The high value of the dollar. We can give a lot of reasons why we don't like what is going on in the trading world, but one of the major causes of the high value of the dollar is this national deficit that this country runs.

In 1982, Germany purchased 92 percent of all their soybeans from the United States. Today less than 10 percent of the soybeans are purchased from the United States.

In 1982, it took 10 German marks to buy a bushel of soybeans. Today it takes 18 German marks to buy that same bushel of soybeans, an increase for the Germans of 80 percent of what it cost to buy the soybeans at the same time that 1 bushel of soybeans has dropped in value from over $10 to right around $5. There has been a 50-percent reduction in what the farmer receives at a time there has been an 80-percent increase in what the Germans pay for it. And then there should be little wonder why they are buying their soybeans from Brazil, until they have none left to sell.

Argentina has an export tax, as we know, 20 to 25 percent. They charge farmers to export out of the country. Yet you can buy Argentine wheat today in New Orleans 24 cents a bushel cheaper than you can buy wheat made in Montana, or the Dakotas, or any-place else in America's wheatland. In direct proportion to the increase of the value of the American dollar, there has been a proportional decrease in the amount of agriculture sales that take place of American agriculture commodities.

The third area, interest rates; 10 years ago the average farmer's expenses were 4 percent of interest rates; 4 percent of their total expenses were interest rates. Today the average agriculture producer in America spends 22 percent of their total expense budget just to finance the need to run their operation. There are very few economists left, other than maybe Mr. Laffer wandering around Stanford, that would suggest that these high interest rates come from anything except the deficit, which is the underlying cause of these things that I mentioned.

Then we have the people nowadays in America that suggest: Get the Government out of agriculture. What a brilliant suggestion; 90 percent of all the trade in the world conducted in agriculture is conducted between governments; not between businesses, but between governments; 90 percent of it in the entire free world or in the world is conducted by governments. We ought to get our Government out of agriculture the same day the Brazilian, the Argentine, the German Government, the Japanese Government, the Australian Government, the New Zealand Government, the British Government, and all the rest of the governments get out of agriculture. At that point in time it may become appropriate to get the government out of agriculture. But until that point, our agriculture producers have to depend on our Government to guarantee them a fair fight in the world marketplace.

We can whip the farmers and the producers in these other countries with our producers, but we can't whip their national treasuries with our farmers and producers. It is our Government's national responsibility to guarantee a fair fight on the basketball court of world competition. If our hoop is made smaller, if we have to play with less players, if the other side is entitled to make more points per basket, we will always lose the competition.

The final comments can probably be taken in the wrong vein. Frankly, I hope that they are not. That is that, as we debate this national policy of these problems in agriculture, the Republican Senate blames the Democratic House. The Democratic House blames the Republican President. The Republican President blames the bipartisan Congress. What we are dealing with here is really a circle of death for American agriculture. Because while the debate goes on, real people are being cast aside, shunted aside, and although we deny it, they are being forgotten and they are going by the wayside.

Frankly, it has reached the point where America doesn't care any longer whose fault it is that we are in this mess. I don't care if it was the old Democrat New Dealers. I don't care if it is the Republican supply siders and neither do the American people. The question is: What are we as the elected leaders of America going to do about it?

There are 535 people in the Congress of the United States—535. Of those people that serve in the Congress, they are the sole protectors of 230 million Americans whose future depends upon the decisions that you people make. There is no Republican solution to this problem. My party doesn't have a solution. But the Democratic Party doesn't have a solution either. It is going to take a true, honest, bipartisan effort of people who are willing to make tough decisions. I mean tough decisions, to bring about a solution to this problem.

I cut a budget. I cut it back in 1980 like a lot of the other Nation's Governors. I know what it is like to cut blind programs and deaf programs. I know what it is like to cut ADC mother's. I know what it is like to cut the Governor's budgets, and the legislature, and higher education, and the mentally retarded. I cut everything in the State of South Dakota. I cut them all equally. Three people in my State complained; 2 years later I was reelected with the highest majority in the history of South Dakota.

Americans are willing to suffer if we all suffer together.

We don't like $600 toilet seats. We can't stand them. But we don't like $50,000 junkets to South America by congressional people during recesses either. What we do want, we do expect, and we ask you people to do is to make the tough decisions to straighten out America's fiscal house because then most of the remainder of the problems that we have, our people can take care of for themselves. It is your responsibility and your duty. We really wish you Godspeed and good luck, because if you fail, this country is going to fail.

Thank you.

Representative OBEY. Thank you. Thank you all for your testimony. I think you have all set a good stage for the next panel.

I do want to ask a couple of questions.

You have all indicated that this problem is not isolated from national economic policy and that if we grant everything that everybody says about how some farmers went out and bought the sky, tried to make a buck. Even if you take former budget Director Stockman's interpretation of that, when he presented it to our committee awhile ago—while I don't agree with it, let's grant it. And then what you are saying is: Even if you do that, I think you are still saying that you cannot avoid the fact that much of this has been brought about by Government policies, not by farmer actions.

My question deals with more than the farm bill. There is only so much you are going to be able to do no matter what kind of a farm bill you pass. There is only so much you could do to actually deal with this problem if you are only looking at farm legislation.

If you take a look at the broader picture, which all of you have mentioned, we are going to be dealing with the tax bill shortly. We have an argument raging on Capitol Hill now as to whether or not we should use the revenue which is gained from base-broadening and elimination of tax exceptions in the Tax Code and use that money for additional tax rate reduction, or whether we should use the money to be saved from that for additional deficit reduction in order to bring down interest rates and try to bring into better equilibrium exchange rates around the world.

If you were us, which of those two courses would you follow?

Governor JANKLOW. Let me say this, maybe I am unique where I live, but I can tell you seriously, my State has two Republican Senators, one Democratic Congressman. I don't think any of us have ever heard from one living human being that could care less about changing the IRS Code at this particular point in time. They would like to have you change it to the point where the public could understand it, because nobody understands the IRS Code. But nobody wants fundamental tax reform at this point in time. That is a smokescreen that has been drug—when I was in law school, they taught us that if you got a bad case of facts, then argue the law to the jury. If you have got a bad case on the law, argue the facts to the jury. And if you have bad facts and bad law, then bring on a smokescreen and blame somebody else.

That is what we are dealing with about the tax reform. The fundamental question is: What are we going do to keep America from going broke? We can worry about these other niceties later, whether my rate should be 40 percent or 22 percent. If your income is zero, it won't make any difference what your tax rate is because you won't have to pay any.

Representative OBEY. What are you saying is that the best farm bill, the best trade bill that we could pass would simply be one which took whatever revenue we could take from base broadening and use it to reduce the deficit.

Governor JANKLOW. Absolutely.

Governor CLINTON. I agree with that. I think if the changes that you are talking about involving the base make the code fairer and so that it is, on it is own merits, a good and decent thing to do, then I think you ought to put the money into some sort of trust and pay off the debt.

I think you will have a tough time doing it. I agree with everything that Governor Janklow said. But I think you have to look. There is a flip side to this. The President was reelected and most of the Democrats in Congress were reelected because look what happened the last 4 years. Sure, we doubled the value of the debt and the value of the dollar went through the roof. But the complex of policy decisions made in the short run pleased the American people.

We had a tax cut, cut domestic spending, had huge job growth in some sections, we kept inflation down by having the interest rates high enough to get foreign money over here, which kept the dollar high, and by flooding this country with cheap foreign imports and throwing thousands of people in my State out of work. So the complex of policy decisions that were made, a lot of people were happy in the short run, and the people that took the fall for a set of very deliberate Government policies were people who were farmers or tied to farmers and people who were in the import-sensitive industries.

So when you start balancing the budget to bring down the value of the dollar, which I think is the only decent thing to do for the long-term stability of the country, I think everybody has to go into it with our eyes wide open.

You are going to find one person that disagrees with what Bill Janklow just said to you. The hard, cold truth is that in the short run, the complex of policy decisions that were made pleased 60 percent of the American people and our folks took the fall for it.

You have to convince everybody in this country that we can't have a no farm sector. We can't just throw all these people in rural towns who work in shoe factories out of work, not because of the wage rates, but because of the dollar value. America can't have that upheaval. In the end it is going to run out.

If anybody had told you 5 years ago that we would run a $200 billion deficit, would you have believed it? You might have believed inflation would be higher, but you would have never believed that—the sand has run out of the hourglass. I think that is going to be—we will support you, but that is what the Governors have done. But there are a whole lot of people that want things to go on just like they are because they are making big money out of it.

Representative OBEY. I agree with the comments of both of you. I think it is Alice in Wonderland to be looking at tax reform as an opportunity to further reduce tax rates rather than reducing the deficit.

I always think of a senior citizen who I met in a rural town of Stetsonville about 2 months ago. They were having a polka dance run by the VFW at a tractor pull. This fellow came up to me. He says: "Obey, you know, I see you are talking about losing our Social Security COLA. I don't want to lose it. But I think I am going to. But" he said, "what bothers me about losing it, I see fellows talking about tax reform, too, same thing bothers me about that. What bothers me about it, when it comes to losing my COLA, when it comes to tax reform, what you are going to wind up doing with the money probably is doing something stupid. I wouldn't mind losing it, just so long as I thought it would be used for something smart."

"But" he said, "I don't think you guys are going to do that. I don't think you have guts enough to do what is best. I think you will just spend it on this other nonsense." He was talking about military budget and talking about some social programs he didn't like either.

But I think the public is ready for it and we are ready for it.

Congresswoman Snowe.

Representative SNOWE. Thank you, Mr. Chairman. I want to thank the Governors for eloquently stating the depths and dimension of this great problem.

My frustration is: Where do we go from here? We are going to be marking up the farm bill and considering it on the floor, perhaps next Thursday and the week after. Obviously, the farm bill in 1981 and the reauthorization of it did not provide the solutions to our agriculture economy and to the farmers throughout this country. In fact, we spent more than $60 billion over the last 4 years. So where do we go from here? What is the solution? What do you think Congress should be doing to address this problem?

Obviously, the deficit is an enormous problem. We have failed to do our job. We passed a budget resolution but it is not effective in addressing a problem that is $200 billion or more over the next few years. So setting aside that question for the moment, what else can we do to address the problems that you have stated here today that we recognized—in fact, in the Joint Economic Committee, Governor Schwinden, this is the 28th hearing on agriculture. We have had more than 4,000 pages of testimony under the leadership of Senator Abdnor because this began 3 years ago.

What do you think, in your best judgment, should we do in the next few weeks to address this problem so that we can begin to develop some solutions to lead the farm community down—to lead them down a better path?

Governor SCHWINDEN. Let me respond by saying that we recognize it is no easy task. At the same time, we recognize that the Government can't ignore what has happened in terms of what Bill Janklow has talked about regarding the mounting deficit.

I think the first thing—you indicated that you had 20-some hearings—somehow we are not listening, because when we took the Gallup poll last December, 90 percent of the American people who responded said they would like to see more of America's surplus distributed to poor people in the United States. Interestingly, almost 60 percent said they would like to see it exported to feed the hungry around the world. I think we have to find ways to maintain a healthy agriculture with less drain on the national treasury.

The ultimate decider of what policy is good or bad policy is the people of this country. In the concerns that Congressman Obey expressed, in trying to find the right direction to go, the one direction that we have to go is to restore the confidence of the American people by diligently trying to find a way to resolve not only the deficit, but to retain in place a productive system which for better than 200 years has fed not only the people of this country, but of much of the world. Time after time.

Governor JANKLOW. If I could be very brief. As I indicated in my testimony, in 1960-61-62, 10 nations in the world received $3.3 billion worth of Food for Peace in America and purchased $3.1 billion the same year; 20 years later, 1980-81-82, those same 10 nations over the 3-year period purchased 43 billion dollars' worth of food that they paid for from the American people.

If you total up all the storage costs and all of the costs of administration and all of the costs of handling, all the surplus that we have over and above what we need for a national protection reserve—we are insane that we just store it at a time when 500 million people in this world will go to bed hungry tonight and another 500 million people in this world will go to bed suffering from malnutrition. That is more than a third of all the people in the world will either go to bed hungry or suffering from malnutrition tonight.

I also understand America just can't feed people for free forever, that we no longer have the wealth and resources. But if we are talking about what we can do in the short term, the short term is to get those food commodities consumed. Nobody would let us dump them in the ocean, but when we produce 40 percent more than this nation can consume every year, we have to do something with it.

If we dispose of it in a humanitarian manner, build friendship for America and follow the Judeo-Christian principles that this country was founded on, the lowering of interest rates, the lowering of the value of the dollar, the reduction of the deficit will bring about the ability of—will drive the rest of the world toward an economic recovery, which will give them the ability to develop, to feed themselves, the basic rudiments which give us the value added.

Our best customers today, Europe, Japan, who we complain about, which is our second largest agriculture trading partner, are countries that we put on their feet who now have the ability to take care of their basics, and the value added for us is the profit.

So that is the direction I think that we just plain have to go.

Governor CLINTON. I think you can do two different things. I think it is very difficult for a Senator or Congressman to maybe make that decision in a vacuum. You can either do what we have suggested—you got to get rid of the surpluses directly, as the Governor has suggested—or I think if our trading partners were sure we were serious about dealing with the deficit, I think we could have a near-term export subsidy in our trading where we just sell five quantities for the price of four until we got rid of this, as long as they knew it was a short-term thing we were dealing with. You have to get rid of that.

The only honorable thing to do is to go back to an older system that this country once followed and more incentives for production controls. I saw where the President said he would have to veto any bill that gave a farm referendum on production control. But you may just have to take that on.

You should do one or the other. If we want to stay in a world market, then we ought to give productive farmers a chance to survive. You can go down that road as they have outlined. If we are not going to do that, then I think you ought to really face up to the concepts embodied in Senator Harkins' bill and get into production control so people can make a living farming at least for us and take care of us.

I think you will have to decide which way you are going and what is likely to happen in the next 3 years.

Governor SCHWINDEN. Let me restate one other thing—or state it. That is that at the outset, Congressman Obey pointed out it was only 7 months ago that you had a hearing on the crisis in agriculture.

When I left Montana yesterday, I clipped an article from the paper in which our State Farm Home Administration director noted that we had broken last year's record for loans. In Montana when we break a record, we do it in a big way. We set a record last year. This year our borrowings to date are double what they were a year ago. So we didn't just break it by a few hundred thousand dollars—we doubled the number of loans with those already issued this year. He said he is bracing for an avalanche of applications this fall. So I guess the message is: Do something. I think what Governor Janklow said earlier about the silence from the country—what they are looking for are not easy solutions. I think the producing people of America on the farms and ranches recognize that sacrifices need to be made. They are prepared to make them as long as they have a sense that the net result is going to be a stronger and safer country.

Representative SNOWE. Just briefly, could you tell me what percentage of farmers in each of your States are in serious trouble?

Governor SCHWINDEN. In Montana, as of January 1 of this year, 40 percent of the Farmers Home Administration loans were delinquent. We did a survey last year and we found that we basically paralleled the national pattern: about a third who were debt free for various reasons; a third in trouble but probably would survive given stability or some improvement in agriculture; the other 35, 38 or 40 percent—obviously worse by now—in serious trouble; and perhaps half or better that are not going to survive this and next year.

Governor CLINTON. I believe that our State has the highest percentage of its farmers financed through FmHA of any State in the country. I have just consulted with my aide; he said that we just checked last week before we came up here. He said that 20 to 30 percent of those people were in trouble.

I can tell you that if you talk to any farm bankers—what would happen if the FDIC came in here and really gave you a good going on and examined whether this collateral is really worth what it's supposed to be worth with the decline in farm values, you can't talk to one of them that won't just roll his eyes. There is no way to quantify that because you have these people getting financing based on the value of collateral which may not be there anymore. Most people think that when we come up here we cry wolf. I am saying we may be underestimating the dimensions of the problem.

Governor JANKLOW. I think what puts it right to the focus is what is going on in the farm credit community in just the last month. We have heard how sound it is. We have heard what great shape it is in. The Omaha district was in trouble, the rest of them were very sound. All of a sudden the guy wakes up one morning and finds out they are going to need tens of billions of dollars over the next 18 months. I think that that is—it is like me when I smoke. There is going to come a point in time when I pay the penalty. I think I am pretty healthy right now, but at some point in time I am going to wake up and find out I shouldn't have had all those smokes.

Part of the problem in farm credit is truthfully, nobody in America knows—States are being very, very liberal with State bank examiners to examine State banks, State chartered banks, as to how they value the underlying land assets for equity purposes. Frankly, as the Federal people have said, they never use the term "liberal." They are being very, very gracious in how they value the land assets for the soundness behind the national banking loans and so—Farmers Home Administration in a lot of instances is ignoring some of the basic rules that they are supposed to follow. Finally, commercial banks are using the gimmicks commercial banks have always used, this time out of despair. That is, as my agricultural loan becomes due this year, I go in and they sign a new note with me. I sign a new note which takes the old principal, adds the old interest and makes a new note with new principal. That is the combined total, and they treat that as a performing loan basis; they treat it as if I had just paid the interest. So truthfully, there is nobody that knows. We are going to wake up some morning and find out, the house of cards has really fallen down.

Governor SCHWINDEN. Let me add a postscript. We have talked about the farm credit system and the amount of trouble that it is in. I am sure you are aware of the kind of varying spread that has occurred between the pricing of that paper and U.S. Treasury bills, for example. On Sunday night, I was with a banker from a small rural community in Montana. We talked about this, the problem in the farm credit system. I said, "How much farm credit paper have you got?"

"None. We got rid of all of it."

I think we do have a house of cards. What happens over the next few months in terms of the confidence of whether that house of cards is going to survive or not, whether you like it or not, is squarely here in the Congress and administration.

Representative SNOWE. I thank you all very much again.

Representative OBEY. Senator D'Amato, from that well-known center of American agriculture, New York City.

Senator D'AMATO. Thank you very much.

Mr. Chairman, first of all, if I might, let me submit a written opening statement that I have for the record—to save some time.

[The written opening statement of Senator D'Amato follows:]

WRITTEN OPENING STATEMENT OF SENATOR D'AMATO

MR. CHAIRMAN, I COMMEND YOU FOR HOLDING THIS IMPORTANT HEARING ON THE SPREADING IMPACT OF THE FARM CRISIS IN THE UNITED STATES.

RECENTLY, THE AGRICULTURAL COMMUNITY HAS DRAWN A GREAT DEAL OF ATTENTION. AGRICULTURE, OUR NATION'S NUMBER 1 INDUSTRY, IS SUFFERING GREAT HARDSHIP. THE CRISIS IS INTENSIFYING AS OUR FARMERS ARE INCREASINGLY FINDING IT MORE DIFFICULT TO MEET THE TERMS OF THEIR OUTSTANDING LOANS. IT IS ESTIMATED THAT ALMOST ONE-THIRD OF OUR NATION'S FARMERS ARE NOW ON THE BRINK OF BANKRUPTCY.

HOWEVER, THERE EXIST OTHER PROBLEMS THAT OUR FARMERS ALSO MUST DEAL WITH, MANY OF WHICH ARE OUT OF THEIR CONTROL. IN THE U.S. MARKETPLACE, THEY MUST COMPETE WITH FOREIGN PRODUCTS SUBSIDIZED, DIRECTLY OR INDIRECTLY, BY FOREIGN GOVERNMENTS. IN MY OWN STATE OF NEW YORK, THE VEGETABLE GROWERS AND POTATO GROWERS

COMPETE HEAD-ON WITH CANADIAN FARMERS PRODUCING THE SAME PRODUCTS, BUT WITH THE ASSISTANCE OF THE FEDERAL AND PROVINCIAL GOVERNMENTS OF CANADA.

OUR FARMERS NEITHER DISCOURAGE, NOR ARE AFRAID OF, COMPETITION, BUT THEY MUST NOT BE FORCED TO COMPETE AGAINST THE TREASURIES OF FOREIGN NATIONS AND THOSE WHO INSIST ON USING ILLEGAL AND UNFAIR TRADE PRACTICES.

MR. CHAIRMAN, THE AMERICAN FARMER NEEDS OUR HELP. A LOOK AT THE HIGH NUMBER OF DEFAULTS IN FARM MORTGAGES AND THE HUGE TRADE DEFICIT ARE INDICATIONS THAT STRONG ACTION IS NEEDED. WE CAN ILL-AFFORD TO LEAVE THIS PROBLEM UNRESOLVED.

THANK YOU, MR. CHAIRMAN.

Senator D'AMATO. Second, coming from New York, I cannot pretend to have the expertise that so many of my colleagues do have in the areas of agriculture, particularly as it relates to production of wheat and corn and other products, although I might say that the agriculture business is New York's leading industry and is a $10 billion industry, and that although people may not be aware of it, there are 440,000 people employed directly or indirectly as a result of that business, and that we are the No. 3 agricultural State in the Nation by virtue of our large dairy-producing industry and some of our vegetable and other crops.

It is important to our economy, equally; 17 million people have to eat. We look at the prices on the marketplace and we begin to wonder: How is it that if we see these charts with the income on farms having come down that the consumers have not shared in this reduction in prices that farmers are receiving for their crops and for their industry and for their products?

I am wondering if you gentlemen would care to comment on that?

Governor JANKLOW. I can tell you one reason, I can't tell you them all——

Senator D'AMATO. We are also including the meat production. I think this is all agribusiness. We find that there has been little decline in the prices of beef that people are paying at the retail counters, while there also has been a drop of some 20 percent, if not more——

Governor JANKLOW. One of the major reasons is that historically America has raised its capital through throughout all of its successor agribusiness industries—the marketing system, the transportation system—through equity capital. Now they are basically doing it with debt capital. When you have people that historically have paid basically no interest or very low interest rates that all of a sudden have to finance things at the rate of 2 points above prime several years ago, 18 percent, 15 percent, 17 percent, and you start putting that cost of capital in the base and nobody is making any money throughout the chain, it has a domino effect which is absolutely phenomenal.

That heretofore has not historically ever been the case economically in America's history like it is today. So although there may be a big spread, part of it, everybody is financing their capital out of debt.

Governor CLINTON. There is another reason, too, which is that when you see that farm income line going down, it is basically because of overproduction. It has nothing to do with the American market. Our farmers were told for years: Plant fence row to fence row, buy more land and more equipment and produce. And now the storage bins are full. That is why you had all this discussion earlier about what to do with the surplus. So if the American people can go out and consume all this food, the price would go down. But there is just so much they can consume. So the rest of it is in storage through Government programs.

As you know, raw farm prices have very little impact one way or the other on food prices in the grocery store. The good news about that is that you can vote to improve them and consumers' prices wouldn't go up all that much.

Governor SCHWINDEN. Let me suggest——

Senator D'AMATO. That is the first time I have heard that.

Governor SCHWINDEN. There is another factor. I am in the farming business myself. I raise wheat and barley. Ten years ago in 1975, I sold wheat for about $5.30 or $5.40 a bushel. If I sold the same wheat today, it would be about $3.15 or $3.20 a bushel. I bought a Ford pickup in 1975 for less than $6,000. I just bought a new pickup 2 weeks ago and I paid just under $13,000 for it.

Your consumers, if they have not had decreases, they have nothing like the kinds of increases—in fact, every time that I write "good news from Washington" to Helena, MT, it is that level food prices, and in recent months, energy prices, fuel, for example—gasoline—by staying flat have kept the rate of inflation down.

A few months ago, I visited some editorial boards in the east. We visited the New York Daily News. I remember a question I was asked about halfway through from the editor who said, "That is all very fine. We care about farmers, too. But what does that have to do with the 5 or 6 million people that have to get on the subway every morning?" I said, "What do they eat for breakfast?" Those food costs have stayed very flat at a time when inflation has continued.

Senator D'AMATO. So you don't subscribe to those who contend that there has not been sufficient recognition of this diminution in the prices paid to farmers reflected on the retail shelves.

Let me put it another way. Inasmuch as the prices the farmers have received has gone down, as you indicated, the question then is asked—whether it be wheat or other products, whether it be meat products: Why not a corresponding reduction on the shelves to the consumers? You are saying, in essence, as a result of the cost of other goods, transportation, we have experienced a decrease by the fact that the prices have not gone up. That you have a leveling off.

Governor SCHWINDEN. I would put it: You have not experienced the increase that would otherwise have happened.

Senator D'AMATO. Do you gentlemen subscribe to that?

Governor JANKLOW. Someone should never badmouth a farmer when their mouth is full. That puts some of it in perspective.

Senator D'AMATO. Let me suggest this to you: I am not attempting—Governor, we are on something that records statements. If I let that go at this point, I might at some point in time have a little clip come back to suggest that, you know——

Governor JANKLOW. Not from my party.

Senator D'AMATO. I understand that. But my question was intended not so much as to badmouth farmers or—but rather, there have been a number of people who testified before this committee that they felt that consumers were not getting the benefit of lower prices given the fact that farmers have been getting less for their products. That was the nature of the question.

Governor JANKLOW. If you look at a loaf of bread, the average, I believe—everybody throws the numbers around—is that there is about 8 cents on a loaf of bread represented in the wheat value, and the rest of the dollar price that you pay, or whatever it is of a loaf of bread, is represented in other things. The package, the truck, the flour mill, the people that bake the bread and all the other things that go into finishing the raw material. The bottom line is, as agricultural prices drop, one of the things that is holding down the cost of food in America is it is coming out of the farmer's hide, and it is coming out of the agribusiness side where people like the packing plantworkers have had to take substantial pay cuts. The deregulation of the trucking industry has had a dramatic effect in rolling back in a lot of instances the amount that you can charge for trucking because it made it more competitive.

So what we are doing by holding down those food prices—I am not arguing for high—price food—it is like a potato farmer. We are just smashing everybody else that is in the middle and all of a sudden we are going to find out the chain broke.

Governor CLINTON. Senator, you could have your staff check this out. I do believe that the percentage of disposable income spent by Americans on food has declined in the last 5 years, but I don't think it has declined probably as dramatically as net farm income. I think if you will check the percentage, less than 13 percent now in the European average.

Senator D'AMATO. I share with you, with your colleagues, what seems to me to be an inconsistency of policy and a way in which we could go, doing what happens to be humanitarian for humanitarian purposes: The rights of distribution of excess food that is costing American taxpayers a lot of money to store through various regions of the country. Not under the aegis of the United Nations or any other so-called farm group, letting people that know that it comes from the United States of America. It has always bothered me that the generosity of the American people has in many cases gone—the story of that generosity untold, particularly to the recipients of the generosity. But if we used these foods to help those who are in desperate positions, who face starvation, et cetera, I have no quarrel with that. I think we should be embarked upon that. But how does that deal with the kinds of problems we have talked about, such as the credit crunch? How do we really deal with that?

I subscribe to what all three of you have said: Let's cut the cost of the Government's storage programs down. Get that food out. How do we deal with the fact that you have a 30- or 40-percent delinquent debt problem in your State with farmers? Here is the question: Do you continue to loan those who have gone far beyond what creditwise they will be able to pay back; aren't we just exacerbating the problem for that individual?

Governor JANKLOW. Senator, that reminds me of the debate that was going on a few years ago when New York City was in trouble. A lot of people in America suggested: They got themselves into this. This isn't national policy. New York City did this to themselves and should we cut them loose, let them declare bankruptcy as a community or tax themselves to death and go under or is there a greater responsibility of Americans helping an American? We did it to Lockheed. We did it to Chrysler. But in those three what they call bailouts, those were decisions made by the city of New York and its people, Lockheed and Chrysler that caused them financial drain to the point where they were almost ruined.

What we are talking about in agriculture in America, at least I say, those farmers who stuck their neck out and gambled on inflation and lost, let them go. I will take the heat for saying that. But the other 90 percent of the American farmers who only did what their Government asked them to do—the Government said, go plant fence row to fence row. There is a hungry world out there. You look at your first chart under farm program costs about 1976 or so, that is when we have $5 and $6 wheat. There was a shortage of supply of wheat and corn in the world.

These people are in trouble. The other 90 percent of the farmers are in trouble because they did what their Government asked them to do. They don't need a bailout. They need justice. They need absolute justice to get over this hump that has been thrust upon them because embargoes took away their world market. Richard Nixon had them, Gerald Ford had them, and Jimmy Carter had them. They destroyed our credibility as a primary supplier and turned us into a residual supplier. It is our National Government economic policies that brought about high interest rates that have brought about the high value of the dollar.

All I am saying is that when you drive over a guy in an intersection and it is not his fault, do you have a responsibility to try and keep him alive until he gets to the hospital?

Senator D'AMATO. Well, Governor, this time would not give me or anyone else the opportunity to respond. But I would have to say to you, while I might agree with and I do agree with what you have said, the problem is, I haven't heard how you define those who are in a position through no fault of their own. What program do we implement to deal with that? How do we distinguish between that person who gambled on inflation continuing to grow, as opposed to those who find themselves in this position as following the American policy that has been well articulated in agriculture?

I am looking for suggestions to attempt to deal with that. The Agriculture Committee will be coming forward. I will be called upon to vote for or against recommendations or legislative initiatives. I will probably vote for them. But I was hoping that we could get some indication from you as to how to best treat this. We understand the problem. We have billions and billions of dollars worth of debt there. We have a huge deficit. How do we distinguish—do we continue to go with the line of credit?

Governor JANKLOW. Yes.

Senator D'AMATO. Do we continue the line of credit to all, regardless of whether they can pay back?

You know, Lockheed, when they got their loan and New York when they got their loan, had to establish that they could and would indeed pay back. And they did. In each case, the Federal Government did not lose money, but in the final analysis—I don't mean to be defensive about the New York loan—but the Federal Government actually made money.

Now, I certainly believe that we should work to design programs that will give to those farmers who are self-sufficient, have been over the years, the ability to continue to be so. Are there particular recommendations that you have in this area?

Governor CLINTON. Senator, I respect the question you ask very much. I think it is very easy for people to come to the Congress and then leave you to deal with the details. Life is 90 percent details. Before we could really answer that question honestly, I think the Congress has to answer the following question honestly: Are we going to try to pursue a policy which will permit most of the efficient farmers in this country to continue to farm? You have to decide that first. Once you decide that, then I think you have to say, well, then, we ought to refinance the farm debt. We need to look at these models. Let's look at Chrysler. Let's look at New York. Let's look at what we did with Lockheed. Let's see what kinds of shared sacrifices were there.

Senator D'AMATO. If I might, implicit in your statement is that there will, of necessity, be some who we find to be inefficient, who will never work their way out.

Governor CLINTON. That is right. If every person in this room and in the Congress heaved to today, there would be some who would go down. There is no way in the world we could stop it.

Senator D'AMATO. I think it is important that we——

Governor CLINTON. We all agree with that.

Governor SCHWINDEN. There is the possible misconception that the existing structure out there encourages rural people to get into a situation they can't pay back.

Let me read what our State director said about Farmers Home Administration loans. "You still have to show the ability to make repayment." That has to be the bottom line criteria.

Senator D'AMATO. So you all subscribe to that?

Governor CLINTON. We do. But if beans keep being $5, that is going to affect how many people you want to refinance. If beans go to $6, then you qualify a whole lot of people for refinancing. It would be stupid to be refinancing if you are going to stay with a national policy that has $5 soybeans or $3 rice. You have to make both decisions at once. Then you can refinance the farm debt in a sensible way.

I think it is very useful to look at farmers as a group in the way we would look at New York City or Chrysler. They are at least as important to the future of this country. I am from a rural State. I supported the Chrysler loan guarantee program. I personally called two of the last holdout banks in 1980. I supported the program for New York City. Very few people were for it down there.

We are one country. We need to pull together on this. I do think you are going to have to refinance the farm debt. You can't do it sensibly until you decide on your farm policy.

Representative OBEY. I will have to call time.

Let me simply comment on the Senator's question. I think both of you laid out exactly what our choices are in agriculture. We can, as some say, simply say, get the Government out of agriculture. If we do that, we have to recognize that we will, in effect, be doing that unilaterally, because our trading partners and our agriculture competitors around the world will not be following that same policy. Even in the dairy area, people who are talking about getting the Government out of agriculture are not really talking about eliminating the multiplicity of milk marketing orders around the country, which you really have to do if you are going to deal with a straight market situation. You have to make a choice. Though it sounds theologically and economically reasonable, and it thrills economists and thrills lovers of Adam Smith, the fact is that the world is a little more comfortable when you are competing.

Second, you have to ask yourself if it is really politically possible to obtain a totally free market in agriculture. I don't believe it is.

This isn't heaven. We have to struggle with imperfections, including economic imperfections in this country. If we don't believe we can do that, then the question is, are we going to continue to ride along with some kind of Rube Goldberg patching together of existing programs which doesn't really get at the surpluses and which really doesn't provide adequate income to farmers either, even efficient farmers? Or are we going to look at a different model, even though it offends professional economists and offends those who believe in the theology of Adam Smith to the exclusion of other considerations? If you think that you ought to look at that, then it seems to me that, while I do not come from a grain State, that something along the lines of the Harkin proposal offers at least an alternative which will control the budget bleed, even if you don't feel comfortable with the other aspects of the program.

If you are going to apply that, at least you have a way of avoiding these huge farm program costs, so that you may still not have the kind of marketing system we like, but given the fact that every government in the world is involved in farm marketing arrangements, at least you will be getting that huge direct cost to the Government, even though I theologically don't like the implications of the Harkin bill. It seems to me those are the only two choices we have unless we are going to muddle along, clunk along with continuation of programs that may have been fine in the 1930's, but just don't meet supply and demand today.

Let me thank you all for coming. I appreciate your time. I know we took more time than I thought we would, but I think it was useful. I especially appreciate you being frank enough to indicate that on the tax side, we ought to worry more about our first obligation and get the deficit down before we give taxpayers the luxury of another rate reduction financed with more borrowed money. Thank you very much.

I ask our next panel to come forward.

I ask each of you to proceed for about 7 minutes with whatever you would like to say. I apologize for the slippage of the schedule. But as you gather, we were limited to the 5-minute rule on the House floor. That doesn't often occur.

Why don't we begin with Mr. Pryor?

I will ask you to limit your statement to 7 minutes, please.

STATEMENT OF EARL PRYOR, SMALL GRAINS AND LIVESTOCK PRODUCER, CONDON, OR, AND FORMER PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. PRYOR. Thank you, Mr. Chairman. I am a small grains and livestock producer from Condon, OR, a small town of less than 1,000 population in eastern Oregon. I am a member of the National Agricultural Trade and Export Policy Commission and immediate past president of the National Association of Wheat Growers. I am past director of PCA.

A large part of agriculture's present dilemma lies in public awareness of agriculture's role in our Nation. My gravitation to the AgFocus group is an outgrowth of this frustration.

Our community has been dying for 20 years as petroleum distributors, machinery dealerships, and health services migrate to larger population centers. Over 50 percent of our storefronts are vacant and farm bankruptcy and/or retirement is imminent for many of my neighbors.

The ignition point for most farm and economic problems began with the oil embargo and escalating economic dislocations worldwide.

My prepared statement is divided into five sections: Grain exports and economic impact, farm income impacts agribusiness, agricultural credit crisis resolution, cash-flow and production requirements, and references: prime indicators of the agricultural economy; commodity market prices, monthly update; USDA farm production expenses and income; farm machinery inventory and expenditure data; and an interim report of Agriculture Trade and Export Trade Policy Commission.

When you talk to a farmer anymore, his first remark is not about his crop. His first remark is, you have been to DC; what is going on in the farm bill.

The next remark is, what are they doing about the export situation? So I would like to share with you some of the real concerns that individual producers have out in the country, perhaps suggest some ideas that we might present to you.

These are really gut policy issues, as they affect agriculture itself.

The passage of the 1980 farm bill will fail to hold the line on declining farm income. That is a given, given the parameters you have: The budgetary exposure continuing, the credit crisis will extract bailout, rivaling the farm bill in cost. I think that is almost a given.

America needs to rethink our policies if we are to continue in a world leadership position. Business sectors are trumpeting our status as a debtor nation. Current trends indicate by 1990 the United States will owe $1.3 trillion, far surpassing the Third World debt.

We are a nation of insatiable consumers. The Federal Reserve Board antiexpansionist, monetaristic policies have encouraged a buy foreign mentality in our country. Industries like lumber, textiles, and agriculture have been savaged by cheap, foreign products.

Trade opportunities have withered away. Industrial plants are running at 80.5 percent of capacity. Agriculture is overproducing with 60 percent of their capacity utilized, and mounting surpluses are driving us to the bankruptcy.

The root problem of all these diverse industries lies in policies calculated to curb inflation, stimulate world economic recovery, and regain our military posture worldwide.

Certainly the strong dollar and continuous mammoth budgetary deficiency make strange bedfellows. However, it is a marriage of convenience if we are to continue to attract foreign funds necessary to balance our economic house of cards.

There are alternatives to the path that we are now following. The monetary and fiscal policies must be realigned to encourage growth in our country again. A shopping list might include public recognition by President Reagan that the dollar's value in relation to major world currencies is hampering world economic recovery, repayment efforts by Third World nations, and economic development and job opportunities in the United States. U.S. intervention in world capital centers timed to augment moves against the dollar value should be examined.

We need to adopt legislation to further encourage the saving habit of individuals, lessening the need to attract foreign capital.

We need to substitute trade for aid and it should be based upon reciprocity. We must recommit ourselves to the Yankee trader philosophy. The Export Trade Act of 1985 was a step in the right direction. However, much more needs to be done. We need to capitalize on our national treasure of productive lands and the expertise of our agricultural community.

These are renewable resources. They are a multiplier effect as they move through our economy and can double agriculture's contribution toward a positive balance of trade.

As I have noted, I am a member of the policy commission. I offer our interim report to the President and the Congress for your review.

Agricultural revitalization lies in solving our marketing dilemmas, not Federal subsidies. Our income needs to come from our consumers, domestic particularly and abroad. Policies need to be adopted to assure this opportunity.

Agriculture will then rise again from the ashes of neglect. Thank you.

Representative OBEY. Thank you, Mr. Pryor.

[The prepared statement of Mr. Pryor, together with attached references, follows:]

Prepared Statement of Earl Pryor

I am a small grains and livestock producer from Condon, Oregon, a small town of less than 1,000 population in eastern Oregon. I am a member of the National Agricultural Trade and Export Policy Commission and immediate past president of the National Association of Wheat Growers.

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My testimony is divided into five sections:

1. Grain Exports and Economic Impact
2. Farm Income Impacts Agri-business
3. Agricultural Credit Crisis Resolution
4. Cash flow and Production Requirements
5. References
    - A. Prime Indicators of the Ag Economy
    - B. Commodity Market Prices: Monthly Update
    - C. USDA Farm Production Expenses and Income
    - D. Farm Machinery Inventory & Expenditure Data
    - E. Interim Report of Agriculture Trade and Export Trade Policy Commission

GRAIN EXPORTS AND ECONOMIC IMPACT

The outlook for U.S. wheat exports over the next year is deplorable. As of the week ended September 5, 1985, wheat exports were running 45 percent behind a comparable period last year (June 1 - September 6). The U.S. Department of Agriculture, USDA, now estimates that total U.S. wheat exports will fall to 1.150 billion bushels from last year's 1.424 billion, a drop of over 19 percent. Many trade analysts believe the final export level will be even lower, possibly below 1.0 billion bushels. This drop in exports will not be offset by an equal drop in production thus adding to ending stocks which will likely total over 1.6 billion bushels.

Falling wheat exports will also contribute to the decline in the total farm export surplus which according to USDA estimates will fall to $12 billion this year from last year's $19.3 billion. Only 15 percent of this $7.13 billion drop can be attributed to increased imports.

Falling wheat exports have also had an impact on domestic employment levels. USDA employment multipliers provide some estimate of total losses. The Department estimates that each million bushels of wheat exports generates employment for 124.7 people. Applying this to the expected one year drop in U.S. wheat exports of 274 million bushels translates into the possible loss of over 34,000 jobs.

Compounding this problem is the level of farm product prices. Wheat futures prices are at a seven year low ($2.80) and terminal prices at Kansas City and Chicago will be at ten year lows if these futures prices are realized. In 1980 cash prices were $4.20 a bushel at these locations.

Feed grains production is forecast at 257 million metric tons, 21 million above last year. Record crops are forecast for corn, sorghum and barley.

Stocks of feed grains are projected to build to 83 million tons, up more than 75 percent from 1984/85.

Farm prices are supported by loan rates, and deficiency payments constitute an important part of grain producers' income. Corn producers and wheat growers, who participated in the acreage reduction program 10 percent and 30 percent, will receive deficiency payments of 48 cents and $1.08.

Soybeans, meal and oil are in record supply and at low price levels. Worldwide production of oilseed crops is expected to increase.

FARM INCOME IMPACTS AGRI-BUSINESS

Farm machinery demand continues to fall dramatically. Projected purchases of new and used farm machinery is $6.4 to $6.9 billion, down from $7.3 billion last year.

Domestic combines and corn head purchases during January-May this year have dropped 34 percent and 43 percent respectively. Four-wheel drive tractors have dropped 45 percent to 1,140 units during this same period.

Farm machinery exports, which declined 15 percent in the first quarter, call for flat or declining exports and increased imports, pointing to further reductions in the positive U.S. trade balance.

Inventories are at all time highs and are an extension of agriculture's economic plight. Private sources indicate the farm machinery sector is producing at 10 percent capacity.

The availability of credit is important for purchasing agricultural inputs. About 45 percent of new and used machinery purchased in 1979 was financed and I suspect that percentage is much higher today.

Farmers are not replacing their old machinery. Repair bills are mounting. Contraction in farm capital stock in 1981-83 is nearly equal to the expansion during 1974-80.

AGRICULTURAL CREDIT CRISIS RESOLUTION

There are no easy answers to solving the credit crunch. The annual net farm income will remain in the $21-27 billion range under the 1985 Farm Bill. The failure to adopt substantive monetary and fiscal policy improvements will mean continuation of high real interest rates.

The Farm Credit system is anticipating as much as 15 percent of its $74 billion in loans --$11.1 billion -- is uncollectable. Commercial banks hold $50 billion in ag debt with the prediction that one of the 5200 will fail each week this year. And the national debt-to-asset ratio is about 26 percent, a modern day high. Liquidation rates of 10 to 15 percent will be required to service the debt, about 3-4 times historical rates.

The entry of young farmers in the near term will be non-existent because of cash flow requirements and low returns in agriculture.

Some solutions to consider are:

<u>Short term</u>

-- Provide lower cost credit through buydown and guarantee

-- Reorganize FCS and FmHA to provide better staffing quicker turnaround on loan applications and farm management counseling funds for Extension Adult Education programs.

-- Stabilize farm asset values

-- Provide adequate oversight/examination to minimize lending institution failures.

-- Improve bankruptcy procedures

<u>Long term</u>

-- Authorize land holding entity

-- Recapitalize FCS as need arises

-- Provide debt adjustment programs for commercial banks

-- Recognize "basket cases" and cut short public losses by liquidation

The proper solution to credit needs is the return of profit opportunity in agriculture. THERE IS NO SUBSTITUTE!

CASH FLOW AND PRODUCTION REQUIREMENTS

The following tables are an itemization of cash flow made up of variable and fixed costs for a 2500 acre summer fallow farm in eastern Oregon. These figures are based on 1983/84 production year.

Cash flow & Production Requirements
2500 acre summer fallow farm

Variable & Fixed Costs	(In dollars)	
Labor	12.56	
Machinery	16.39	
Seed	6.11	
Fertilizer	6.90	
Herbicide	6.90	
Production	8.81	
		50.77
Marketing	16.16	
		67.43
Machine Operation	41.19	
		108.62
Crop Insurance	4.75	
Misc. Costs	4.60	
		117.97
Operations Interest	3.60	
Management return	5.80	
Land costs	50.00	
TOTAL COSTS		$177.37

Yield Requirements at Various Price Levels
(in bushels per acre)

Cash flow levels	(Dollars)	Portland Delivered Prices $3.00/bu	$3.50/bu	$4.00/bu
Production & marketing	67.43	22.4	19.6	16.8
Machinery operation	108.62	36.1	30.1	24.1
Crop insurance & misc.	117.97	39.3	34.4	29.5
Interest & management	127.37	42.2	37.0	31.8
Land cost return	177.37	59.1	50.7	44.3

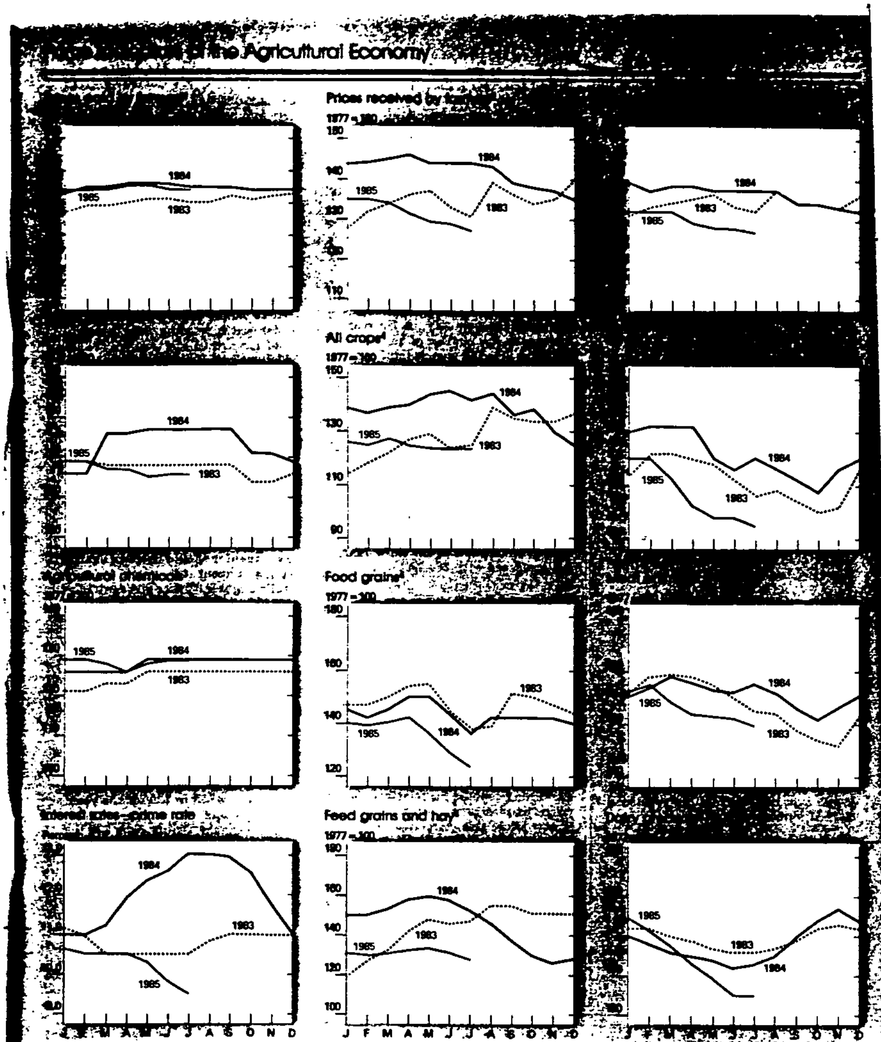
Additional yield requirements with varying levels of debt are projected below. Land is valued at $350.00/acre at 12.25 percent interest over 35 years.

Additional Yield Requirements
(in bushels per acre)

Leverage position	Portland Delivered Prices $3.00/bu	$3.50/bu	$4.00/bu
10 %	2.9	2.5	2.2
20 %	5.8	4.9	4.4
30 %	8.7	7.5	6.5
40 %	11.6	9.9	8.7
50 %	14.5	12.5	10.9

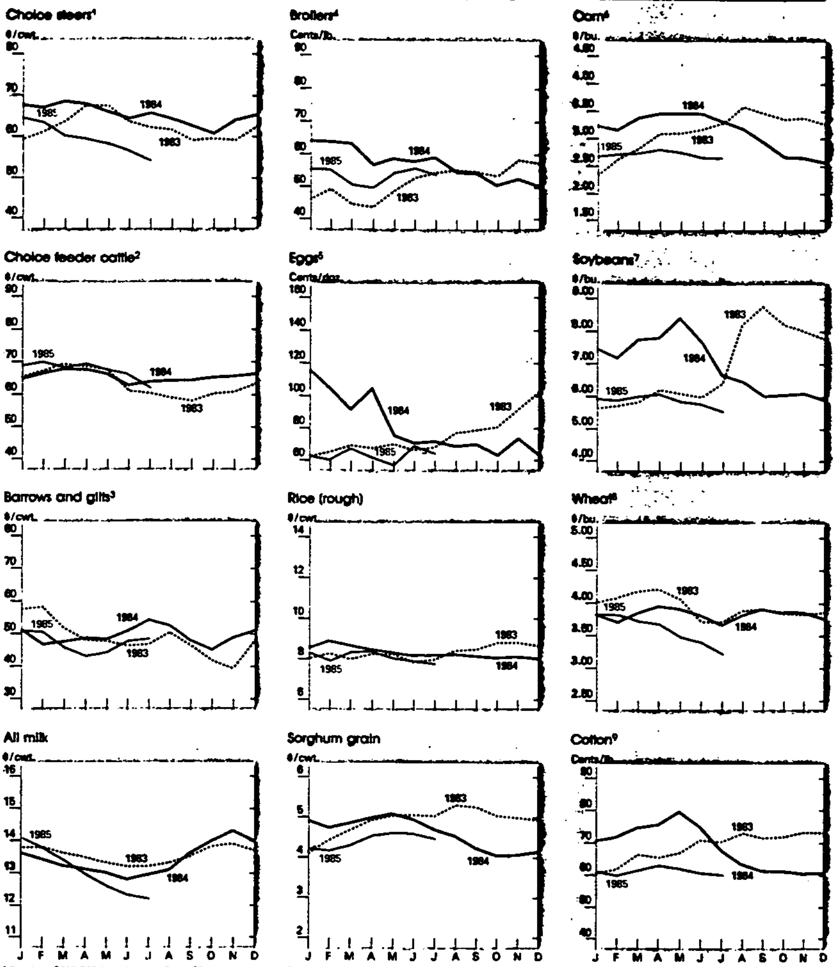
Observation: The average yield in my production area is 34 bushels per acre. An average crop at $3.50 per bushel would cover cash costs with no return to management for family living requirements. A 30 percent debt leverage position would require another 7.5 bushels of production on average or the elimination of crop insurance, miscellaneous costs and a reduction of capital equipment replacement.

... of the Agricultural Economy



[1]For commodities and services, interest, taxes, and wages.
[2]For all farm products.
[3]Index of prices paid; 1977 = 100.
[4]Index of prices received; 1977 = 100.

Commodity Market Prices: Monthly Update



[1] Omaha. [2] 600-700 lbs., Kansas City. [3] 7 markets.

[4] Wholesale, New York. [5] Grade A Large, New York.

[6] No. 2 Yellow, Chicago. [7] No. 1 Yellow, Chicago.
[8] No. 1 HRW, Kansas City.
[9] Average spot market, SLM 1-16."

Farm Income Update

1984 ESTIMATES

First estimates for 1984 indicate that net farm income reached $34.6 billion, while net cash income rose slightly to $39.1 billion. Production rebounded strongly from the PIK program and 1983's drought-reduced output. Both cash receipts and production expenses rose. The current forecast for net farm income in 1985 is $22 to $26 billion, with net cash income expected to total $34 to $39 billion.

Nominal cash receipts in 1984, including net loans from the Commodity Credit Corporation (CCC), increased on the strength of higher prices and larger production, offsetting a slight drop in total direct Government payments. Gross cash income was estimated at a record-high $153.2 billion, up from 1983's $148.1 billion.

Farm-related income grew from $2.6 to nearly $3 billion in 1984. This category includes all items that in previous years were listed under "other cash income," including income from custom work, machine hire, and farm recreational activity. In addition to other minor miscellaneous sources of income, such as dividends from co-ops, income from the sale of forest products is now included as farm-related income. In previous years, forest product sales were accounted for in crop cash receipts. This change, which affects only 1978 forward, was implemented to maintain consistency with Bureau of Census statistics.

Farm Income and Cash Flow Statement, 1981-84

Item	1981r	1982r	1983r	1984	1985f
	Billion dollars				
Farm income sources:					
1. Cash receipts	142.1	142.9	136.2	141.8	136-140
Crops 1/	72.9	72.7	66.8	69.0	67-71
Livestock	69.1	70.3	69.4	72.7	67-71
Cash Government payments	1.9	3.5	4.1	4.0	5-9
Value of PIK commodities	0.0	0.0	5.2	4.5	0
2. Direct Government payments	1.9	3.5	9.3	8.4	5-9
3. Farm related income 2/	2.5	2.6	2.5	2.9	2-4
4. Gross cash income (1+2+3) 3/	146.5	149.0	148.1	153.2	147-152
5. Nonmoney income 4/	13.7	14.0	13.1	13.1	11-13
6. Realized gross income (4+5)	160.2	163.0	161.2	166.0	159-164
7. Value of inventory change	6.3	-0.8	-9.8	7.9	-2-2
8. Total gross income (6+7)	166.5	162.1	151.4	174.0	158-163
Production expenses:					
*9. Cash expenses 5/ 6/	110.7	110.7	109.7	114.0	110-114
10. Total expenses	136.0	136.8	135.5	139.4	134-138
Income statement:					
Net cash income: 1/ 6/					
11. Nominal (4-9)	35.8	38.3	38.3	39.1	34-39
Deflated (1972$) 7/	18.3	18.5	17.8	17.5	15-17
Net farm income: 1/					
12. Nominal total net (8-10)	30.5	25.3	15.8	34.6	22-26
Deflated total net (1972$) 7/	15.6	12.2	7.3	15.5	10-12
Deflated total net (1967$) 8/	11.2	8.8	5.3	11.1	7-9
13. Off-farm income	39.8	39.4	41.0	40.0	39-43
Other sources and uses of funds:					
14. Change in loans outstanding 6/	15.5	6.8	2.9	-2.1	-3-1
Real estate	9.3	3.7	2.1	-1.5	-3-1
Nonreal estate 9/	6.2	3.1	0.8	-0.6	-2-2
15. Rental income	5.8	5.7	4.6	5.4	4-6
16. Gross cash flow (11+14+15)	57.5	50.8	45.8	42.4	39-44
17. Capital expenditures 6/	16.8	13.7	13.0	12.5	10-14
18. Net cash flow 1/ 6/ (16-17)	40.2	37.2	32.8	30.0	27-32

r=revised. F=Forecast as of 08/14/85. 1/ Includes net CCC loans. 2/ Income from custom work, machine hire, farm recreational activity, sales of forest products, and other misc. sources. 3/ Numbers in parentheses indicate the combination of items required to calculate a given item. 4/ Value of home consumption of farm products and imputed rental value of farm dwellings. 5/ Excludes depreciation and perquisites to hired labor. 6/ Excludes farm households. 7/ Deflated by the GNP implicit price deflator. 8/ Deflated by the CPI-U. 9/ Excludes CCC loans. Totals may not sum due to rounding.

*cash expense excludes depreciation and family living expense while including off farm income as income to farm.

Total production expenses increased by $3.9 billion, mainly because of larger planted area. Total input use rose about 3 percent, and prices paid for inputs increased slightly. Meanwhile, cash expenses (excluding depreciation, labor perquisites, and household-related expenses) rose almost 4 percent to $114 billion, following 1983's 1-percent decline.

Farm Income Up

Net cash income totaled $39.1 billion in 1984, up 2 percent from the revised 1983 estimate of $38.3 billion. Deflated net cash income (1972 dollars), however, fell to $17.5 billion, compared with $17.8 billion in 1983, marking the second consecutive annual decline in real net cash income.

Net farm income rose to $34.6 billion, following the PIK- and drought-reduced $15.8 billion of 1983. Deflated net farm income stood at $15.5 billion, compared with $7.4 billion in 1983. This volatility can easily be traced to the wide swings in production and prices that the value of inventory change statistics reflect.

As in 1983, the value of the change in farm inventory played a key role in determining net farm income. The farm inventory was drawn down $9.8 billion in 1983; however, in 1984, increased production, along with higher average prices, led to a record-high inventory buildup of $7.9 billion, surpassing the previous high of $6.3 billion in 1981. The $17.7 billion difference in the value of the change in inventory from 1983 to 1984 is very close to the $18.8 billion difference in net farm income between the 2 years.

Gross cash flow fell about 7 percent in 1984, to $42.4 billion. Changes in loans outstanding for both real estate and nonreal estate were negative. The total change in outstanding loans stood at minus $2.1 billion for 1984. This decline was partially offset by rental income to landlords, which rose 17 percent to $5.4 billion.

Although capital expenditures fell 4 percent to $12.5 billion, net cash flow remained 9 percent below 1983's $32.8 billion. Net cash flow is a measure of the cash available for business operations, real estate purchases, and household consumption. It is computed as the sum of net cash income, the change in loans outstanding, and net rent, less capital expenditures.

Cash Receipts by Commodity, 1981-84

Receipts	1981r	1982r	1983r	1984	Percent change-- 1982-83	1983-84
	-------Million dollars------				--------Percent--------	
Crop receipts:						
Food grains	11,619	11,469	9,733	9,735	-15.2	0
Wheat	9,852	9,913	8,798	8,443	-11.3	-4.0
Rice	1,729	1,515	882	1,219	-41.8	38.2
Rye	38	41	53	73	30.3	37.5
Feed grains and hay	17,774	17,231	16,191	16,451	-6.0	1.6
Corn	13,349	12,625	11,640	11,617	-7.8	-0.2
Oats	374	338	310	306	-8.3	-1.4
Barley	857	793	960	941	21.1	-2.1
Grain sorghum	1,344	1,484	1,159	1,298	-21.9	12.0
Hay (all)	1,850	1,990	2,121	2,290	6.6	7.9
Oil crops	13,853	13,814	13,505	13,666	-2.2	1.2
Soybeans	12,245	12,519	12,137	12,111	-3.0	-0.2
Peanuts	1,048	818	793	1,098	-3.0	38.3
Other oil crops	560	477	575	458	20.5	-20.4
Cotton lint and seed	4,551	4,928	3,316	3,359	-32.7	1.3
Tobacco	3,250	3,342	2,831	2,841	-15.3	0.3
Fruits and nuts	6,575	6,805	6,017	6,259	-11.6	4.0
Vegetables	8,771	8,113	8,104	8,888	-0.1	9.7
Other crops	6,543	6,969	7,111	7,839	2.0	10.2
Subtotal, crops	72,936	72,670	66,809	69,044	-8.1	3.3
Livestock receipts:						
Red meats	39,748	40,918	38,893	40,758	-4.9	4.8
Cattle	27,371	27,837	26,655	28,635	-4.2	7.4
Calves	2,166	1,977	2,027	1,966	2.5	-3.0
Hogs	9,794	10,659	9,785	9,691	-8.2	-1.0
Sheep and lambs	416	445	426	465	-4.2	9.2
Poultry and eggs	9,949	9,557	10,026	12,188	4.9	21.6
Broilers	4,646	4,478	4,873	5,970	8.8	22.5
Turkeys	1,248	1,255	1,269	1,655	1.1	30.4
Eggs	3,648	3,438	3,449	4,086	0.3	18.5
Other poultry	407	386	435	477	12.8	9.5
Dairy products	18,095	18,234	18,757	17,927	2.9	-4.4
Wholesale milk	17,764	17,946	18,485	17,661	3.0	-4.5
Retail milk	331	288	272	266	-5.4	-2.5
Other livestock	1,358	1,560	1,767	1,866	13.3	5.6
Subtotal, livestock	69,151	70,268	69,443	72,739	-1.2	4.7
Total receipts	142,088	142,938	136,252	141,779	-4.7	4.1

r=revised. Totals may not add due to rounding.

Off-farm income in 1984 was estimated at $40 billion, down 2 percent from the revised $41 billion of 1983. Rising nonfarm business and professional income was outweighed by slightly lower wage and salary income last year. About 80 percent of off-farm income went to farms with agricultural sales of less than $40,000, while more than 80 percent of farm income was concentrated in the classes above $100,000.

Cash Receipts Rose

Total cash receipts from crop and livestock marketings in 1984 totaled $141.8 billion, a 4-percent increase from 1983's $136.3 billion. Crop receipts rose 3 percent from 1983's $66.8 billion, while livestock receipts increased 5 percent from $69.4 billion in 1983.

For livestock, higher prices received accounted for most of the cash receipt gain. Marketings remained near 198 levels. For crops, higher average prices more than offset a reduction in overall marketing volume due to low first-half sales caused by the PIK and drought.

Cash receipts for crops rose to $69 billion, as a $4 billion increase in fourth quarter receipts outweighed lower first-quarter receipts. Cash receipts were unchanged to slightly lower for corn, wheat, oats, barley, soybeans, ar tobacco. Most other crop receipts increased. Production for all major croj categories, except fruit and nuts, was higher than the 1983 output.

Farm Production Expenses, 1981-84

Items	1981r	1982r	1983r	1984	Percent change 1982-83	1983-84
	----------Million dollars----------					
Feed	20,855	18,592	21,261	20,412	14.4	-4.0
Livestock	8,999	9,696	8,814	9,469	-9.1	7.4
Seed	3,428	3,172	2,987	3,548	-5.8	18.8
Farm-origin inputs	33,282	31,460	33,062	33,429	5.1	1.1
Fertilizer	9,409	8,046	7,646	8,896	-5.0	16.4
Fuels and oils	8,570	7,794	7,388	7,118	-5.2	-3.7
Electricity	1,747	2,041	2,146	2,167	5.1	1.0
Pesticides	4,201	4,282	4,161	4,943	-2.8	18.8
Manufactured inputs	23,927	22,163	21,341	23,125	-3.7	8.4
Short-term interest	10,722	11,349	10,615	10,396	-6.5	-2.1
Real estate interest	9,142	10,481	10,815	10,733	3.2	-0.8
Total interest charges	19,864	21,830	21,430	21,129	-1.8	-1.4
Repair and operation	7,587	7,730	7,543	7,860	-2.4	4.2
Hired labor	8,932	10,183	9,788	10,070	-3.9	2.9
Machine hire and custom work	1,984	2,025	1,523	1,951	-24.8	28.1
Dairy deductions 1/	0	0	633	656		3.6
Miscellaneous operating expenses	7,655	8,226	8,484	9,092	3.1	7.2
Total operating expenses	26,158	28,164	27,971	29,629	-0.7	5.9
Depreciation	23,573	23,886	23,490	23,020	-1.7	-2.0
Taxes	4,246	4,394	4,323	4,407	-1.6	1.9
Net rent to non-operator landlords	4,982	4,904	3,913	4,646	-20.2	18.7
Other overhead expenses	32,801	33,184	31,727	32,073	-4.4	1.1
Total production expenses	136,032	136,801	135,550	139,385	-0.9	2.8

r=revised. 1/ Includes only net deductions from milk prices.
The difference between total expenses and cash expenses is that cash expenses do not include depreciation, labor perquisites, and those expenses associated with farm dwellings. Dwelling expenses are included in real estate interest, repair and operation, misc. operating expenses, depreciation, and taxes. Net rent to non-operator landlords is included in total expenses, while cash expenses includes net rent to all landlords.

As in 1983, CCC loan redemptions exceeded new loans, leaving the 1984 net CCC loan level at minus $0.8 billion—the result of stronger first-half commodity prices. Most loan redemptions were in the first half of 1984, while new loan activity increased in the latter half, when commodity prices began to slip.

Food grain receipts remained unchanged from 1983. Declining wheat receipts offset substantial increases in rice and rye. Wheat receipts, reflecting burdensome supplies, declined for the second consecutive year to $8.4 billion, compared with $8.8 billion in 1983. Lower average calendar-year wheat prices combined with reduced marketings to produce the resulting drop in receipts. Receipts for rice and rye each rose 38 percent, a result of significantly higher marketing volumes.

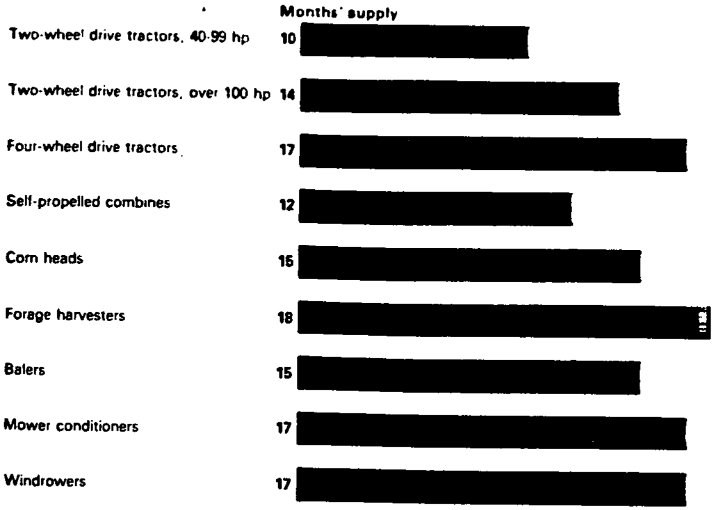
Cash receipts for feed crops rose about 2 percent in 1984, to $16.6 billion. Increases in sorghum and hay receipts offset slight declines in corn, oats, and barley. Slightly higher average corn prices were just offset by reduced marketings, so receipts fell less than 1 percent to $11.6 billion.

Sorghum marketings outweighed slightly lower average calendar-year prices for a 12-percent increase in receipts, following a 22-percent decline in 1983. CCC loans for sorghum and corn picked up sharply in the fourth quarter because prices fell. Cash receipts for oats and barley fell 1.4 and 2.1 percent, respectively, despite slightly higher prices for both. Hay receipts rose for the third straight year. Both prices and production surpassed 1983 levels.

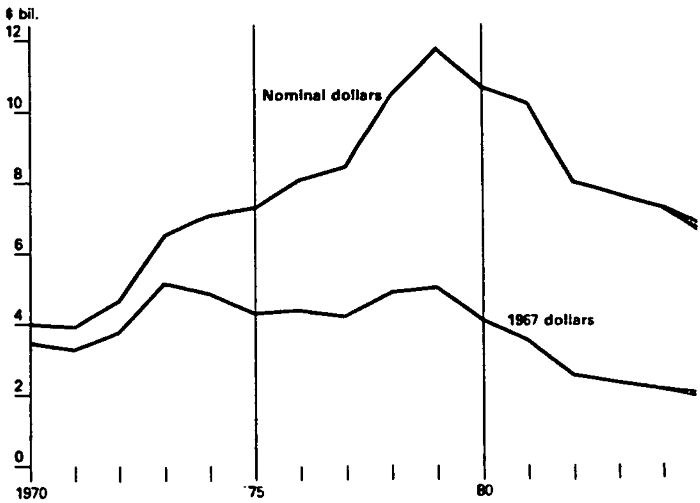
Oil crop receipts, rising for the first time in 4 years, totaled $13.7 billion in 1984, a 1.2-percent increase from 1983. Peanut receipts provided the major boost, climbing 38 percent to $1.1 billion. Prices and production rose substantially. Reduced marketings barely offset higher average prices to leave soybean receipts less than 1 percent short of 1983. Receipts for sunflowerseed and flaxseed each declined as higher prices were offset by significantly lower marketings.

Cotton receipts failed to make a significant rebound from 1983's 33-percent decline. Receipts totaled $3.4 billion in 1984, a modest 1.3-percent increase. Slightly higher average prices barely offset reduced marketings. Although the average calendar-year cotton price rose, prices fell late in the year, when marketings strengthened. Cash receipts for tobacco were up less than a percent, with lower prices just offset by slightly higher production.

Domestic Industry Inventories, May 1985



U.S. Farm Machinery Expenditures Continue To Slide



National Commission on
Agricultural Trade and Export Policy

INTERIM REPORT TO THE PRESIDENT AND THE CONGRESS

March, 1985

NATIONAL COMMISSION ON
AGRICULTURAL TRADE AND EXPORT POLICY
1515 SOUTH BUILDING
14TH AND INDEPENDENCE AVENUE, SW
WASHINGTON, D.C. 20250
(202) 488-1961

KENNETH L. BADER
CHAIRMAN
ROBERT B. DELANO
VICE CHAIRMAN

JIMMY D. MINYARD
EXECUTIVE DIRECTOR
STEVEN A. McCOY
ASSOCIATE DIRECTOR

April 18, 1985

The Honorable Ronald W. Reagan
President of the United States
The White House
Washington, D.C.

Dear Mr. President:

Pursuant to Section 1221, sub-section (b)(1) of Public Law 98-412, I am transmitting to you the interim report of the National Commission on Agricultural Trade and Export Policy.

The recommendations contained in the attached Report represent a consensus of views of a wide cross-section of agricultural interests, as represented by Members of the Commission appointed by you. The Commission hopes that the Report will be useful to the Administration in developing policy in regard to such matters.

The Commission looks forward to further cooperation with the Administration as it proceeds in its deliberations on agricultural trade issues.

With warm regards,

Sincerely,

Kenneth L Bader

Kenneth L. Bader
Chairman

NATIONAL COMMISSION ON
AGRICULTURAL TRADE AND EXPORT POLICY
1515 SOUTH BUILDING
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JIMMY D. MINYARD
EXECUTIVE DIRECTOR
STEVEN A. MCCOY
ASSOCIATE DIRECTOR

April 18, 1985

The Honorable Thomas P. O'Neill, Jr.
Speaker of the House of Representatives
Room H204 Capitol Building
Washington, D.C. 20515

Dear Mr. Speaker:

Pursuant to Section 1221, sub-section (b)(1) of Public Law 98-412, I am transmitting to you the interim report of the National Commission on Agricultural Trade and Export Policy.

The recommendations contained in the attached Report represent a consensus of views of a wide cross-section of agricultural interests, as represented by Members of the Commission selected to serve by the leadership of the House and Senate. The Commission hopes that the Report will be useful to the Congress in developing an agenda for legislative action in regard to such matters.

The Members of the Commission applaud your role in establishing the National Commission and thank you for your diligent service in the interests of U.S. agriculture.

With warm regards,

Sincerely,

Kenneth L. Bader

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Chairman

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VICE CHAIRMAN

JIMMY D. MINYARD
EXECUTIVE DIRECTOR
STEVEN A. McCOY
ASSOCIATE DIRECTOR

April 18, 1985

The Honorable Robert J. Dole
Majority Leader
United States Senate
Room S233 Capitol Building
Washington, D.C. 20510

Dear Mr. Majority Leader:

Pursuant to Section 1221, sub-section (b)(1) of Public Law 98-412, I am transmitting to you the interim report of the National Commission on Agricultural Trade and Export Policy.

The recommendations contained in the attached Report represent a consensus of views of a wide cross-section of agricultural interests, as represented by Members of the Commission selected to serve by the leadership of the House and Senate. The Commission hopes that the Report will be useful to the Congress in developing an agenda for legislative action in regard to such matters.

The Members of the Commission applaud your role in establishing the National Commission and thank you for your diligent service in the interests of U.S. agriculture.

With warm regards,

Sincerely,

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Chairman

NATIONAL COMMISSION ON AGRICULTURAL TRADE AND EXPORT POLICY

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Chairman

Robert B. Delano
Vice Chairman

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PREFACE

U.S. agriculture is blessed by an abundance of resources which have established it as the world's preeminent supplier of food and fiber products. Its greatest resource--the talent, ingenuity, and dedication of the men and women engaged in agriculture--has been tapped by the National Commission on Agricultural Trade and Export Policy in service to agriculture and the people of the United States.

In agriculture, as in other pursuits, it is people that make the difference. Working and reasoning together, Americans have built the world's leading agricultural system. Many challenges facing agriculture have been overcome through the efforts of farmers, businessmen, scientists and government officials, working alone and in concert. Agriculture now faces a new challenge--to expand exports and make more equitable the trading environment that exists in the world. It is to meet this challenge that the National Commission was established and now works.

The membership of the Commission comprises individuals representing all aspects of U.S. agriculture--farmers, businessmen, farm organization leaders and government officials. It is a membership of great depth and experience. A bipartisan cross-section of U.S. Senate and House Committee members provides a balance of political interests and views. A cross-section of private sector members balance product and commodity interests. In its deliberations, the Commission has worked as a Committee of the Whole, to capture a broad framework of overwhelming consensus. The recommendations contained in the pages that follow reflect this consensus.

Working and reasoning together the members of the Commission hope to make a difference. There is a future for America in the markets of the world. It is toward this future that the Commission works.

COMMISSION MEMBERS

Legislation to establish the National Commission on Agricultural Trade and Export Policy was approved by the U.S. House of Representatives on August 6, 1984 and by the U.S. Senate on August 10, 1984. The President signed the legislation into law on August 30, 1984.

By law, the Commission is comprised of 35 members designated to serve as follows:

20 private sector members, selected ten each by the Speaker of the U.S. House of Representatives and the President Pro Tempore of the Senate, to represent private-sector interests.

12 Congressional members, comprising the Chairman and Ranking Minority Members of the Senate Committees on Agriculture, Finance and Foreign Relations and the House Committees on Agriculture, Ways and Means, and Foreign Affairs, or their designees, to represent Congressional interests.

3 non-voting Administration members, selected by the President to represent Federal government agency interests.

The current Membership of the National Commission is as follows:

Dr. Kenneth L. Bader
Chief Executive Officer
American Soybean Association
St. Louis, Missouri
Chairman

Mr. Robert Delano
President
American Farm Bureau Federation
Park Ridge, Illinois
Vice-Chairman

Congressional Members

Hon. Robert Dole
Hon. Jesse Helms
Hon. Richard Lugar
Hon. Russell Long
Hon. Joseph R. Biden
Hon. Edward Zorinsky

Hon. E. (Kika) de la Garza
Hon. Beryl Anthony, Jr.
Hon. Lee Hamilton
Hon. Edward Madigan
Hon. Douglas Bereuter
Hon. William Thomas

Private-Sector Members

Mr. D. Paul Alagia, Jr.	Senior Partner Barnett and Alagia Louisville, Kentucky
Mr. Edward Andersen	Master The National Grange Washington, DC
Mr. John S. Barr, III	Chairman National Cotton Council of America Oak Ridge, Louisiana
Mr. Irvin Elkin	President Associated Milk Producers, Inc. San Antonio, Texas
Mr. Marshall Grant	Producer Garysburg, North Carolina
Mr. Francis B. Gwin	Chairman Farmland Industries, Kansas City, Kansas
Mr. Charles M. Harper	Chairman and CEO Con Agra, Inc. Omaha, Nebraska
Mr. Joseph Hatfield	President Fieldale Corporation Baldwin, Georgia
Mr. Dale V. Hunt	Chairman 5-State Rice Producer Legislative Group Garwood, Texas

Mr. L.L. Jaquier	Executive Vice President W.R. Grace and Company Memphis, Tennessee
Mr. F.R. Light	President Sun Diamond Stockton, California
Mr. Donald B. Nordlund	Chairman A.E. Staley Manufacturing Company Decatur, Illinois
Mr. Jack Parsons	Past President National Corn Growers Association Wapello, Iowa
Mr. Earl Pryor	Past President National Association of Wheat Growers Condon, Oregon
Mr. John G. Reed, Jr.	Vice President Archer Daniels Midland Company Decatur, Illinois
Mr. Bernard Steinweg	Senior Vice President Continental Grain Company New York, New York
Dr. Earl Stennis	Professor Mississippi State University Starkville, Mississippi
Mr. E. Linwood Tipton	Executive Vice President Milk Industry Foundation International Association of Ice Cream Manufacturers Washington, D.C.

<u>Administration Member</u>

Hon. Daniel Amstutz, Under Secretary of Agriculture
for International Affairs and Commodity Programs

By law, the Commission is directed to report its provisional views on matters pertaining to U.S. agricultural trade and export policy to the President and the Congress no later than March 31, 1985. The Commission's interim report is contained herein.

Kenneth L. Bader

Kenneth L. Bader
Chairman

FOREWORD

The continuing decline in U.S. agricultural exports is sending a danger signal to the U.S. economy for those with the foresight to listen. This serious trend not only threatens agriculture. It means a loss of jobs to Americans in a wide array of industries. It spells economic hardship for many businesses in both rural and urban America. It contributes to the deterioration of our national balance of payments. It undermines political and diplomatic relations with our nation's leading allies. It threatens the solidarity of agricultural interests at home. It places in question our ability--and our resolve--to compete effectively in an ever more inter-dependent world economy.

U.S. agricultural exports have declined in volume by 17.6% in the past four years, resulting in lost sales of farm commodities and products totalling 84.3 million tons. Three billion bushels of commodities and products have lost markets since 1980, the equivalent of the entire carryover stocks of wheat in the past two years, the carryover stock of corn in 1982-83, and four times the total ending stocks of soybeans in the last four marketing years. The damage to farmers wrought by these circumstances is only too evident--price depressing surpluses have lowered net farm income and eroded agriculture's investment base. But the effect of the decline in exports goes much deeper.

The value of U.S. agricultural exports lost since 1981 will total over $36 billion by 1986. As a result of these losses, the general economy has been deprived of economic activity that would have added $300 billion to the nation's gross national product (GNP). In the absence of any downturn in exports, millions of jobs could have been added to the economy. Government costs of farm programs could have been slashed. Economic recovery could have buoyed the agricultural industry, generating wealth and advancing the welfare of the nation.

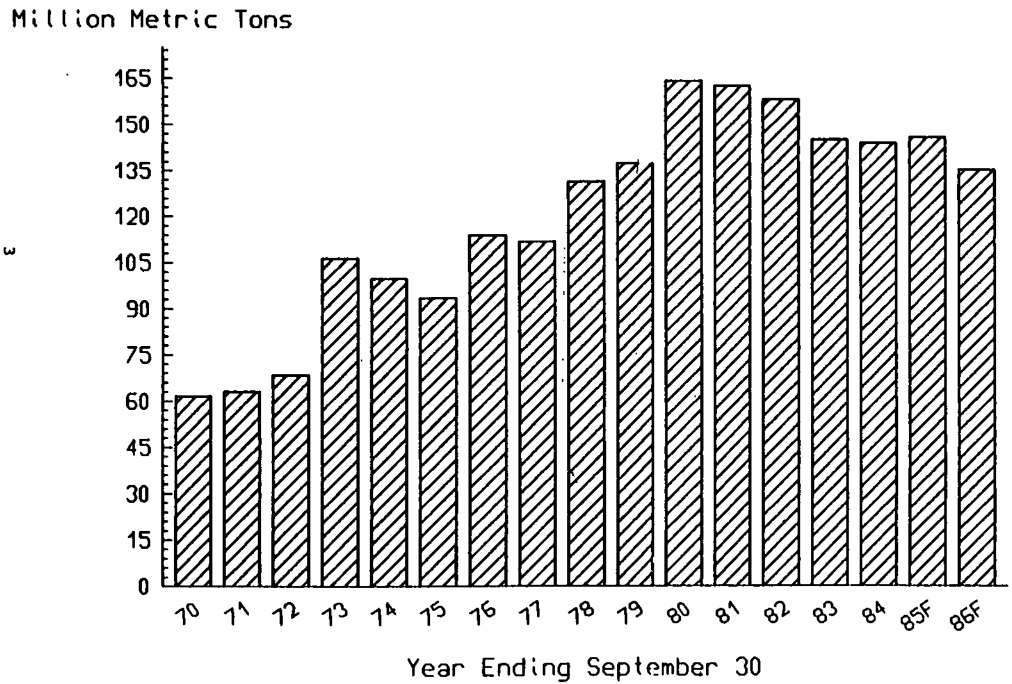
Instead, unprecedentedly high numbers of farm producers face bankruptcy throughout the country. Capacity utilization in the U.S. farm equipment sector declined to 8 percent in the final quarter 1984. Capacity utilization in the pesticides manufacturing and potash industries has fallen by 33 percent and 22 percent since 1980. Soybean crushing plants are operating at 64 percent of capacity and grain trading firms at 50 percent. 1,200,000 <u>less</u> bushels of basic commodities were loaded on barges on a weekly basis in 1984-85 than in 1981-82. Two thousand <u>less</u> railcars carried commodities on a weekly basis in 1984-85 than in 1980-81. The story is equally serious for other industries. Although other sectors of the general economy are experiencing growth, there has been no economic recovery in U.S. agriculture.

Policy makers need to get serious about the problems facing agriculture. If the U.S. competitive position in world markets is not maintained, U.S. agricultural production will have to be reduced by 40 percent, resulting in severe economic hardship for farmers, agribusiness, and rural communities. A decision must be made about the kind of agricultural sector the nation will have in the future. Such a decision will affect not only farmers, but, if the trends continue, the nation's consumers as well.

The Commission is well aware of the complicated nature of the causes of the current decline in agricultural exports and other trade problems facing U.S. agriculture. Its interpretation of the causes--and its preliminary recommendations for action--are contained on the pages which follow. Yet the Commission hopes to address these issues in a wider context and broaden their appeal to a wider audience.

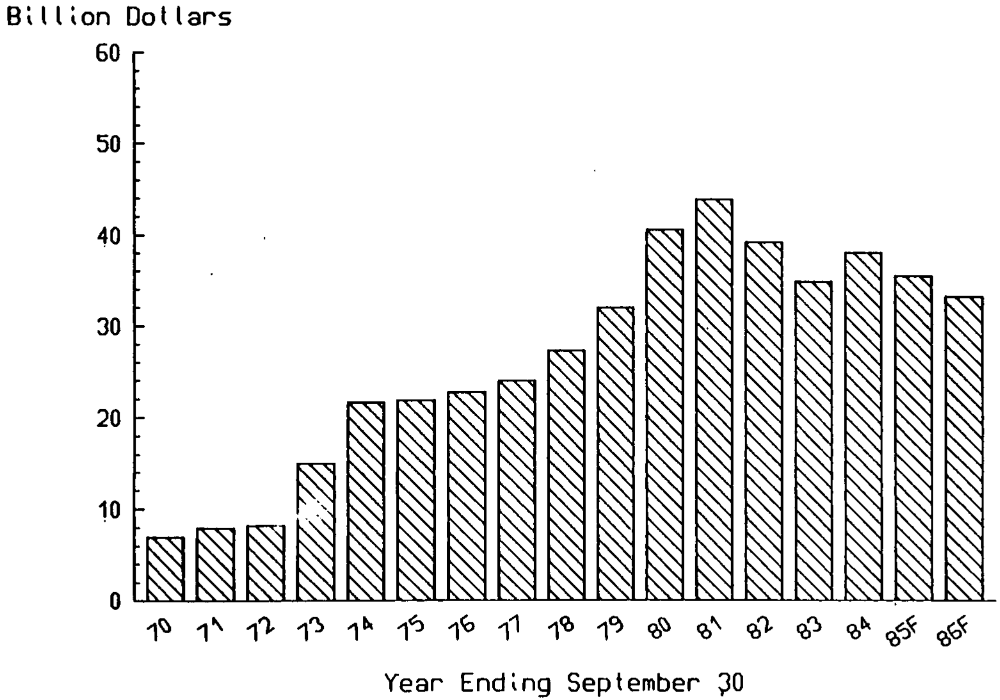
Americans rarely think of their welfare as linked to the agricultural system of the United States. It is, in a fundamental way. The challenge of reversing the current trends affecting U.S. agricultural trade is not a challenge for agriculture alone, but for the nation as a whole. It is time for the nation to confront this fact and deal with it as a priority of Government and the economy.

VOLUME OF U.S. AGRICULTURAL EXPORTS
Fiscal Year



VALUE OF U.S. AGRICULTURAL EXPORTS

Fiscal Year



U.S. AGRICULTURAL EXPORTS

	Oct.-Jan. 1983/84	Oct.-Jan. 1984/85	Fiscal 1984	Fiscal 1985 Forecast Feb.	Mar.
	Billion dollars				
Grains & feed	6.071	5.792	17.432	16.0	15.6
Wheat & flour	2.108	1.985	6.737	6.1	5.9
Rice	.293	.220	.897	.7	.7
Coarse grains 1/	3.095	3.073	8.216	7.7	7.4
Corn 2/	2.640	2.613	7.022	6.7	6.3
Oilseeds & products	3.489	2.985	8.761	7.6	7.2
Soybeans	2.389	1.907	5.714	4.9	4.6
Soybean cake & meal	.586	.339	1.203	.9	.8
Soybean oil	.127	.221	.617	.6	.6
Livestock & products	1.103	1.164	3.460	3.4	3.3
Poultry & products	.142	.145	.413	.4	.4
Dairy products	.143	.110	.395	.5	.4
Horticultural products	.910	.907	2.606	2.7	2.7
Tobacco	.699	.762	1.433	1.6	1.6
Cotton & linters	.720	.819	2.405	2.1	2.1
Seeds	.133	.138	.320	.4	.4
Sugar & tropical products	.291	.273	.788	.8	.8
Total	13.701	13.096	38.013	35.5	34.5
	Million metric tons				
Wheat	12.654	12.871	41.698	38.5	37.5
Wheat flour	.333	.127	1.074	1.0	.9
Coarse grains 1/	20.936	24.404	55.562	60.0	58.7
Corn 2/	17.730	20.654	47.001	51.4	49.5
Feeds & fodders	2.296	2.132	6.845	7.0	7.0
Rice	.718	.617	2.293	2.0	2.0
Soybeans	7.938	8.008	19.198	20.5	20.0
Soybean cake & meal	2.325	1.707	4.931	4.7	4.7
Soybean oil	.167	.305	.827	.8	.8
Sunflowerseed	.234	.645	.998	1.2	1.1
Sunflowerseed oil	.094	.061	.188	.1	.1
Other oilcakes & meal	.100	.075	.198	.2	.2
Beef, pork, & variety meats	.139	.131	.394	.4	.4
Poultry meat	.076	.085	.226	.2	.2
Animal fats	.498	.424	1.378	1.2	1.2
Tobacco	.111	.127	.227	.3	.3
Cotton & linters	.468	.519	1.498	1.4	1.4
Horticultural products	1.007	.968	2.854	3.0	2.8
Other	1.153	1.235	3.207	3.2	3.2
Total	51.247	54.441	143.623	145.5	142.5

1/ Includes corn, oats, barley, sorghum, rye and products.
2/ Excludes products.
For more information, call Steve MacDonald (202) 447-8841 or Dave Pendlum (202) 382-9148.

EXECUTIVE SUMMARY

The Commission provisionally finds the principal causes for the recent problems affecting U.S. agricultural trade to be as follows, with Commission recommendations as indicated. No priority ranking of the issues is intended by the order of presentation in this report:

1. The Value of the Dollar

The recent appreciation of the value of the U.S. dollar in relation to other major currencies is seriously undermining the competitiveness of U.S. agriculture in domestic and world markets. The Commission finds that the increase in the value of the dollar far outweighs many of the other factors involved in the current downturn in U.S. agricultural exports. Although the Commission is as yet unprepared to make specific recommendations of a progammatic nature to counter the impact of the dollar's rise on U.S. agriculture, the Commission believes that agricultural interests are under-represented in councils of government responsible for dictating fiscal and monetary policies of the United States. The Commission recommends:

> That Congress and the President give greater weight to agricultural trade interests in the formulation of fiscal and monetary policy, particularly if such policy directly results in an appreciation of the value of the dollar. The Commission will report at a later date its views in regard to specific proposals to balance the impact of the dollar's rise.

2. Inadequate Formulation of U.S. Agricultural Trade Policy

The U.S. agricultural trade policy process suffers from a lack of uniform objective among the many U.S. government agencies involved in policy formulation. The Commission believes that a unified national policy and commitment to agricultural trade is needed if the goal of maintaining U.S. competitiveness is to be achieved. The Commission recommends that legislation be included in the 1985 Farm Bill that:

a) identifies and establishes a national policy and priority for agricultural trade, with appropriate responsibility for coordinating such policy lodged in a single authority, subject to intensive oversight by Congress;

b) stresses the commitment of the United States to maintaining (i) competitiveness, (ii) reliability of supply, (iii) an assurance of quality of product, and (iv) the principle of fair trade;

c) establishes it to be the policy of the United States to directly counter unfair trade practices by every appropriate means, including the use of export restitution and retaliatory use of U.S import restrictions, to protect and expand toward a goal of equitable market share for U.S. products;

d) requires the responsible authority to implement an improved system to explicitly measure and respond to unfair foreign trade practices. All other agencies of government should be required to report to Congress the impact on agricultural trade and exports of policies and programs they administer, prior to any action by such agencies;

e) establishes it to be the policy of the United States Government to hold agricultural trade and trade policy free of the influence of political and foreign policy concerns, except as demanded in time of war as declared by the President and the Congress.

3. Export Expansion Requires Aggressive Countervailing Action to Protect Markets, Adequate Credit to Maintain Markets and Greater Priority for Foreign Market Development

Unfair trade practices employed by foreign governments annually cost U.S. agriculture and the national economy billions of dollars. The Commission believes that aggressive policy to counter such practices is necessary at this time. The United States Government should continue to negotiate a general reduction in trade barriers and other obstacles to fair trade. However, the Commission believes a policy of "unilateral disarmament" in trade matters totally ill-advised. The Commission recommends that:

a) Congress continue authority in the 1985 Farm Act for GSM-5 direct export credits in an amount not less than $175 million to facilitate export development and blended credit programs to meet unfair competition on a case-by-case basis. Funding for the program was contained in the 1982 Reconciliation Act and will lapse on October 1, 1985 unless reauthorized.

b) The 1985 Farm Act direct the Secretary of Agriculture to use export-PIK programs to counter unfair trade practices.

c) In more extreme cases, variable import restrictions and, preferably, adjustments in U.S. export restitution policy may be required to reward nations cooperating in efforts to lower trade barriers and to take action against nations which continue to employ predatory or unfair trade practices.

Export credit programs of the Commodity Credit Corporation are currently vital to maintenance of U.S. export markets. Failure to adequately fund and administer these programs will result in a further deterioration in U.S. agricultural export performance and will have a serious impact on financially stressed Third World countries. The Commission believes that the President's Fiscal Year 1986 request for CCC export credit will be insufficient. The Commission recommends that:

d) The 1985 Farm Act encourage the Secretary of Agriculture to use all existing authority to provide GSM-5 direct credit in excess of the amounts recommended above, which the Commission believes to be the minimum amount necessary at the present time. The Commission supports reauthorization and funding of the export credit revolving fund.

e) Congress mandate no less than $7 billion in loan authority be allocated for the GSM-102 guaranteed export credit program in Fiscal Year 1986.

The Commission strongly objects to the proposal contained in the President's Fiscal Year 1986 budget request that would raise the origination fee on GSM-102 loans to five percent and recommends:

f) legislation be contained in the 1985 Farm Act that would limit the average of such origination fees to no more than one-third of one percent.

The long-term potential of U.S. agriculture depends upon a continued strong commitment by the United States Government to foreign market development. The Commission believes that the market development objective of many U.S. government export programs, including P.L. 480, has been undercut in recent years. The Commission strongly supports the objective of the GSM-301 intermediate credit program, which has not been funded in recent years. The Commission recommends:

g) Legislation be contained in the 1985 Farm Act that would direct the Secretary of Agriculture to use no less than $100 million in guaranteed export loan authority to fund the GSM-301 intermediate credit program, which provides loans for development of infrastructure and facilities on a 3 to 10 year basis.

The Commission is greatly concerned by language contained in the Administration's proposed 1985 Farm Bill that appears to place in doubt the future of the cooperator foreign market development program of the Foreign Agricultural Service (FAS) of the Department of Agriculture. The Commission strongly supports the program and recommends:

h) Legislation be contained in the 1985 Farm Act to authorize continuation of the cooperator foreign market development program.

4. <u>Food Aid Programs Should Represent A Higher Percentage of Total U.S. Foreign Economic Assistance And Should Be Better Targeted to Foreign Market Development</u>

Food aid programs of the United States Government play a central role in U.S. efforts to eliminate world hunger, promote foreign market development and foster economic growth in developing countries. The Commission believes that a greater percentage of total foreign economic assistance should be offered in the form of food aid. The Commission favors making additional resources available to food aid programs through a shift of funding, rather than an increase in funding for total economic assistance. A restoration of food aid's share of total economic assistance resources to levels achieved in the early 1970's would accomplish the goal of better using our Nation's agricultural abundance without additional cost to the U.S. Treasury. The Commission recommends:

a) Congress approve legislation indicating it to be the policy of the United States to provide foreign economic assistance to foreign nations in the form of "food first" except as otherwise determined by the United States Government. As a specific interim goal, Congress should call upon the Administration to restore the proportion of food aid in total foreign economic assistance from the current level of 18% to one-third of such resources, the same level of food aid as existed in the period 1968 to 1972.

b) In the event that Congress and the Administration do not approve funding for food aid programs as recommended above, the Commission urges Congress to provide such increases through direct appropriations.

The Commission believes that the foreign market development objective of the P.L. 480 program has suffered in recent years as a result of the use of the program to achieve other goals of less direct benefit to American agriculture. The Commission recommends:

c) Legislation that would designate responsibility for decision-making affecting the P.L. 480 program to the Secretary of Agriculture.

d) Legislation that would establish a new title under P.L. 480 to permit sales of commodities for foreign currencies to support private-sector investment in developing countries.

e) Legislation that would permit an expansion of Section 416 of the Agricultural Act of 1949 to allow U.S. government-owned commodities to be used to support market-oriented economic development in developing countries.

5. The United States Must Re-establish Its Reputation As A Reliable Supplier of Agricultural Products

Trade restrictions imposed by the United States Government in the past decade have seriously damaged the reputation of the United States as a reliable supplier of agricultural commodities and products. The Commission believes there is no justification for embargoes imposed on agricultural exports except in time of war. The Commission supports retaining all existing authority contained in law on the subject of embargo protection and contract sanctity and recommends:

Legislation be contained in the 1985 Farm Act that would prohibit the use of export embargoes on agricultural commodities and products except in time of war, as declared by the President and the Congress.

6. Cargo Preference Damages Efforts to Expand Exports

Costs of the cargo preference subsidy to the U.S. maritime industry are currently borne by the Department of Agriculture and the agricultural sector. The Commission believes that cargo preference has failed to maintain a strong maritime industry. The Commission strongly opposes current cargo preference regulations as they relate to shipments under P.L. 480 and believes clarification is necessary to prevent the extension of cargo preference to other programs designed to expand agricultural exports. The Commission recommends:

a) Legislation be enacted immediately to exempt all agricultural exports and export programs from existing cargo preference requirements.

b) Congress direct the Director of the Office of Management and Budget (OMB) to reflect the costs of subsidy payments deemed necessary to support the maritime industry in the appropriate function of the budget of the Federal government, other than function 150 or function 350. Appropriations to carry out assistance to the maritime industry should be provided by Congress directly to the Maritime Administration.

7. U.S. Domestic Policies Need to Provide Opportunity for Profitability to Agriculture

Federal farm support and export programs are linked by a common commitment to profitability of the U.S. agricultural sector. The Commission believes that domestic and export programs can play complementary roles in this respect, but only if a long term policy for agriculture is developed and adhered to. There is a direct relationship between domestic farm programs and U.S. agricultural competitiveness. Federal farm programs are a factor in keeping U.S. agriculture competitive in world markets. U.S. agriculture must maintain its ability to market its commodities and products at competitive prices. However, American farmers need the opportunity to make a profit if U.S. agriculture is to remain competitive.

Although the Commission has no specific recommendations for changes in domestic farm programs at this time, it recommends:

a) Congress enact a 1985 Farm Act that embodies five principles:

i) a long-term policy with sufficient flexibility to allow for adjustments to changing world economic conditions but which provides for a reasonably stable and predictable atmosphere for planning purposes;

ii) a commitment to policies and programs which will allow U.S. agricultural commodities and products to be competitively priced in overseas markets;

iii) a commitment to provide the opportunity of profitability to U.S. agricultural producers to maintain the competitiveness of the U.S. farm and food system;

iv) a commitment to preserve and protect our natural resources;

v) a commitment to continue strong support for agricultural research and education.

VALUE OF THE DOLLAR

POLICY STATEMENT

The relationship between the U.S. dollar and the currencies of other major trading nations directly influences U.S. agricultural exports and trade. The current high value of the dollar has distorted total world trade, increasing the foreign cost of U.S. farm products and making products of competing nations relatively cheaper in the international and U.S. markets. It has reduced both the value and the volume of U.S. agricultural exports.

The architects of current U.S. government economic policy have given insufficient weight to the problems created for agriculture by a strong U.S. dollar. Thousands of U.S. farm producers and many other farm-related businesses may be forced out of business through no fault of their own if the current dollar valuation problem is allowed to go unresolved. The cost of such business failures to the general economy in lost jobs and economic activity has already been substantial. The rise in the value of the dollar has had a more serious impact on U.S. agricultural trade than many of the other factors considered by the Commission. The urgent needs of U.S. agriculture deserve better recognition and demand a concerted and expeditous response by the Federal government.

RECOMMENDATION

The Commission recommends that Congress and the President give greater weight to agricultural export and trade interests in the formulation of fiscal and monetary policy, particularly if such policy results in an appreciation of the value of the U.S. dollar. The Commission will report at a later date its views in regard to specific proposals to balance the impact of the dollar's rise.

COMMENTARY

The recent appreciation of the value of the U.S. dollar has acted much as a tax on U.S. agricultural exports, eroding U.S. competitiveness, raising foreign costs of purchasing U.S. farm products, and resulting in a decline in foreign demand for U.S. farm goods.

American agriculture is twisting on the point of a double-edged sword. Along one cutting edge, traditional markets for U.S. products dissolve in response to higher prices dictated by the rise of the dollar's value. Along the other, competing exporting nations enjoy the benefits of a strong U.S. dollar to expand their sales, even in the U.S. market. American farmers, agribusiness, and taxpayers are the victims of this situation. U.S. farmers and agribusiness cannot take advantage of higher prices to increase profitability. Foreign farmers and businessmen do. U.S. taxpayers face an ever-increasing cost of farm programs to manage unsold surpluses. The tax load on taxpayers in competitor nations is reduced, as their surpluses move into international markets in response to the dollar's rise.

The dollar's rise in value has resulted in a new U.S. agricultural export--the export of our comparative advantage. According to USDA, in June 1980 the U.S. wheat price of $3.55 per bushel translated into $3.06 Australian. By June 1984, the Australian price for that bushel of U.S. wheat had increased to $4.10 Australian. Australian producers can now sell wheat in foreign markets at below U.S. prices and earn a return greater than that received in 1980.

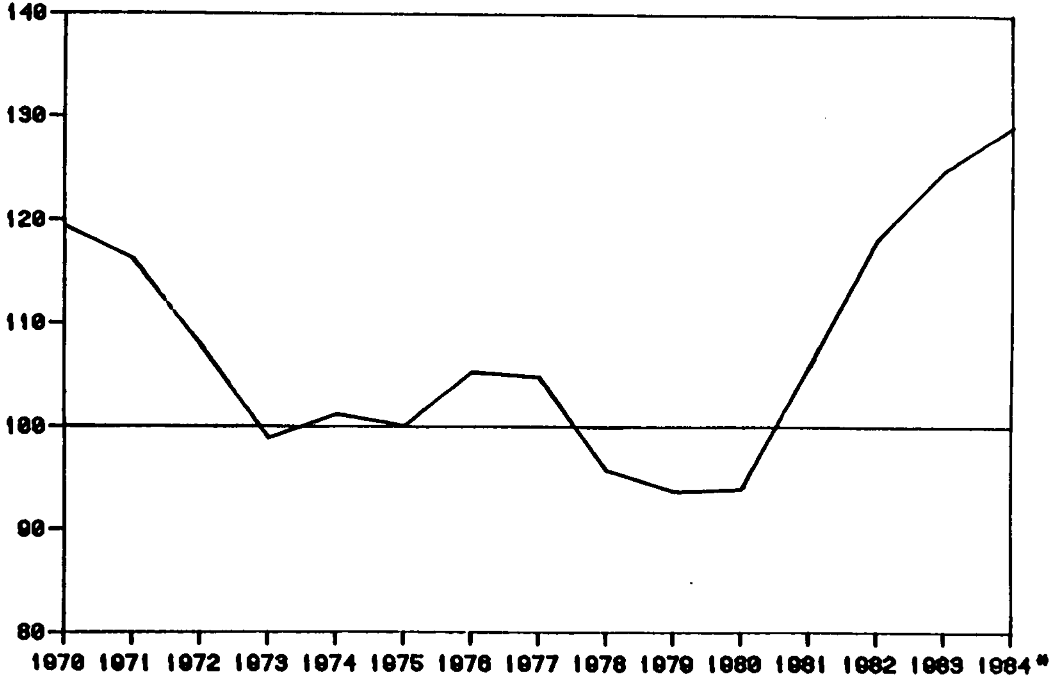
The impact of the dollar's rise on other competitor nations has been equal or greater. The U.S. dollar appreciated in value against the Australian dollar by 23% in the period 1981/84. In the same period, according to the U.S. Treasury, the dollar rose by 60% against the French Franc and over 13,300% against the Argentine peso. Argentine wheat, soybeans, and soybean meal and oil can be sold in the world markets at below U.S. prices, despite a hefty export tax that was equivalent to roughly one-quarter of the Argentine export price for soybeans in 1984. The growth of the Argentine soybean industry has been sustained in recent years in part as a result of the rise in the value of the dollar. 695,000 metric tons of soybeans were produced in Argentina in 1975/76. By 1983/84, Argentine soybean production had expanded to 5.3 million metric tons. Similar data exists for almost every major U.S. agricultural commodity and product (see tables attached).

Leading competitors of the United States enjoy expanded export market opportunities in the United States and every country whose currency has failed to keep pace with the dollar's rise. Testimony presented to the Commission indicates that the value of the dollar has increased by 150% since 1979 in countries where corn is sold and by 60% in countries where wheat and soybeans are sold. The high value of the dollar has turned traditional markets for U.S. commodities and products increasingly towards our competition.

U.S. taxpayers bear the burden of the dollar's rise in two ways. A rising dollar shifts U.S. grain away from export markets and into farm program stocks. A 1983 report published by USDA estimates that an additional $2 billion worth of grain moved into farm program stocks as a direct result of the real appreciation of the U.S. dollar between 1981 and 1983, an amount equivalent to one-sixth of the total cost of all farm programs in FY 1983. Acreage adjustment programs are the traditional resort of government in times of surplus production. Thus, U.S. taxpayers, in addition to bearing the burden of government stocks, also bear costs in relation to acreage adjustment. It is difficult to quantify the total impact of the dollar's rise on farm program costs, but, as the above evidence suggests, it is considerable.

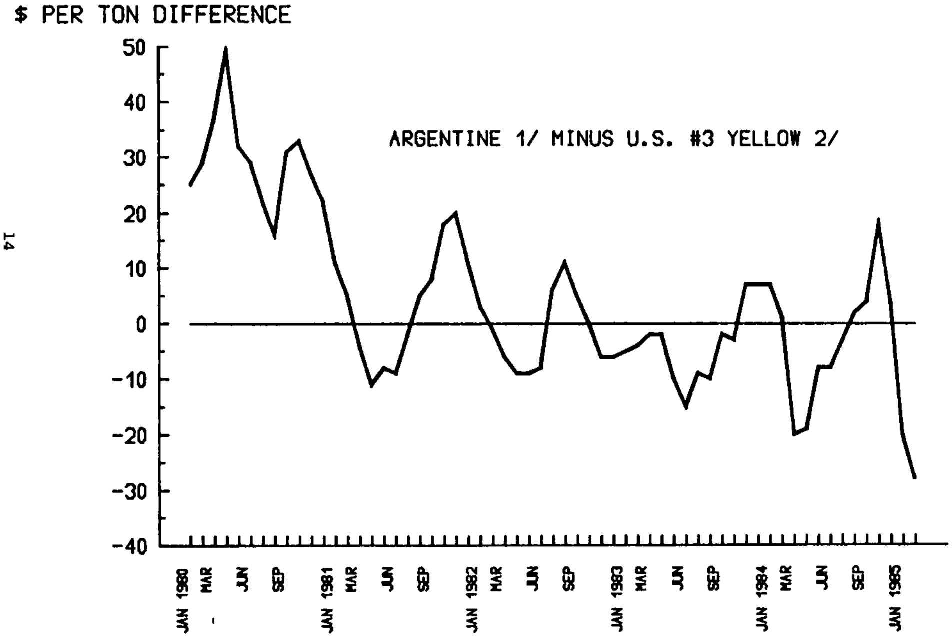
Several important factors contribute to the dollar's strength: (1) tight monetary policy to control inflation, with concomitant high U.S. rates of interest; (2) strong recent U.S. industrial economic performance in relation to other industrialized nations; (3) fluid international monetary conditions, which have resulted in increased foreign investment in dollars; and (4) the "safe haven" investment climate of the United States for foreigners with liquid assets. The Commission acknowledges that the tight monetary policy of the U.S. Government has contributed to a fall in the rate of inflation and that the high-valued dollar has benefited consumers of imported goods. However, the damage to the economy of a sustained appreciation of the dollar is likely to overshadow any benefits. It has been estimated that a 20% increase in the value of the dollar will reduce U.S. farm exports by 16%. These losses cannot continue to be borne. Policy makers need take greater heed of the damage to U.S. agriculture wrought by policy that results in a continued high-valued dollar.

EFFECTIVE EXCHANGE RATE OF THE U.S. DOLLAR
1975 = 100



* FIRST QUARTER

COMPETITIVENESS OF U.S. CORN PRICES



1/ FOB ARGENTINA
2/ FOB GULF

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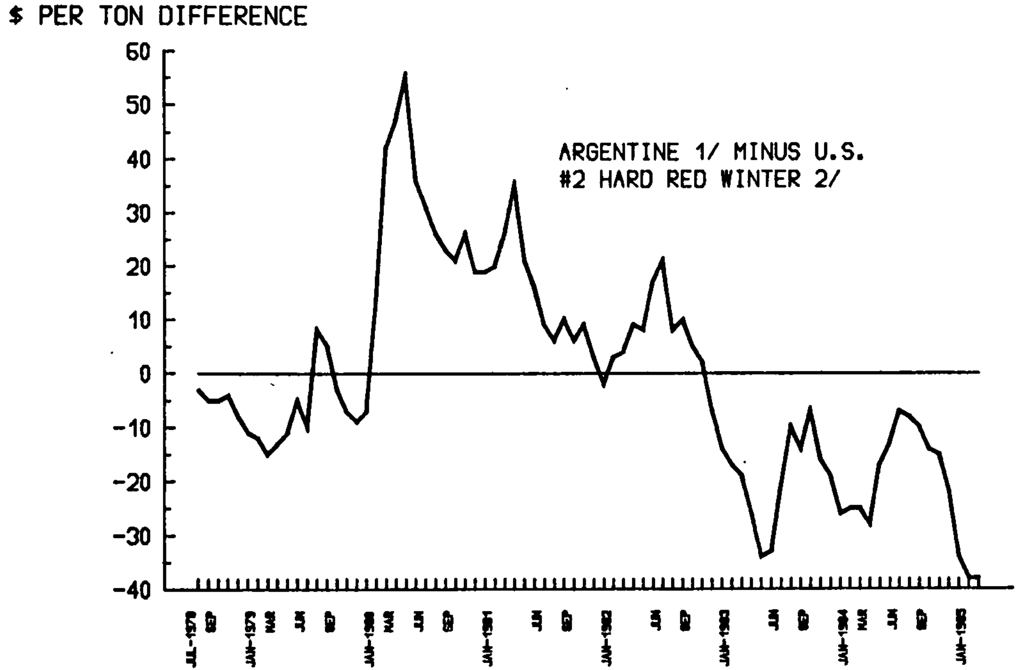
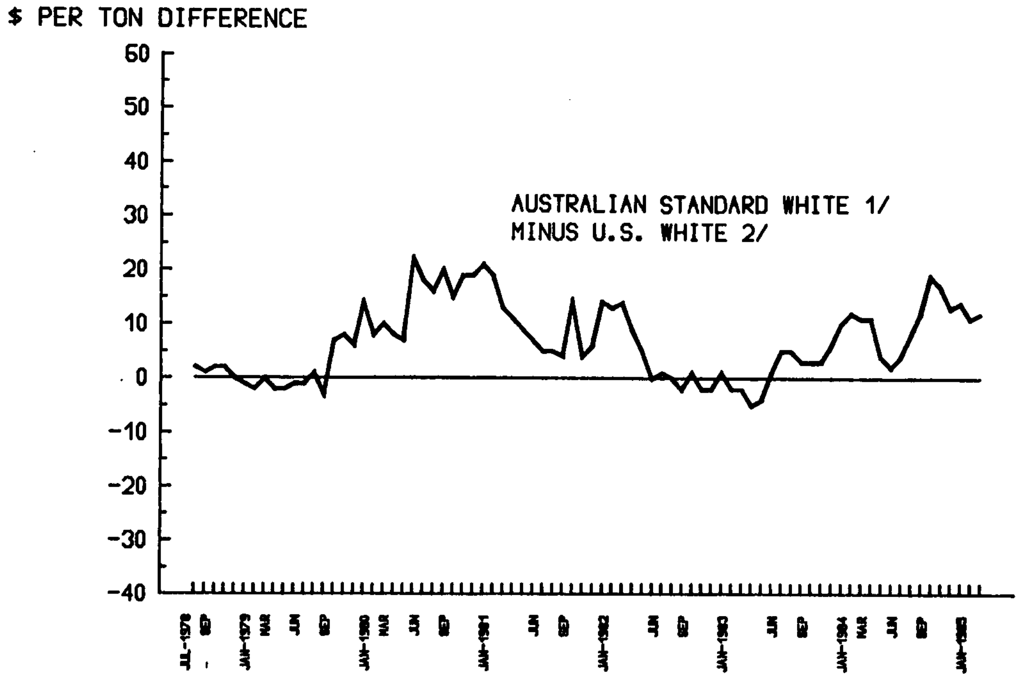
COMPETITIVENESS OF U.S. WHEAT PRICES



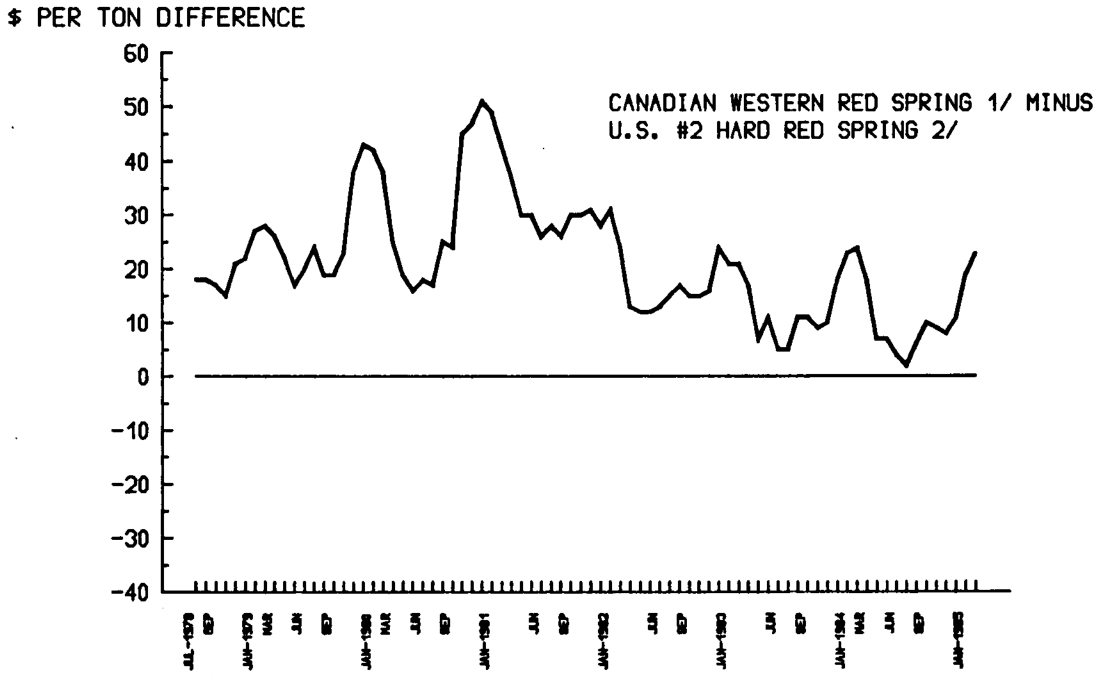
1/ FOB ARGENTINA
2/ FOB GULF

COMPETITIVENESS OF U.S. WHEAT PRICES



1/ FOB AUSTRALIA
2/ FOB PACIFIC NORTHWEST

COMPETITIVENESS OF U.S. WHEAT PRICES



1/ FOB THUNDER BAY
2/ FOB DULUTH

WORLD AGRICULTURAL TRADE
(Million MT)

	U.S.	Competitors 1/	Others	Total	U.S. Market Position
Soybeans					
1977/78	19.7	3.0	0.2	22.9	86.0%
1978/79	20.2	3.6	0.4	24.2	83.5%
1979/80	23.8	3.5	0.3	27.6	86.2%
1980/81	20.0	4.0	0.3	24.3	82.3%
1981/82	25.5	2.0	0.3	27.8	91.7%
1982/83	24.5	3.1	0.4	28.0	87.5%
1983/84	19.2	5.0	0.8	25.0	76.8%
1984/85	20.5	4.2	0.9	25.6	80.1%

1/ Includes Brazil, Argentina and Paraguay - net of imports.

WORLD AGRICULTURAL TRADE
(Million MT)

	U.S.	Competitors 1/	Others	Total	U.S. Market Position
Soybean Meal					
1977/78	5.5	7.3	.4	13.2	41.7%
1978/79	6.0	6.6	.6	13.2	45.5%
1979/80	7.2	7.1	.7	15.0	48.0%
1980/81	6.2	9.7	.6	16.5	37.6%
1981/82	6.3	10.2	1.1	17.6	35.8%
1982/83	6.4	12.1	1.8	20.3	31.5%
1983/84	4.9	11.0	1.9	17.8	27.5%
1984/85	4.7	12.0	1.8	18.5	25.4%

1/ Brazil, Argentina and the European Community (net of intra-trade).

WORLD AGRICULTURAL TRADE
(Million MT)

	U.S.	Competitors 1/	Others	Total	U.S. Market Position
Soybean Oil					
1977/78	.93	1.42	.03	2.38	39.1%
1978/79	1.06	1.44	.04	2.54	41.7%
1979/80	1.22	1.48	.09	2.79	43.7%
1980/81	.74	2.06	.09	2.89	25.6%
1981/82	.94	1.93	.11	2.98	31.5%
1982/83	.92	2.18	.12	3.22	28.6%
1983/84	.82	2.27	.11	3.20	25.6%
1984/85	.73	2.28	.10	3.11	23.5%

1/ Includes Brazil, Argentina, Spain, Portugal and EC (Net).

Argentina - Soybean Prices

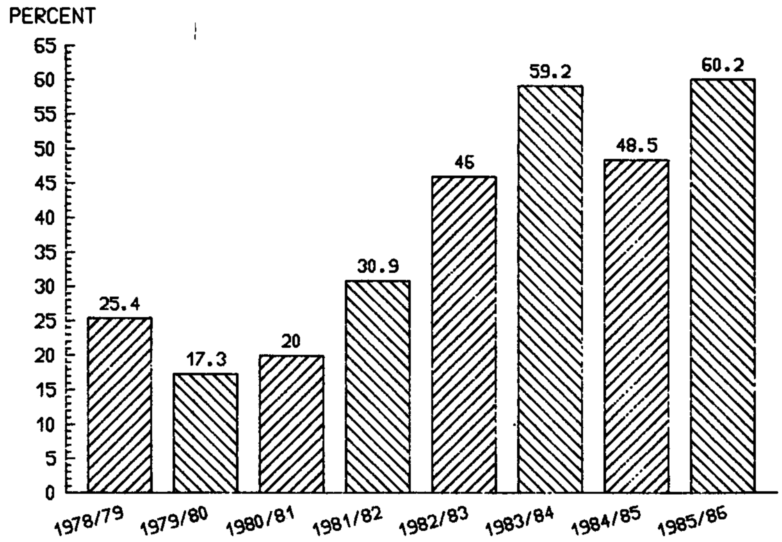
	DOMESTIC *			EXPORTS **	DIFF.	
	Peso Price	Exch. Rate	$/MT	$/MT	$/MT	% (Export over Dom.)
1983						
Jan	9,580	51.41	186	214	28	15
Feb	9,495	57.17	166	223	57	34
Mar	10,277	64.00	161	224	63	39
Apr	11,721	71.66	164	231	67	41
May	11,550	77.72	149	229	80	54
June	1,302	8.52	153	217	64	42
July	1,641	9.44	174	233	59	34
Aug	2,575	10.64	242	288	46	19
Sept	3,188	12.11	263	327	64	24
Oct	3,140	14.51	216	303	87	40
Nov	3,702	17.57	211	299	88	42
Dec	4,350	21.37	204	298	94	46
Avg.		34.68	191	257	66	35
1984						
Jan	5,030	24.87	202	285	83	41
Feb	5,024	27.76	181	267	86	48
Mar	6,213	30.87	201	282	81	40
Apr	7,324	35.09	209	281	72	34
May	8,632	40.86	211	309	98	46
June	8,904	47.59	187	280	93	50
July	8,717	56.28	155	268	113	73
Aug	10,639	68.39	156	252	96	62
Sept	12,463	83.35	150	227	77	51
Oct	16,004	104.24	154	226	72	47
Nov	20,450	131.83	155	231	76	49
Dec						
Avg. (11 months)		59.19	178	264	86	48

* Buenos Aires
** Index prices, monthly average

Source: Junta Nacional de Granos
February 26, 1985
System A, Doc. #8124-0

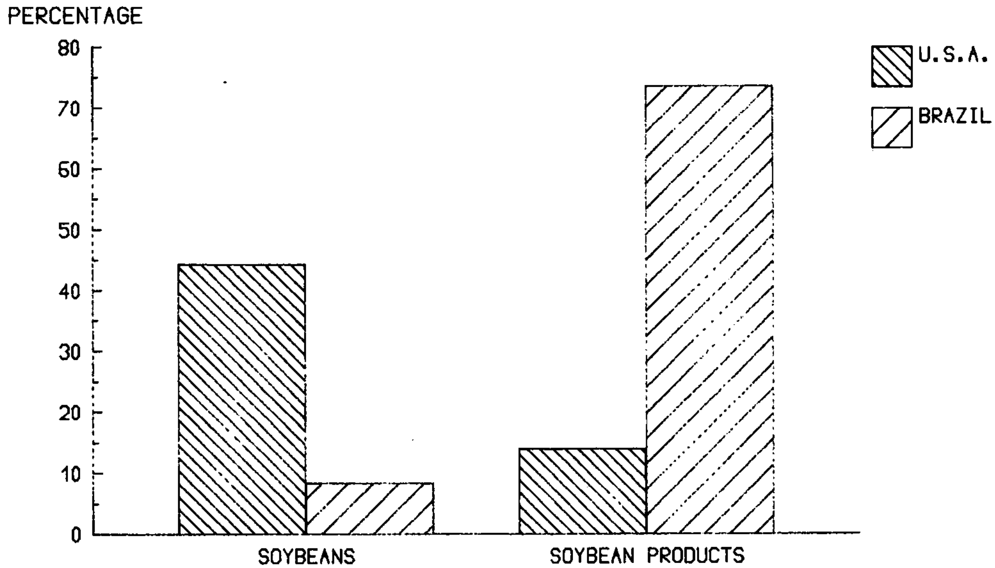
Oilseeds and Products Div.
FAS/USDA

ARGENTINA SOYBEAN CRUSH
AS PERCENTAGE OF PRODUCTION*



*LOCAL MARKETING YEARS
1985/86 FORECAST

PERCENTAGE OF PRODUCTION EXPORTED
AS SOYBEANS AND SOYBEAN PRODUCTS*



*AVERAGE FOR 1981/82-1983/84
LOCAL MARKETING YEARS

Impacts of Exchange Rate and Interest Rate Developments on U.S. Agricultural Exports

Summary

Dollar appreciation over the past 3-1/2 years has been primaril a reflection of relative strength of U.S. economic performance and prospects, and of the attractiveness of U.S. dollar assets as a "safe haven" investment in a turbulent world environment. Such appreciation produces gains for American citizens as a whole, althou it tends to worsen the competitive position of internationally-traded-goods industries. U.S. agricultural export competitiveness need not be damaged in the short run, but over time dollar appreciation tends to create incentives for expanded foreign production and thus to reduce U.S. market share.

However, a number of other factors go into the determination of U.S. agricultural export performance and market share, including the agricultural and trade policies pursued by the United States and other exporting and importing countries. Actual data on U.S. market share suggest, for instance, that it has not declined by a great deal more than could be explained by the impact of the 1980 grain embargo.

The possibility of further upward pressure on U.S. interest rates is a matter of serious concern -- but not so much because of its impacts on agriculture *per se* as its impacts on the strength and sustainability of the global economic recovery.

Exchange Rates and Trade

A balanced assessment of the impacts of recent exchange rate developments on U.S. agricultural exports must take into account: the causes of the 1981-84 dollar appreciation; the channels through which exchange rate movements influence the pattern of world agricultural trade; and the impacts of factors other than exchange rates on U.S. agricultural export performance.

Exchange rates are primarily the relative prices of financial assets denominated in different currencies. The sum of all global exports of goods and services last year has been estimated at about $1 trillion. International capital transactions, however, have been estimated at $100 billion per day -- or a ballpark range of $20 to $30 trillion per year. Since the onset of floating exchange rates, international capital markets have become highly developed and increasingly efficient, with round-the-clock foreign exchange trading and a wide variety of financial intermediaries and instruments in different currencies. Capital flows, once set in motion, can thus easily swamp the impacts of trade performance, and it is these capital flows which drive most exchange rate movements.

Underlying such movements is the desire of international investors to earn the highest possible yield on their money. Investors act on their expectations of real, after-tax rates of return to investments denominated in different currencies, adjusting for the perceived riskiness of those investments. Such expectations are driven by market assessments of relative economic conditions and prospects, and by perceptions of the overall economic and political environment. Over time, the resulting international capital flows tend to create a more efficient allocation of resources.

While governments are not always comfortable with the exchange rates which result from market evaluations of relative policies and performance, there is little they can do to alter the exchange rate dynamics which the market mechanism produces. Exchange market intervention has proved to have only a minor and transient impact on exchange rates. Capital controls can have a somewhat stronger impact, but markets soon begin adapting to offset their effects and in the meanwhile they impose significant efficiency costs. Exchange rate trends can be altered by changes in underlying economic policies and performance -- but where performance is otherwise good, it is difficult to make a case for weakening sound policies in order to influence exchange rates.

Over the past 3-1/2 years, a number of factors have tended to increase the expected real, after-tax return to U.S. dollar assets relative to those of assets denominated in other currencies. These have included: fundamentally better U.S. economic performance and prospects; weaker performance and prospects in other major industrial countries; and the threat posed by economic and political turmoil abroad. The President's economic program brought a historic turnaround in U.S. inflation performance, followed by a vigorous recovery of output, employment, and business profitability. Foreign economic prospects and business conditions, especially in Europe, have not kept pace with ours. And in both industrial and developing countries, concerns over possible expropriation, capital controls, economic disruption, or physical destruction of assets increased the perceived riskiness of investments abroad and led to "safe haven" capital flows into U.S. assets.

The resulting dollar appreciation has made life more difficult for U.S. industries which produce internationally-traded goods. Meeting foreign competition has required these U.S. firms to cut costs (and in some cases profit margins), and many firms now have lower output and employment levels than would be the case with a weaker dollar, all other things being equal.

However, all other things are <u>not</u> equal, and it is misleading to judge these developments in isolation from the economic conditions which led to the strengthening of the dollar. This appreciation has largely reflected the Administration's success in cutting inflation and revitalizing the American economy, and both the United States and the rest of the world are better off as a result of that accomplishment. Even in terms of its direct impacts, dollar appreciation has produced gains as well as losses.

American consumers as a group benefit significantly from a lower cost of imported goods, which leads directly to lower inflation and increased real buying power. Greater foreign competition impacts indirectly on our inflation rate, as well, by keeping the pressure on U.S. firms for lower costs, greater efficiency, and lower prices. Service industries, which compete primarily for domestic sales against other U.S. firms, reap the benefits of lower inflation and thus tend to have rising output and employment.

For the rest of the world, the impacts of our trade deficit are in many ways a mirror image of impacts on the United States. Traded goods industries in other countries gain output and employment; there is also a temporary upward pressure on foreign inflation rates from higher import costs. Trade gains with the United States have been a significant factor in helping to solidify the hesitant economic recovery in Europe. In the longer term, improved trade balances in less developed countries have been necessary to enable them to service their debt in an orderly manner, and for such improvements to take place there must inevitably be a counterpart swing towards deficit among their trading partners. Our widening deficit is thus facilitating the economic adjustments which financially troubled developing countries must make to resolve their international debt problems.

Impacts on U.S. Agricultural Exports

Since world prices for most agricultural commodities are quoted in dollars, dollar appreciation raises the local currency prices faced by consumers abroad and thereby tends to depress foreign demand. This process in turn puts downward pressure on world (dollar) prices of those commodities. The direct, short-run effect (i.e., over a period in which it can be assumed that supply is basically fixed, such as the current crop year) is to reduce both the volume and value of world agricultural trade. There is nothing inherent in this process which would cause U.S. agricultural exporters to lose market share, although the total value and volume of their exports would be reduced. In the longer run, however, the profit margins faced by U.S. producers would fall relative to those faced by foreign producers, and this could cause a relative expansion of foreign production and market share. Also, to the extent U.S. agricultural policies or market structure lead to downward price rigidities, this loss of U.S. market share is accelerated and intensified.

U.S. agricultural exports fell 17 percent, from $43.3 billion to $36.1 billion between 1981 and 1983; over the same period, total U.S. exports dropped 14 percent, from $229 billion to $196 billion. Among major U.S. export commodities, wheat (down 21%), rice (down 39%), feedgrains (down 23%), cotton (down 20%), and vegetable oils (down 18%) fell by greater percentages than did all agricultural exports, while oilseeds (down 7%), tobacco (down 4%), and meat (down 8%) fell at lesser rates.

U.S. market share of world agricultural exports appears to have fallen slightly; however, the U.S. share probably remains in a historically-normal range of 17%-19%. Data regarding market share are not sufficiently recent to provide a detailed assessment of changes over the 1981-1983 period; however, it is worth noting that the centrally-planned economies, in particular, have shifted their agricultural imports away from the United States by a sufficient amount to account for a decline of roughly one percentage point in U.S. market share.

Developments in U.S. agricultural trade, in common with developments in other internationally traded goods, reflect a number of underlying economic conditions. In addition to dollar appreciation, these conditions include the recent worldwide recession, the financial problems faced by a number of key LDC importers of U.S. agricultural commodities, and the trade and agricultural policies of both exporting and importing countries.

Between 1981 and 1983, U.S. agricultural exports to all LDCs dropped by $1.6 billion, of which $1.4 billion was accounted for by countries experiencing debt problems. Mexican imports of U.S. agricultural products, which fell $500 million between 1981 and 1983, and Brazilian imports, which fell $230 million, accounted for almost half of the decline in LDC agricultural imports from the United States. In response to EC agricultural policy (maintenance of high producer prices, import levies, and export subsidies), European exports of wheat have increased, while imports of corn have decreased. As alluded to above, U.S. exports to communist countries declined sharply between 1981 and 1983 in the wake of the 1980 grain embargo and developments in the Soviet livestock sector. These and other specific policies in the agricultural area have had significant negative impacts on U.S. agricultural export performance.

Interest Rates and U.S. Agricultural Trade

From the mid-1960's to the beginning of this decade, the United States experienced a gradual but persistent ratcheting-up of inflation. External factors -- such as the two OPEC oil shocks -- contributed to this process, but it stemmed mainly from inflationary U.S. economic policies, particularly excessive growth of the monetary aggregates. While money illusion and U.S. financial regulations tended to dampen the impact on U.S. interest rates, over time the uptrend in inflation and inflationary expectations was reflected in rising interest rates (Chart 1).

The Administration's economic program has brought about a dramatic turnaround in U.S. inflation performance, which has in turn been reflected to a significant extent in interest rate behavior. Both inflation and short-term interest rates had peaked by early 1981 (Chart 2), with long-term interest rates peaking shortly after that (Chart 3). At the turn of this year, major short-term rates stood far below their peaks (1050 basis points for the prime rate, 800 basis points for three-month T bills).

While investor uncertainty about the outlook for inflation and monetary policy, as well as a number of special factors, have led to rising interest rates in recent months, a steady non-inflationary monetary policy and perseverence by the Administration in implementing a sound economic program should reduce this uncertainty again and permit further interest-rate declines.

The level of U.S. interest rates affects U.S. agricultural exporters indirectly, in essentially the same ways it affects other U.S. firms: through its impacts on U.S. and foreign economic activity (and thereby on global demand for agricultural products), and through its impacts on the cost structure facing U.S. producers. Only to the extent that the effective borrowing costs facing U.S. producers are higher than those faced by competing foreign suppliers would the level of U.S. interest rates tend to put U.S. producers at a competitive disadvantage.

While it is sometimes argued that high U.S. interest rates have been the major reason for the appreciation of the dollar since late 1980, the evidence does not support this argument. In general, movements in both nominal and real interest rate differentials have not been closely correlated with exchange rate movements, although they have moved together at times for short periods (Charts 4-5). In recent weeks there has been an apparent connection, with renewed upward pressure on both U.S. interest rates and the dollar. However, over the entire 1981-1983 period interest rate differentials shifted sharply against U.S. dollar assets, while the dollar appreciated against all other major currencies. Similarly, the early-1984 uptick in U.S. interest rates coincided with dollar depreciation, not appreciation.

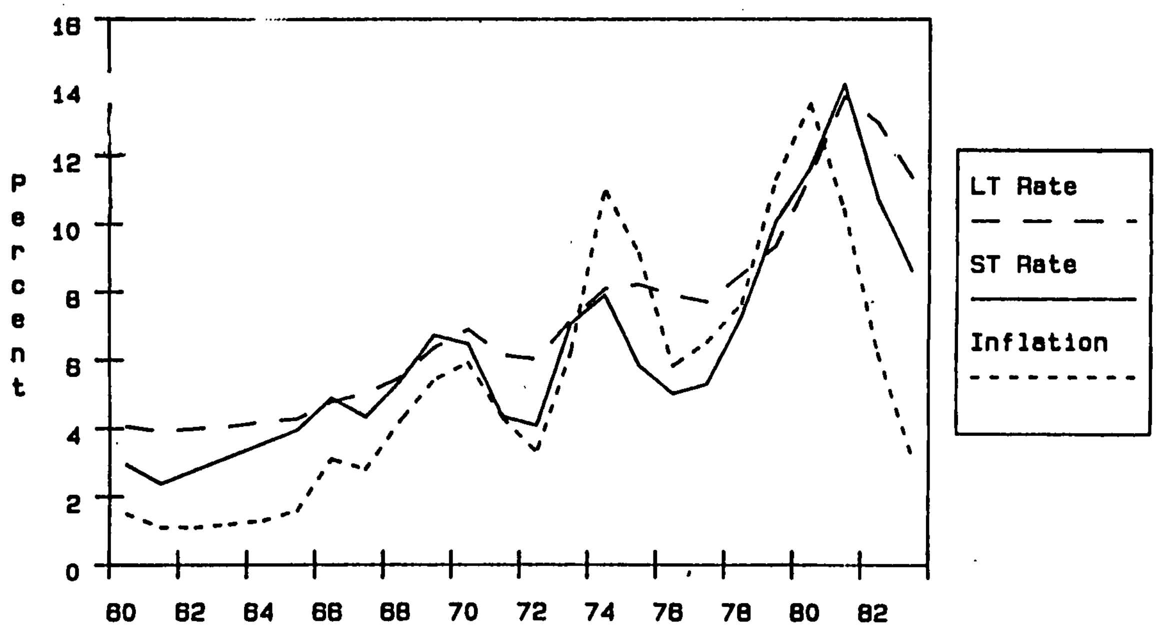
The most important consideration for the future of U.S. agricultural exports is promoting sustainable, non-inflationary growth in the world economy -- bringing with it a stable and growing export market. Recent upturns in interest rates are a matter of concern, since they threaten both the continuation of economic recovery in the industrial world and the prospects for resolving LDC debt problems.

However, while the negative impacts on LDCs are severe, even these should not be exaggerated. Over the course of a year, we have estimated that each one percentage point increase in U.S. dollar interest rates raises net interest payments by non-OPEC LDCs by $2-1/2 billion. By this rule of thumb, the increase in LIBOR of just over 200 basis points since the beginning of 1984 will have added over $5 billion to these countries' annual interest bill. But at the same time, LDCs are benefitting to a much greater extent from economic recovery in the industrial world, brought about by a shift to more disciplined economic policies -- a recovery whose strength is one of the factors underpinning current interest rate levels. While the exact size of that contribution is difficult to pinpoint, an illustration is provided by the increase in non-OPEC LDC exports to industrial countries so far this year. Partial data for the first quarter of 1984 suggest an increase of roughly 20 percent in non-OPEC LDC exports to industrial countries over the same period last year, equivalent to over $25 billion at an annual rate.

More generally, it is important to bear in mind that lower interest rates are far from a sufficient condition for sustainable economic growth. While interest rate controls and pervasive financial regulations helped to keep U.S. interest rates in the late 1970's much lower than they are now despite much higher inflation, this did not prevent "stagflation" (and indeed, in the estimation of many observers, may have contributed to it). The primary tasks of economic policy in promoting sustainable growth are to control inflation, to facilitate the efficient operation of the private sector, and to minimize disincentives to work, savings, and investment. Governmental actions which undermine the pursuit of these tasks in an attempt to force lower interest would only be counterproductive.

U.S. Treasury
July, 1984

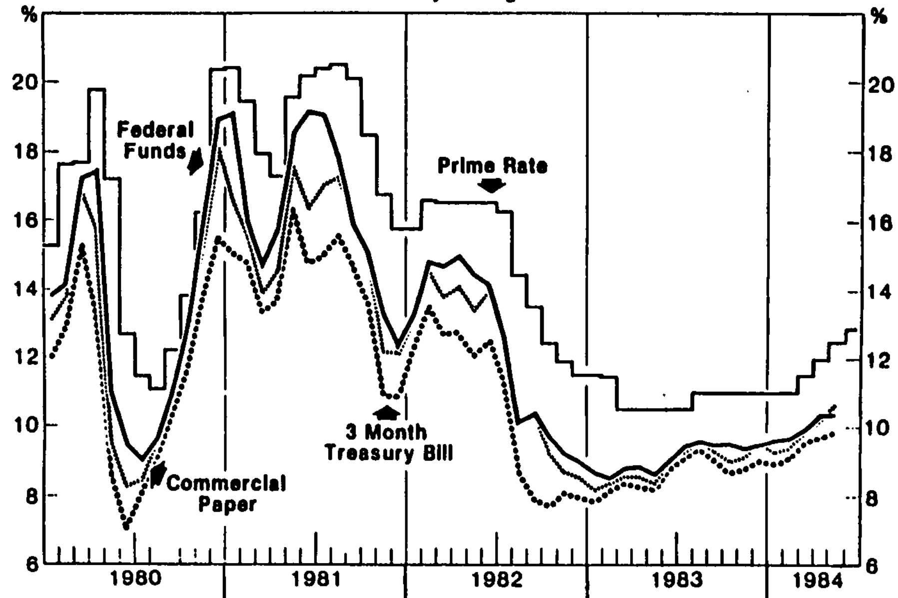
U.S. Inflation and Interest Rates, 1960-1983



Inflation rate is CPI; ST interest rate is 3 mo.

SHORT TERM INTEREST RATES

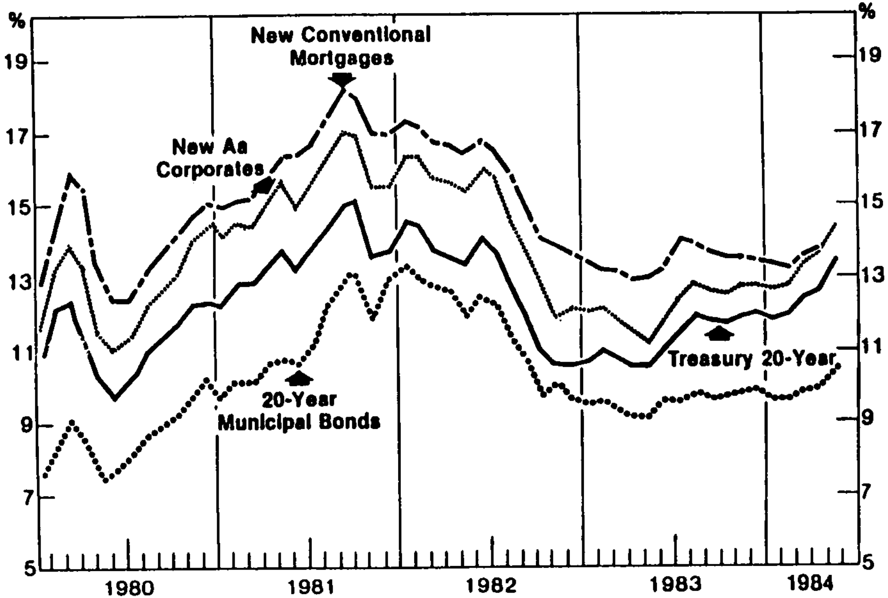
Monthly Averages



	1980				1981				1982				1983				1984
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
INFLATION RATE (CPI) s.a.a.r.	16.2	13.8	7.9	12.4	10.5	8.5	12.1	7.1	3.8	5.5	7.3	1.5	0.3	4.4	4.1	4.5	5.0

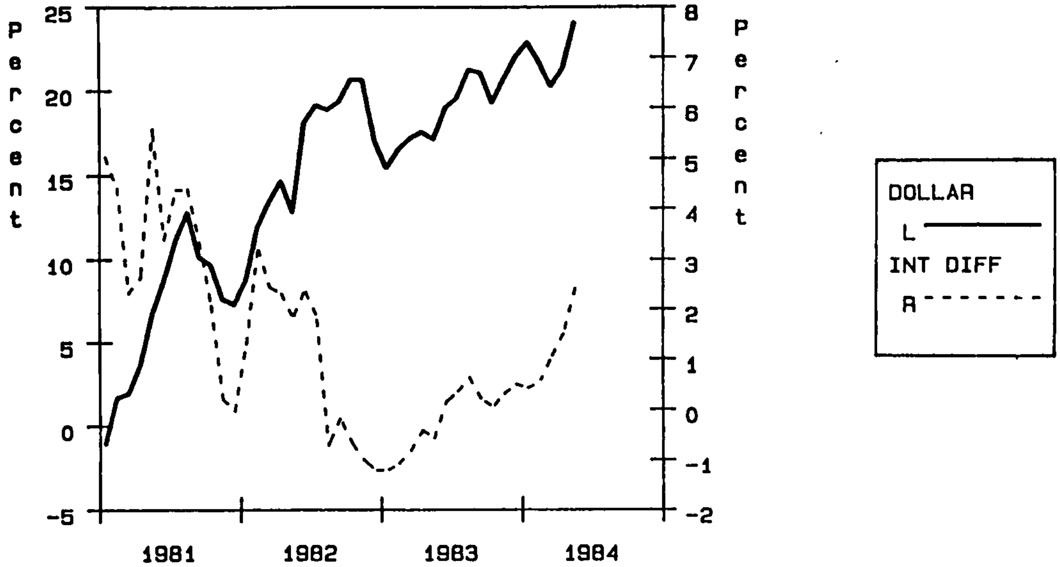
LONG MARKET RATES

Monthly Averages



Average Short-Term Nominal Interest Rate

Differential* vs Trade-Weighted Dollar**

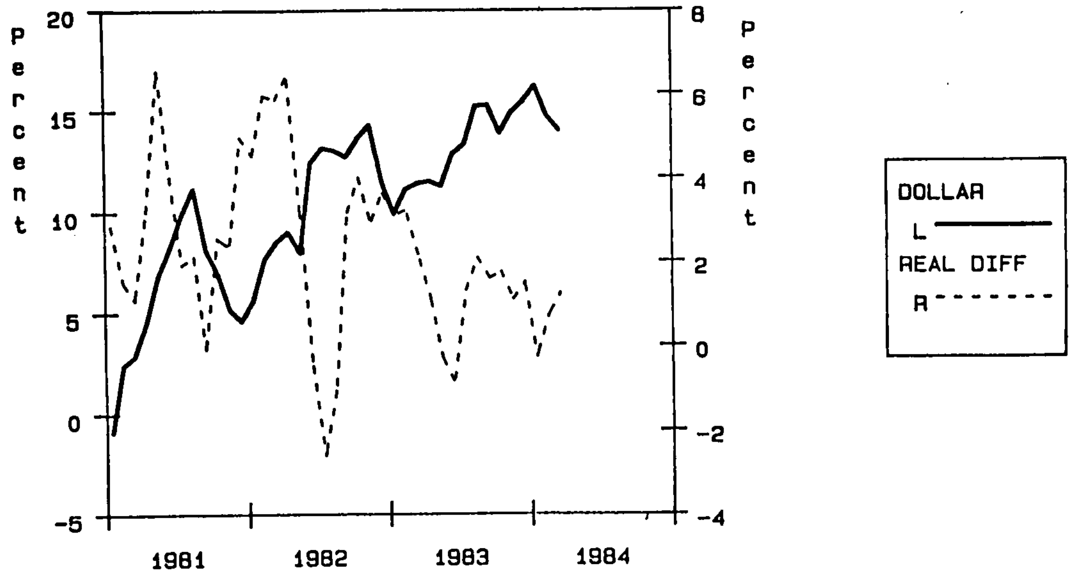


*US less GNP-weighted average of other G-7 rates.

**Change from December 1980. Monthly data.

Average Real Short-Term Interest Rate

Differential* vs Real Trade-Weighted Dollar**



*US less GNP-weighted average of other G-7 rates.

**Change from December 1980. Monthly data.

AGRICULTURAL TRADE POLICY

POLICY STATEMENT

Agricultural trade is crucial to the financial stability of the U.S farm and food system. Farm exports mitigate our current negative balance of trade in other goods and services and create jobs for the entire economy. The U.S agricultural trade policy process suffers from a lack of uniform objective among the many U.S. government agencies involved in policy formulation. A unified national policy and commitment to agricultural trade is needed, if the goal of maintaining U.S. competitiveness is to be achieved. Accountability for the implementation of such policy should be centralized in one authority to ensure its coordination and direct its execution and to mitigate rivalry and competition among the many agencies currently involved in agricultural trade policy matters.

Foreign policy objectives of the United States government should not interfere in efforts to maintain and expand U.S. markets, except as demanded during time of war. Long-term economic interests should not be traded off to achieve short-term political gains. The trade policy process of the United States Government should be exclusively geared to the maximization of United States economic interests and a major effort made to lessen the role of political and foreign policy interests in the establishment of trade policy.

The United States should continue to negotiate a reduction in international barriers to free trade. However, policy in this regard must acknowledge the absence of international free markets for most agricultural commodities and products. The United States gains nothing by pursuing a goal of fair markets at the expense of U.S farmers and businessmen, and without similar cost borne by competitor nations.

An aggressive U.S. government program to counter unfair trade practices is necessary at this time. While the Commission is opposed in principle to the use of export subsidies under fair market conditions, it believes that an aggressive export restitution program is needed to meet unfair foreign competition on a case by case basis. The United States should directly counter trade practices of other nations that involve selling agricultural commodities and products at less than domestic price levels. Modification of existing U.S import restrictions and adjustments in U.S. export restitution policy should be used as a policy tool to reward nations cooperating in efforts to reduce trade barriers and to penalize nations that continue to employ unfair trade barriers. In the event that circumstances warrant a reduction in U.S import restrictions, consideration should be given to the impact of the reduction on the U.S agricultural economy.

The Commission believes that an improved system for explicitly measuring and responding to unfair foreign trade practices is called for. The responsible authority should be required to implement such improvements. In addition, all other agencies of government should be required to report the impact on agricultural trade of policies and programs they administer prior to any action taken by such agencies.

RECOMMENDATIONS

The Commission recommends that Congress adopt legislation to be contained in the 1985 Farm Bill that establishes a national policy and priority for agricultural trade, including, at a minimum:

1. The designation of a single authority as accountable to the President and Congress in matters of agricultural trade.

2. The commitment of the United States to maintain (i) competitiveness, (ii) reliability of supply, and (iii) an assurance of quality of product, and (iv) the principle of fair trade.

3. A commitment to hold agricultural trade and trade policy free of the influence of political and foreign policy concerns except as demanded in time of war, as declared by the President and the Congress.

4. The willingness of the United States to employ retaliatory measures against foreign countries whose unfair trade practices damage U.S. agricultural interests to protect and expand toward a goal of equitable market share for U.S. commodities and products. Variable import restrictions and preferably adjustments in U.S. export restitution policy should be used to reward nations cooperating in efforts to lower trade barriers and to take action against nations which continue to employ predatory or unfair trade practices.

5. A requirement that the responsible authority of government implement an improved system for explicity measuring and responding to unfair foreign trade practices. All other agencies of government should be required to report to Congress the impact on agricultural trade and exports of policies and programs they administer prior to any action by such agencies.

Specific recommendations regarding market development, export credit, and food aid assistance are contained in the pages that follow.

COMMENTARY

Political Linkages in Trade Policy Formulation

The involvement of political considerations in U.S. trade policy formulation has been explicit in the years since the end of World War II. Early trade promotion and economic assistance programs, such as the Marshall Plan, were predicated on the need to restore viability to the international trading system. Over time, programs such as this and new initiatives, beginning with the National Security Act of 1951, came to serve overt political objectives, including the containment of world communism and support for U.S foreign policy objectives in the developed and developing worlds. The Economic Security Fund (ESF) continues to play this role. However, political objectives spill over into virtually every other program of government designed to expand U.S. and world trade.

The U.S economy towered over the international economy in years following World War II. It was possible--and indeed appropriate--for the United States to grant concessions to other trading nations in the interests of a growing global economy. Circumstances are much different today. The United States economy is but one of a number of major economies involved in an intense competition for market opportunities. The United States can no longer afford to abdicate its economic interests to serve foreign policy objectives. Nevertheless, the primacy of political interests continually surfaces in the formulation of policy vital to U.S. economic concerns.

The embargo on exports of U.S. agricultural commodities to the Soviet Union in 1980 is perhaps the most flagrant recent example of this. Other examples abound. Despite the economic benefits that the U.S. would derive from the liberalization of trade with the Soviet Union, U.S. policymakers have insisted that trade policy towards the USSR serve distinctly non-economic objectives, including the promotion of Soviet emigration. While the Commission strongly supports the aspirations of the Soviet Jewish population, it has seen little evidence that the linkage between Soviet emigration and U.S.--Soviet trade has resulted in an improved Soviet policy towards Jewish emigrants. Indeed, it would appear that Soviet attitudes on the subject of Jewish emigration have hardened, rather than softened, since the passage of the Jackson-Vanik amendment. Soviet Jews have seen little benefit from the legislation, while U.S. economic and agricultural interests have manifestly suffered.

The reluctance of the U.S. Government to meet "fire with fire" in trade relations with the European Community (EC) nations and with Japan has in large part been governed by political and security considerations. Statements made by the U.S. Government at the recent summit of U.S. and Japanese leaders--and the appointment of the Secretary of State as chief of the President's Task Force on U.S. - Japanese trade--highlight this fact.

We have the assurance of government that the linkage of political and economic issues in these contexts serves both interests equally well. There is room for skepticism. The U.S. will be unable to aggressively pursue its economic interests so long as it insists that political objectives be served first.

Constraints to Trade

Price instability in international markets is heightened by the use of import barriers and government export subsidies and by institutional arrangements such as government-to-government sales and state trading which distort free market trends. Such tools have generally been used to protect domestic economies by means of income transfer. The net result of such policy has been the export of price instability.

Nations such as the United States, which follow policies generally tailored on free market principles, bear a disproportionate burden of adjustments dictated by free market forces. Producers in these countries suffer as a result of price volatility and market disruption. The world economy suffers through the loss of efficiency and benefits of comparative advantage. The United States has been at the forefront of efforts to improve free market conditions through the lowering of constraints to trade. Nevertheless, majority of the world's agricultural trading nations continue to employ policies which run counter to trade liberalization.

Recent data prepared by USDA and submitted to the Senate Committee on Agriculture, Forestry, and Nutrition confirm this finding (tables attached). The USDA summarized leading examples of such unfair trade practices as follows:

Argentina. Argentina's primary tool for increasing or decreasing exports is an export reimbursement (called a reembolso) or an export tax. The rates and product coverage change frequently. These tools are used to encourage domestic processing and export of high value goods. Prime examples are encouragement of vegetable oils (soya, sunflower) rather than the beans and seeds, and of leather goods rather than of cattlehides. Apple juice subsidies have also been frequently cited by the trade. In times past, Argentina has subsidized wheat sales but only on a very limited basis. In recent years, Argentina has not subsidized its wheat exports but does discount its posted market prices in order to sell its surplus.

Australia. The Australian Wheat Board (AWB), a marketing board organization, provides extended payment terms to certain markets. The Export Finance and Insurance Corporation of the Australian Government provides export credit insurance to the AWB.

Australia also markets its wheat through the marketing board, but as a rule has not subsidized the sale of wheat into the export market. As a result of a record wheat crop last year of 22 million tons, Australia has undertaken an aggressive marketing campaign and has increased its credit quarantees for wheat purchases to $700 million. Previously, Australia emphasized cash markets. In addition, about 5.5 million tons of last year's crop was damaged by wet weather. The Australian Wheat Board (AWB) has sold a good portion of this in the form of feed wheat. However, much of this wheat is actually intended for human use: for example, approximately 500,000 tons of the offgrade though millable wheat has been sold to Bangladesh for human consumption. Other sales have been made to Mexico and South Korea. Australian sales of damaged wheat, much of which will be utilized for human consumption, have the potential for displacing U.S. wheat and coarse grain exports in numerous markets.

Australia also has underwritten apple and pear exports, and underwrites sultana production to guarantee a minimum return. Australia provides a rebate on sugar exports, which varies with the world price of sugar and reached A$142.50 (US$157.89) in February 1983.

Austria. Payments are made for the export of slaughter cattle and beef to certain destinations; in 1983 they totaled 480.1 million Austrian shillings (US$26.7 million). Austria has a coresponsibility system with the grain industry to aid export sales, and an intervention system for bread grain financed by the Government.

In October, 1983, Austria signed a contract with the U.S.S.R. for delivery of 244,000 tons of wheat and barley at a subsidy of about $68 per ton. Austria is also under agreement with East Germany to supply 350,000 tons of grain annually at what is believed to be subsidized prices.

Brazil. The Government of Brazil provides a credit premium on exports of "industrialized" products. At present the nominal rate is 11 percent of the adjusted f.o.b. invoice values. Credits in 1982 amounted to 188.9 billion cruzeiros (US$1,052 million). It also provides an income tax exemption for exporters under certain conditions; in 1981, tax exemptions totaled 53.1 billion cruzeiros (US$570 million). There is also working capital financing for export producers, which totaled 471.3 billion cruzeiros (US$2.6 billion) in 1982.

Pressed by the need for foreign exchange earnings, Brazil exported corn in 1982 at a price below the acquisition cost to Government. This amounted to a subsidy of between $5-$10 per ton. Indications are that at least 100,000 tons went to Spain, a market largely dominated by the United States.

Brazil and the European Community have profited especially by subsidies on poultry. U.S. exports of whole broilers dropped by an incredible 71 percent in 1982 to 38.9 thousand metric tons compared to 134.5 thousand tons in 1981, followed in 1983 by a 66 percent drop to 14 thousand tons. The value of whole broiler exports fell from $169.5 million 2 years ago to $17.5

million in 1983. Substantial declines in key markets like Egypt and Iraq accounted for most of this sharp decline. Through that time period U.S. suppliers were facing a $350-$400 per metric ton price disadvantage for whole broilers and 20 cents per dozen disadvantage for eggs in selected Middle East markets compared to subsidized prices from the EC and Brazil. Domestic broiler prices have risen now, reaching $1,350 per metric ton to which a minimum of $130 must be added for transportation and handling. With C&F quotes in the Middle East running in the $990-$1,100 per metric ton range for broilers, the U.S. disadvantage is in a range of $350-$500 per metric ton.

Our competitors unload poultry meat at lower prices through a number of mechanisms. The French and other EC suppliers use export subsidies, which now run around $220 per metric ton, in addition to producer subsidies. From 1978 to 1983 production of whole chickens in France's three largest poultry firms increased by at least 52 percent, largely due to regional investment grants and subsidies for enterprises which stock, process, and distribute agricultural products. These subsidy programs can be combined so that as much as one-half of the investment for each poultry slaughtering plant may be subsidized. Virtually all of the production from these plants is exported.

Brazilian poultry exporters are eligible for subsidized financing and are exempt from corporate income taxes on export sales. Poultry producers receive rural credit loans at below market rates, and in the past have received subsidized corn if they could prove that they exported poultry.

The same subsidizing exporters are now encroaching on our markets for chicken parts in the Far East. Brazil has successfully test marketed chicken legs in Japan and is reportedly shipping parts to Hong Kong as well. In 2 years, these subsidizing exporters displaced almost 90 percent of U.S. export sales of whole chickens, and now they threaten to do the same to our sales of parts.

Canada. Canada subsidizes rail freight costs for certain grains, oilseeds, and products from the prairies provinces to the coasts under the Feed Freight Assistance Program and the Crow's Nest Pass Rate. It exports wheat and certain products through the Canadian Wheat Board (CWB).

The CWB is a quasi-private organization that lists prices of wheat sales on a daily basis but which frequently sells wheat to importers at prices below listed export levels, particularly during the last 2 years or so while the world wheat market has been very competitive. Another way in which the CWB subsidizes (or aggressively markets) its wheat sales is by signing a contract for a specific grade of wheat and then subsequently shipping the importer a higher quality grade of wheat but at the price level of the lower quality grade.

European Community. The European Community makes restitution payments (export subsidies) available to virtually all basic commodities produced within the EC and to the processed products made from them. 1982 and 1983 expenditures on export restitution payments totaled $5 billion and $5.4 billion, respectively. (See attached tables.)

The EC has been moving 15 million tons of wheat/wheat flour annually on the world market (outside EC member countries) for the last 4 years. None of the wheat sold by the EC would be competitive on the world market if EC exporters were not paid a sizable restitution on the order of $60 to $70 a ton. The amount of restitution on EC wheat exports varies depending upon the region of the world to which it is shipped (such as Middle East, Africa, Far East, et cetera). The EC has also heavily subsidized flour exports by as much as $70 per ton. This has directly contributed to the decline in commercial U.S. flour exports. For example, since the early 1960's, U.S. commercial exports of flour have fallen from around 750,000 tons to about 200,000 to 300,000 tons annually. The U.S. share of commercial flour trade has declined from about 25 percent to an average of around 9 percent. Due to export subsidies, the EC share has increased from about 25 percent to 80 percent.

The EC subsidizes barley exports by as much as $40 per ton. In 1983-84, 2.5 million tons were exported, with Algeria, Saudi Arabia, Spain, and the U.S.S.R. the largest markets. EC export subsidies on rice have been in excess of $200 per ton. In CY 1983 Italy, the major EC rice producer and exporter, exported about 440,000 tons of rice, with Middle Eastern and North African countries the largest markets outside other EC members.

West Germany has a clearing agreement with East Germany that provides a high subsidy for West German grain exports. In the agreement, both West and East German currencies are treated equally. However, because the West German mark is worth roughly four times its eastern counterpart, this arrangement represents a very substantial subsidy which is sufficient to more than equalize the lack of EC export restitution or subsidy on grain. For the first time, West Germany exported 150,000 tons of wheat and 50,000 tons of barley this spring to East Germany under this agreement.

France has an export credit system which combines private and public financing. Credit insurance is provided by Coface, a quasi-public organization. Credit may be offered which would not be commercially available, or with automatic access to official finance credits, thus being easier to obtain than regular commercial credits. (For comment on EC poultry subsidies, see discussion for Brazil.)

An illustration of a particularly troublesome situation is the effect of EC subsidies on U.S. apples exported to the Middle East. The EC has for many years provided a lucrative subsidy for apples moving to a number of destinations, including the Arabian Peninsula. The current subsidy is equal to 12.00 ECU's per hundred kilo, currently equivalent to about U.S. $1.79 per 42 lb. carton, or roughly about 15-20 percent ad valorem. This subsidy has been particularly annoying since the U.S. has established a reasonably good volume market, especially in Saudi Arabia. Although these Middle East markets have expressed a preference for American red varieties of apples, the EC subsidy is sufficiently attractive to swing some trade in favor of France, the principal EC participant in the subsidy program.

Finally, it should be noted that the EC provides processing subsidies for certain fruits and vegetables--currently from 1.5 cents/lb. to 49 cents/lb. for various tomato products and 4.7-7.9 cents/lb. for canned peaches. An export subsidy of 3.6 cents/lb. was established on May 31 for raisins shipped to North Africa and East Europe. The latter subsidy is separate from the assistance that was the subject of the U.S. GATT complaint.

Finland. Finland has a price compensation scheme which finances the difference between domestic and world prices for inputs of major agricultural raw material components. The product may then be exported. It also pays export dairies a refund to cover the difference between domestic and target milk prices. A similar system exists for eggs, beef and veal, pork, mutton, barley, and oats. This refund program cost 1,923 million Finnish marks (US$515.5 million) in 1980, 2,345 million Finnish marks (US$460.7 million) in 1982.

India. India has a cash compensatory support system to compensate for taxes and levies on inputs used in export production.

Israel. Israel markets citrus through a Citrus Marketing Board and its noncitrus products through Agrexco, a quasi-government agency. Products excepted from the Agrexco monopoly are avocados, poultry products, and flowers. The Israeli Government does not publish information on the budgets of these agencies.

Japan. Japan makes food aid shipments of rice. The deficit in the control account of rice, wheat and barley under the food control special account for fiscal year 1982 is estimated to be 526.3 billion yen (US$2.1 billion), excluding the deficit from the surplus disposal of rice. This figure includes domestic program measures on all three products.

Japanese producer prices for rice are much higher than world prices and in the past have stimulated production far in excess of domestic demand. In order to dispose of the surplus, export subsidies have reached over $1,000 per ton. In 1980, Japan exported 795,000 tons. Since then, exports have declined because of bad weather and a rice diversification program. However, with the relaxation of the diversification program and the return of favorable weather, Japan could again be in a position to export.

New Zealand. New Zealand has a tax credit to encourage export market development, and a program of loans which convert to grants, based on export sales levels. All major agricultural commodities are marketed through governmental marketing boards.

Norway. Norway provides price supports on certain agricultural commodities. Exports of beef and veal, pork,cheese, barley, and eggs have to be subsidized in order to move at world prices.

Pakistan. Pakistan provides an income tax exemption of up to 55 percent for certain export income, and an export finance scheme which provides refinancing to commercial banks at zero interest against the latter's advances to finance exports of commodities other than rice, wool, hides, skins, and leather.

South Africa. The use of marketing boards aims to assure that domestic prices are not significantly influenced by world prices. As an example, the Dried Fruit Board, which handles raisin exports, pays the producers at prices calculated on a pool basis with money earned in the domestic and export markets pooled, and adjustments made on the basis of a crop's sales. The Tobacco Board may supplement export receipts with funds derived from levies on domestic sales. Similarly, South African losses on exports of chilled or frozen beef are financed by the Meat Board's Stabilization Fund.

The South African Maize Board subsidizes exports by purchasing domestic corn at prices well above world market prices and in turn selling corn for export at much lower prices. In the export expansion drive of 1982-1983, the subsidy reached as high as $60 per ton. In that year, South Africa exported 4.7 million tons of corn. However, South Africa has not exported for the past two seasons because of drought. The United States has often filled the markets that South Africa was unable to supply. For example, the United States and South

Africa were major sources for Taiwan's corn imports which total about 3 million tons annually. Because of South Africa's drought, the U.S. share rose from 65 percent in 1981-82 to 93 percent in 1983-84. The return of subsidized exports from South Africa could cut directly into U.S. markets.

Spain. Spain has a variety of measures to support the agricultural sector. Agricultural subsidies totaled 83.3 billion pesetas (US$902.4 million) in 1981, of which 3.0 billion (US$33 million) were for export refunds. Spanish export incentive programs include (1) a rebate of internal taxes on exports of virtually all commodities; (2) a revolving-type credit for working capital granted by Government banks to exporters; (3) Government-subsidized rate on credit for the pre-financing of exports; (4) an export payments insurance program with subsidized premiums (applies primarily to losses related to the cancellation of exports contracts); and (5) direct export subsidies which in 1983 were limited to tomato paste. The Government granted a 16 peseta (or 12 cents US) per kilogram restitution on paste exports to all destinations except the United States, with a limit of 33,000 metric tons of paste in the 1983-84 marketing year.

Sweden. Sweden provides price supplements for certain products, regional aids to production, income support, and export refunds; the total cost of these programs was 5.1 billion kroner in fiscal year 1981-82. Export refunds are paid on most agricultural products to cover the difference between domestic and world prices; they totaled 1.4 billion kroner (US$276.5 million) in fiscal year 1981-82.

Switzerland. Switzerland provides subsidies to cover the difference between earnings from the sale of cheese on domestic and foreign markets. It makes payments to export dairies based on the amount of milk use (in July 1982, payments ranged from 45 to 60 centimes (22 to 30 US cents) per kilogram of milk, depending on the product). In 1982, Switzerland paid subsidies of 30.8 million Swiss francs (US$15.2 million) to maintain exports of cattle; it also pays domestic subsidies for cattle, apricots, wine, grapejuice, and table grapes.

Taiwan. With burgeoning rice stocks Taiwan has pursued a policy since 1977 of sharply increasing its support prices while at the same time heavily subsidizing its rice exports. Mid-year rice sales were made in the region of $240-$260 per metric ton, compared with the Government's acquisition cost for domestic rice of about $700 per ton (unadjusted). Exports in 1983 rose to 550,000 tons. This prompted the Rice Millers Association to file a petition under section 301 of the 1974 Trade Act on July 13. After an investigation by USTR and consultations with Taiwan, an agreement was signed March 1, 1984, whereby Taiwan agreed to limit its sales to 1.375 million metric tons over the next 5 years. (Shipments in 1984 limited to 375,000 tons.)

The above provide some examples of the extensive use of unfair trade practices and is not intended to be a comprehensive listing. Among those commodities not mentioned is sugar, which may be the most impacted by unfair trade practices. One or more such practice is employed by essentially all sugar exporting countries. The cumulative effect of these unfair trade practices has created a world sugar market whose price reflects more a dumping ground than the cost of producing the commodity. If the use of unfair trade practices is permitted to continue and grow unchallenged, the world market for more commodities could become divorced from the economics of production, as has occurred for sugar.

The damage to U.S. agriculture created by unfair foreign competition is well reflected in the number of U.S. agricultural industries which have filed for relief by the U.S. government under Sections 201 and 301 of the 1974 Trade Act (see attached).

The cost to the United States of such predatory trade practices, among other factors, is a declining market share for basic U.S. commodities (see attached).

The U.S. taxpayers bear the cost of U.S. government agricultural adjustment programs, the need for which would be lessened in the absence of foreign constraints to trade. In addition, the cost of foreign export subsidy programs is also tremendously unfair to taxpayers and consumers overseas (see attached).

ENFORCEMENT OF U.S. RIGHTS (SEC. 301)

Active Cases

COUNTRY ACTION TAKEN AGAINST	ITEM	TYPE OF CASE	PETITIONER (DATE PETITION FILED)	COMMENT	STATUS
EC	Citrus	301 (Tariff preferences)	Florida Citrus Commission, Calif-Ariz. Citrus League, Texas Citrus Mutual, Texas Citrus Exchange (Jan. 1977)	Panel established Oct. 1983. and has held four meetings.	The panel released its final report to the disputants December 14. The contents of the report are still confidential. The U.S. and the EC will now be given time for a final attempt to conciliate the dispute before the report is circulated to all GATT contracting parties.
Brazil EC	Poultry	301 (Export subsidies)	National Broiler Council (Sept. 1981)	Original petition cited only EC as a problem, but U.S. Government later added Brazil to the process because EC claimed its subsidies were needed to meet Brazilian subsidies and because Brazil's export subsidy practices also appeared to be detrimental to U.S. interests.	Brazil originally objected to a round of trilateral consultations but later agreed to meet in such a forum. Five trilateral meetings have been held in Geneva. Little progress has made so far during those meetings.
EC	Sugar	301 (Export subsidies)	Great Western Sugar Co. (August 1981)		In June 1982, The President directed USTR to continue international efforts to reduce or eliminate EC subsidies.

ENFORCEMENT OF U.S. RIGHTS (SEC. 301)

Active Cases

COUNTRY ACTION TAKEN AGAINST	ITEM	TYPE OF CASE	PETITIONER (DATE PETITION FILED)	COMMENT	STATUS
EC	Wheat flour	301 (Export subsidy)	Miller's National Federation (Dec. 1975)	Panel report issued March 1983. Subsidies Code Committee met to review panel findings. U.S. is requesting the committee to answer questions that the panel failed to address, before the report is adopted.	Action has moved out of the Subsidies Code Committee to the US-EC bilateral working group. General discussion about the problems in the Subsidies Code Committee are taking place.
Spain Portugal Brazil	Soybeans and other oilseeds	301 (Subsidies and import restrictions)	National Soybean Processors Assoc. (April 1983)	First set of bilateral discussions with all three countries, were held in November 1983 (under Subsidies Code with Brazil, and under GATT Article XXII with Spain and Portugal). All countries agreed to provide the USG with additional information. For the most part, information has not been provided yet by all three countries.	
Brazil	Soybeans and other oilseeds and products	301 (Subsidies and import restrictions)	National Soybean processors Assoc. (April 1983)	Brazil filed a countersuit on US subsidies on soybean products (e.g. PL 480, blended credit and market development programs).	The USG submitted responses to questions by Brazil. Brazil has yet to follow up.
Argentina	Sunflower oil and meal	301 (Export subsidies)	National Sunflower Association (Sept. 1983)	Petition withdrawn, Nov. 1983, (couldn't meet necessary dead-lines).	Bilateral discussion on differ-ential export tax issue held at the technical level in February and were discussed again at US-Argentine. Mixed Commission meeting meeting in July. No action anticipated at this time.

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ENFORCEMENT OF U.S. RIGHTS (SEC. 301)

Active Cases

COUNTRY ACTION TAKEN AGAINST	ITEM	TYPE OF CASE	PETITIONER (DATE PETITION FILED)	COMMENT	STATUS
EC	Canned peaches and pears and raisins	301 (Production subsidies)	U.S. processed fruit industry (Oct. 1981)	New panel report has been issued to disputants but is still confidential	EC eventually delayed release of the the initial report and convinced Panel to change some of its' findings. U.S. requested another Panel meeting, which was held June 28. New panel report was issued in late June which agreed with U.S. complaint on canned fruit, but sided with EC on raisin portion. We are meeting with EC in an effort to reach a solution to the dispute before the report is circulated.
EC	Pasta	301 (Export subsidy)	U.S. National Pasta Association (Oct. 1981)	GATT Panel report issued April 1983 ruling in U.S. favor. Report in front of Subsidies Code Committee. The EC is trying to prevent adoption of the Panel Report. Further discussions taking place in Subsidies Code Committee and US-EC bilateral working group on subsidies.	General discussions on the problems of the GATT Subsidies Code are taking place in the committee and group. The U.S. and the EC are still engaged in periodic informal bilateral consultations in an effort to reach an accommodation.

UNFAIR TRADE PRACTICES (AD/CVD)

Terminated Cases

COUNTRY ACTION TAKEN AGAINST	ITEM	TYPE OF CASE	PETITIONER (DATE PETITION FILED)	COMMENT	STATUS
Canada	Fall harvested round white potatoes, or fresh/chilled potatoes.	AD	Maine Potato Council (Feb. 1983)	ITC decision is being appealed.	Case was terminated Dec. 1983. Final finding of no injury.
Spain	Bottled green olives	CVD	Green Olive Trade Association (Jan. 18,1973)	Spain requested the ITC to review the outstanding CVD order	In May 1984, the ITC determined that the U.S. industry would not be injured if CVD order was revoked. In June 1984, Commerce revoked the CVD order.
Mexico	Certain fresh cut flowers	CVD	U.S. industry (Sept. 1983)		Case was terminated February 1, 1984 following a negative injury finding by the ITC.
Colombia	Fresh cut roses	AD	Roses, Inc. (Sept. 1983)		Case was terminated Sept. 1984 following the ITC's final report of 9/10/84 that found no evidence of injury.
France Italy	Ordinary table wine	AD CVD	American Grape Growers Alliance for Fair Trade (Jan. 1984)		Case was terminated March 1984 following a negative injury finding by the ITC.
New Zealand	Lamb meat	AD CVD	American Lamb Company Denver Lamb Company Iowa Lamb Company (April 1984)		Case was terminated June 1984 following a negative injury finding by the ITC.

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Soviet Union	Potash	AD	AMAX Chemical Inc. Kerr-McGee Chem. Corp. (March 30, 1984)	In March 1982, the EC asked that the CVD order of March 28, 1972 be revoked.	Commerce issued a preliminary finding of dumping on 9/6/84. Hearings are scheduled for 10/4/84. Commerce's final determination is due January 25, 1984. 1/8/85

UNFAIR TRADE PRACTICES (AD/CVD)

Active Cases

COUNTRY ACTION TAKEN AGAINST	ITEM	TYPE OF CASE	PETITIONER (DATE PETITION FILED)	COMMENT	STATUS
Australia	Butter	Revocation of CVD Order of Sept. 5, 1928.	Government of Australia		Commerce revoked the outstanding CVD order concerning butter imports from Australia.
Canada	Live swine and pork	CVD	National Pork Council (November 2, 1984)		ITC issued a preliminary determination of material injury, December 1984. Preliminary determination of subsidy due 1-27-85
Canada	Red raspberries	AD	Wash. Raspberry Commission, Oregon Caneberry Commission, Red Raspberry Committee of NW Food Processors Association (July 5, 1984)	In December 1984, the Commerce Department made an affirmative determination of dumping. The overall average dumping margin is 6.29%.	Commerce's final determination of sales at less than fair value due by February 23, 1985 120 days after Commerce's prelim. decision, ITC gives its final determination. (April 1985)
Brazil	Frozen concentrated orange juice	CVD	Florida Citrus Mutual (July 14, 1982)	In July 1983, the ITC made an affirmative determination of injury. In May 1984, the ITC received a request to review its affirmative determination by Brazilian producers and exporters of foreign concentrate orange juice.	ITC Commissioners voted that revokation of the CVD order would cause material injury and therefore the order would not be revoked.
Greece	Certain tomato products	CVD	Canners' League of California (June 1970)	In March 1982, the EC asked that the CVD order of March 28, 1972 be revoked.	ITC Commissioners voted that revokation of the CVD order would not cause material injury and therefore the CVD order could be revoked. Commerce has yet to sign a proclamation as such.

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ESCAPE CLAUSE ACTION (SEC. 201)

Active Cases

There are no active Sec. 201 cases at this time.

SECTION 301 TABLE OF CASES
Office of the United States Trade Representative

Date of Report to Congress	Petitioner & Docket No.	Complaint	Disposition or Present Status
7/16/76	Delta Steamship Lines, Inc. (301-1)	Notice of Complaint filed July 1, 1975, alleging that Guatemala's requirement "mandating certain cargo to Guatemala or associated line carriers" constituted a discriminatory shipping practice. (40 FR 29134)	Public hearings completed September 26, 1975. Following bilateral negotiations petitioner withdrew the complaint since an accord had been reached between petitioner and National Shipping Line of Guatemala. Investigation terminated June 29, 1976 (41 FR 26758).
7/16/76	United Egg Producers and American Farm Bureau Federation (301-2)	Petitions filed July 17 and July 21, 1975 alleging that a Canadian quota on the importation of U.S. eggs constituted an unfair trade practice. (40 FR 33749)	As a result of bilateral negotiations Canada approximately doubled its quota for imports of U.S. eggs. Investigation terminated March 14, 1976 (41 FR 9430).
1/21/81	Seymour Foods, Inc. (301-3)	Petition filed Aug. 7, 1975 alleging that changes in EC's supplementary levies on imports of egg albumin impaired the ability of U.S. exporters to contract for sales in the EC. (40 FR 34649)	Following informal consultations, supplementary levies were replaced with increased import charges. However, since U.S. exports of egg albumin steadily increased, 301 Committee determined that no further action was necessary. Investigation terminated July 21, 1980 (45 FR 48758).
2/27/79	National Canners Association (301-4)	Petition filed Sept. 25, 1975 alleging that EC's minimum import prices and an import license/surety deposit system with respect to canned fruits juices, and vegetables constituted an unfair trade practice. (40 FR 44635)	Public hearings held November 17, 1975. Pursuant to GATT XXIII:1(c) formal consultations were held March 29, 1976. GATT panel was appointed under XXIII:2. As a result of the panel's report, the EC discontinued use of minimum import price mechanism. Investigation terminated in December 1978 (44 FR 1504)

8/22/80	Great Western Malting Company (301-5)	Petition filed Nov. 13, 1975 alleging EC subsidies on malt exports were displacing U.S. export of malt to third countries. (40 FR 54311)	In 1976, the EC reduced the amount of the subsidy. USTR terminated investigation on the advice of the 301 Committee and with the agreement of the petitioner June 19, 1980 (45 FR 41558).
7/30/82	Miller's National Federation (301-6)	Petition filed Nov. 24, 1975 alleging violation by EC of GATT XVI:3 in using export subsidies to gain a more than equitable share of world export trade in wheat flour. (40 FR 57249)	Investigation initiated December 1, 1975. GATT XXII:1 consultations held in 1977 and 1980, and technical discussions in 1981. On August 1, 1980, President directed USTR to pursue dispute settlement (45 FR 51169). The Subsidies Code dispute settlement process was initiated September 29, 1981. Subsidies Code Panel, established Janaury 22, 1982, issued its conclusions on February 24, 1983. The panel report was considered by the Code Committee on April 22, May 19, June 10, and Nov. 17, 1983 and is still pending.
8/22/80	National Canners Association (301-7)	Petition filed March 30, 1976 alleging that sudden changes in the variable levy assessed on sugars added to canned fruits and juices by the EC constitute unjustifiable and unreasonable import restriction and impair the value of GATT-bound tariff rates to the U.S. (41 FR 15385)	Following consultations during the MTN, the parties reached an agreement on July 11, 1979, which changed the variable levy to a fixed 2% levy on sugar added. USTR terminated investigation on the advice of 301 Committee and with the agreement of the petitioner, June 18, 1980 (45 FR 41254).
2/27/79	National Sugar Processors Assoc. and American Soybean Assoc. (301-8)	Petition filed March 30, 1975 alleging that EC's requirement that livestock feed be mixed with domestic nonfat milk constituted an unfair trade practice since it displaced other protein sources such as soybeans and soybean cake imported primarily from the U.S. (41 FR 15384)	Public hearing held June 22, 1976. GATT panel appointed under XXIII:2 met in February and March 1977. In the interim, EC terminated its system. Investigation terminated in December, 1978 (44 FR 1504).

1/12/77	Charles C. Rehfeldt (301-9)	Petition filed March 15, 1976 alleging unfair trade practices by the Republic of China, in the form of confiscatory tariff levels on imports of major home appliances. (41 FR 15452)	Public hearings held May 18, 1976. Republic of China reduced subject duties. Investigation terminated due to bilateral resolution of the dispute, December 1, 1977. (42 FR 61103)
1/12/77	American Iron and Steel Institute (301-10)	Petition filed Oct. 6, 1976 alleging that EC and Japan had engaged in an unfair trade practice by agreeing to divert significant quantities of Japanese steel exports to the U.S. (41 FR 45628)	Public hearings held December 9, 1976. Investigation discontinued January 18, 1978 on the ground that there was not sufficient justification to the claim that the EC-Japan agreement created an unfair burden on the U.S. (43 FR 3962)
7/30/82	Florida Citrus Commission, et al. (301-11)	Petitions filed Nov. 12, 1976 alleging that EC's preferential import duties on orange and grapefruit juices and fresh citrus fruits from certain Mediterranean countries have an adverse effect on U.S. citrus produces (41 FR 52567).	Investigation initiated November 29, 1976. Public hearings held January 25, 1977. During the MTN, duty reductions were obtained on fresh grapefruit only. GATT Article XXII:1 consultations were held in October, 1980, followed by informal discussions. Formal consultations under GATT XXIII:1 were held in April 20, 1982. Conciliation efforts in September, 1982 failed. On November 2, 1982 the GATT Council agreed to establish a panel. The panel composition and terms of reference of the panel took some months to resolve. The panel held meetings on Oct. 31, and Nov. 29, 1983 and Feb. 13 and March 12, 1984. The factual portion of the Panel report was submitted to the parties on September 27. The full report is expected in December.

1/26/78	George F. Fisher, Inc. (301-12)	Petition filed Feb. 14, 1977 alleging that Japanese agreements with Korea, PRC and Brazil permitting imports of thrown silk effectively prevented the entry of such imports from the United States, and that this constituted discriminatory conduct. (40 FR 11935)	Public hearings held March 29, 1977. Following the failure of accelerated discussions with Japan a complaint was instituted under GATT XXIII:2, creating a dispute panel which heard the case in the fall, 1977. Before the GATT panel issued its report, Japan adjusted the restrictions. Review terminated March 3, 1978 (43 FR 8876)
7/24/81	Tanners Council of America (301-13)	Petition filed Aug. 4, 1977 alleging violation by Japan of GATT XI in imposing quantitative restrictions on imports of leather from the U.S., and alleging Japanese tariffs excessively high. (42 FR 42413)	Investigation initiated Aug. 23, 1977. U.S. initiated consultations under GATT XXIII:1 in January, 1979 which resulted in understanding to expand Japanese quota on imported leather. In light of this understanding President decided not to take retaliatory action; however, on August 1, 1980 (45 FR 51171), he directed USTR to monitor implementation of the understanding.
1/21/82	American Institute of Marine Underwriters (301-14)	Petition filed Nov. 10, 1977 alleging that USSR unreasonably required that marine insurance on all trade between the U.S. and the USSR be placed with a Soviet state insurance monopoly. (43 FR 3635)	In June, 1978, President determined that Soviet practice is unreasonable (43 FR 25212). On July 12, 1979, USTR suspended investigation pending review of the operation of the U.S.-Soviet agreement (44 FR 40744). Suspension remains in effect until USTR can conduct a thorough review and assessment (45 FR 49428).
1/21/81	Certain U.S. Television Licensees (301-15)	Petition filed Aug. 29, 1978 alleging that certain provisions of Canadian Income Tax Act were unreasonable in denying tax deduction to any Canadian taxpayer for advertising time purchased from a U.S. broadcaster for advertising aimed at the Canadian market, when deductions were granted for the purchase of advertising time from a Canadian broadcaster. (43 FR 39610)	Public hearings held November, 1978 and July, 1980. President determined on August 1, 1980 that most appropriate response was legislation which would mirror in U.S. law the Canadian practice (45 FR 51173). Proposal sent to Congress September 9, 1980 Proposal again sent to Congress in November, 1981. Legislation was enacted on October 30, 1984.

1/21/81	Great Plains Wheat, Inc. (301-16)	Petition filed Nov. 2, 1978 alleging that EC export subsidies were enabling exports of wheat from the EC to displace U.S. exports in third country markets (43 FR 59935)	Public hearings held February 1979; consultations between EC and U.S. held July 1979, in which both parties agreed to monitor developments in the wheat trade, exchange information, and consult further to address any problems that might arise. Investigation terminated August 1, 1980 (45 FR 49428).
1/21/81	Cigar Association of America, Inc. (301-17)	Petition filed March 14, 1979 alleging that Japan imposes unreasonable import restrictions, imposes internal taxes or charges on imports in excess of those placed on domestic products and imposes discriminatory restrictions on the marketing, advertising, and distribution of imported cigars. (44 FR 19083)	During panel deliberations under GATT XXIII:2 in March, 1980, Japan repealed internal tax on imported cigars and applied import duty of 60% _ad valorem_. Prior to completion of Panel action, U.S. and Japan reached agreement which liberated market restrictions, and reduced import duty. Investigation terminated January 6, 1981 (46 FR 1389). GATT proceedings terminated in April 1981.
7/24/81	American Institute of Marine Underwriters (301-18)	Petition filed May 25, 1979 alleging that Argentine requirement that marine insurance on trade with Argentina be placed with Argentine insurance firm is unreasonable and burdens U.S. commerce. (44 FR 52057)	Public hearing conducted August 1979. Upon Argentine commitment to participate in multilateral negotiations, a goal of which was the elimination of restrictive practices in the insurance sector, USTR suspended investigation July 25, 1980 (45 FR 49732).
1/21/81	Associated Tobacco Manufacturers (301-19)	Petition filed Oct. 22, 1979 alleging that Japan set unreasonable prices for imported pipe tobacco and restricted distribution and advertising of same. (44 FR 64938)	This docket consolidated with 301-17 alleging identical practices with respect to cigars. Investigation terminated January 6, 1981 (46 FR 1388).

1/21/81	American Home Assurance Company (301-20)	Petition filed Nov. 5, 1979 alleging that Republic of Korea was discriminating against petitioner by failing to issue a license permitting petitioner to write insurance policies covering marine risks; not permitting petitioner to participate in joint venture fire insurance; and failing to grant retrocessions from Korea Reinsurance Corp. to petitioner on the same basis as Korean insurance firms. (44 FR 75146)	Beginning June, 1980, U.S. and ROK held several rounds of consultations, resulting in ROK's commitment to promote more open competition in the insurance market. Upon withdrawal of petition, investigation terminated December, 1980 (45 FR 85539).
1/21/81	Universal Optical Co. Inc. (301-21)	Petition filed Dec. 12, 1979 alleging that Swiss Customs Service engaged in unreasonable practices by requiring an assay to be done to determine the gold content of the trim in eyeglass frame examples before importation of same. (44 FR 7654)	U.S. standard had been changed in 1976 to conform to international practice, effective October 1, 1981 (P.L. 94-450, S2). Petitioner withdrew complaint. Investigation terminated December 1, 1980 (45 FR 81703).
7/30/82	Great Western Sugar Company (301-22)	Petition filed Aug. 20, 1981 alleging EC violation of GATT XVI and Subsidies Code in using export subsidies which result in the EC having more than equitable share of world export trade in sugar. (46 FR 49497)	Investigation initiated October 5, 1981. Public hearing held November 4, 1981. Consultations with EC under Article 12:3 of Subsidies Code held February 16, 1982, conciliation phase completed April 30, 1982. USTR submitted recommendation to President June 7, 1982. On June 20, 1982 President directed USTR to continue international efforts to eliminate or reduce EC subsidies (47 FR 28361).

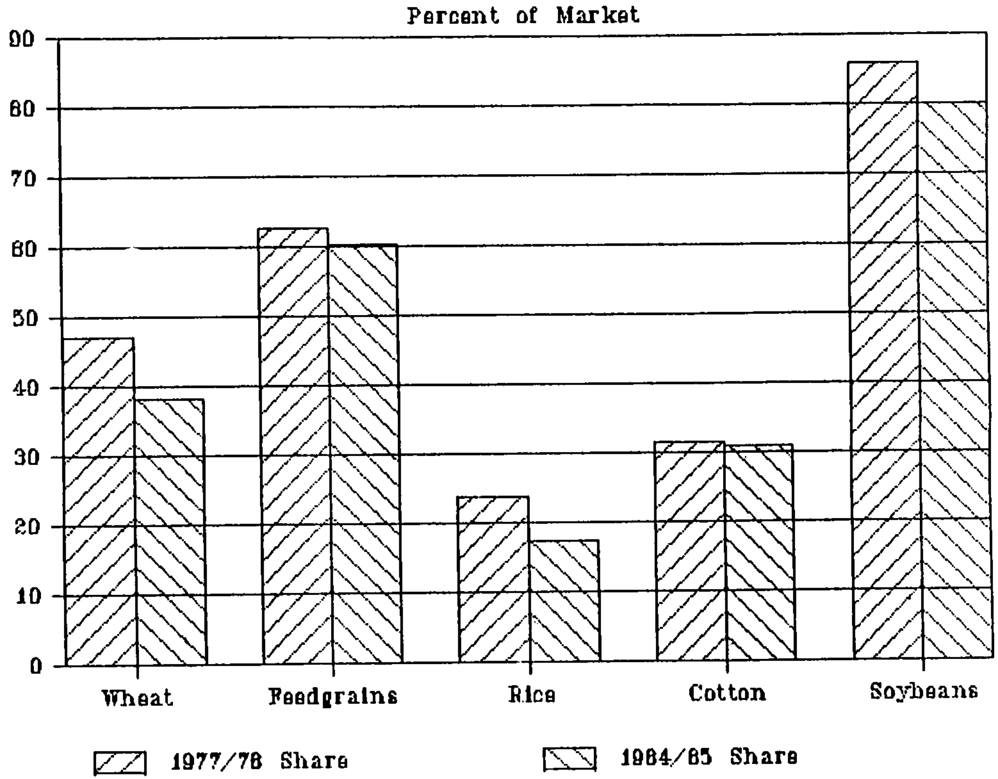
7/30/82	National Broiler Council (301-23)	Petition filed Sept. 17, 1981 alleging EC violation of GATT XVI and Subsidies Code in using export subsidies which displace U.S. poultry exports to third country markets. (46 FR 54831)	Investigation initiated October 28, 1981. Consultations with EC under Article 12:3 of Subsidies Code held February 16, 1982. On June 11, U.S. submitted requests for information under Art. 17 of Code to EC and Brazil. USTR submitted recommendation to President June 28, 1982. On July 12, President directed expeditious examination of Brazilian subsidies (47 FR 30699). U.S, held informal consultations with Brazil on Aug. 30 and March 1. Additional consultations with EC were held October 7, 1982. Article 12 consultations held with Brazil April 1, 1983. A tripartite meeting was held with the EC and Brazil on June 23. Since it did not result in a resolution, the U.S. requested conciliation. The Code Committee held the first conciliation meeting on Nov. 18, 1983. Conciliation continued on April 4, May 4, June 20, and Oct. 16, 1984 and is still pending.
7/30/82	National Tanners' Council (301-24)	Petition filed Oct. 9, 1981 alleging breach by Argentina Argentina of U.S./Argentina hides agreement, and unreasonable restrictions on commerce imposed by Argentina hide export controls. (46 FR 59353)	Investigation initiated November 24, 1981. Bilateral consultations with Argentina held February 23, and April 15, 1982. U.S. and Argentina agreed to mutual termination of Agreement effective October 30, 1982, and President increased U.S. tariff on leather imports effective October 30. Investigation terminated November 16, 1982 (47 FR 53989).
7/30/82	National Pasta Assoc. (301-25)	Petition filed Oct. 16, 1981 alleging EC violation of GATT Article XVI and Subsidies Code in using export subsidies on non-primary products (pasta) which displace U.S. produced pasta in its home market. (46 FR 59675)	Investigation initiated November 30, 1981. U.S. requested a Subsidies Code panel on April 7, 1982. Panel met July 14. On July 21, the President directed USTR to expeditiously complete dispute settlement (47 FR 31841). Panel met again Oct. 8 and issued factual findings January 20, 1983. At EC request, additional panel meeting held

7/30/82	(301-28: France)	See 301-27	See 301-27
7/30/82	(301-29: Italy)	See 301-27	See 301-27
7/30/82	(301-30: Sweden)	See 301-27	See 301-27
7/30/82	(301-31: U.K.)	See 301-27	See 301-27
7/30/82	AFL-CIO, et al. (301-32)	Petition filed June 4, 1982, alleging Canadian government's export credit financing for subway cars to be exported to U.S. violates Subsidies Code and is unreasonable and a burden on U.S. commerce. (47 FR 31764)	Investigation initiated July 19, 1982. Consultations with Canada under Subsidies Code Article 12 had already been held on July 5, 1982. Public comments due August 20. USTR terminated investigation Sept. 23, 1982 because same allegations were subject of CVD investigation (47 FR 42059).
	Tool and Stainless Steel Industry Committee, et al. (301-33)	Petition filed June 23, 1982 alleging domestic subsidies for Belgian steel production violate GATT and Subsidies Code and that imports of Belgian steel adversely affect U.S. industry. (47 FR 35387)	Investigation initiated August 9, 1982. Consultations under Subsidies Code held in October, 1982. Presidential determination of November 16, 1982 (see 301-27 above) covered this petition as well.
	J.I. Case Company (301-34)	Petition filed July 27, 1982 alleging Canada's regulations allowing remission of customs duties and sales tax on certain front-end loaders violate GATT and Subsidies Code, are unreasonable and discriminatory and burden and restrict U.S. Commerce. Petition amended and refiled September 13. (47 FR 51029)	Investigation initiated October 28, 1982 and public hearing held December 14, 1982 Consultations with Canada under GATT Article XXII held December 21, 1982.

			March 29. Panel report (3-1 in favor of U.S.) submitted to Committee May 19. Committee considered report on June 9 and Nov. 18 but deferred decision on adoption of report.
7/30/82	California Cling Peach Advisory Board, et al. (301-26)	Petition filed Oct. 29, 1981 alleging EC violation of GATT Article XVI in granting production subsidies on EC member states' canned peaches, canned pears and raisins which displace sales of non-EC products in EC and impair tariff bindings on those products. (46 FR 61358)	Investigation initiated December 10, 1981. Consultations with EC under GATT Article XXIII:1 held February 25, 1982. U.S. requested dispute settlement panel under Article XXIII:2 of March 31, 1982. On August 17, 1982, the President directed USTR to excomplete dispute settlement (47 FR 36403). Panel met on Sept. 29 and Oct. 29, 1982. Panel report was submitted to U.S.& EC on Nov. 21, 1983. The Panel met again with parties on Feb. 27, 1984. Revised Panel report submitted to parties on April 27, 1984. Additional panel meeting was held on June 28. A final Panel report was issued on July 20. Preliminary discussions about possibility of settlement held Sept. 19.
7/30/82	Tool and Stainless Steel Industry Committee, et al. (301-27; Austria)	Petition filed Dec. 2, 1981 and re-filed Jan. 12, 1982 alleging domestic subsidies for specialty steel industries in Belgium, France, Italy, U.K., Austria, Brazil and Sweden violate GATT and Subsidies Code and that imports from those countries adversely affect U.S. industry. (47 FR 10107)	Investigation initiated February 26, 1982 with respect to allegations against Austria, France, Italy, Sweden and U.K. Informal consultations with foreign governments held in March, 1982. Public hearing held April 14, 1982. Formal consultations under Subsidies Code held in October, 1982. November 16, 1982, the President directed USTR to (1) request the ITC to conduct an expedited investigation under sec. 201 of the 1974 Trade Act; (2) initiate multilateral and/or bilateral discussions aimed at eliminating all trade distortive practices in the specialty steel sector; and (3) monitor U.S. imports of specialty steel products subject to the 201 investigation (47 FR 51717). ITC made affirmative finding of injury. Effective July 20, 1983, the President imposed a combination of tariffs and quotas.

Footwear Industries of America, Inc., et al. (301-35)	Petition filed October 25, 1982 alleging Brazil's import restrictions on non-rubber footwear deny U.S. access to that market, are inconsistent with the GATT, and are unreasonable and/or discriminatory and a burden on U.S. commerce. (47 FR 56428)	Investigation initiated December 8, 1982 and consultations held under GATT Article XXII. Consultations held April 4, 1983. Talks are continuing.
(301-36: Japan)	See 301-35	See 301-35. Consultations held January 27, 1983.
(301-37: Korea)	See 301-35	See 301-35. Consultations held February 5, and August. Additional information requested.
(301-38: Taiwan)	See 301-35	See 301-35. Bilateral consultations held January 17, 1983. On Dec. 19. 1983 the President determined that Taiwan does not impose unfair barriers on U.S. imports; he nevertheless directed USTR to pursue offers regarding marketing assistance for U.S. exporters (48 FR 56561).
Committee of Domestic Steel Wire Rope and Specialty Cable Manufacturers (301-39)	Petition filed March 16, 1983 alleging that production and export of Korean steel wire rope is subsidized, that Korea limits imports of steel wire rope from Japan thereby causing diversion to the U.S market, and that Korean rope producers are infringing U.S. trademarks. (48 FR 20529)	Investigation initiated on May 2 with respect to claims of production subsidies. Hearing held June 2. Consultations requested under Subsidies Code. Effective Dec. 15, 1983 USTR terminated investigation upon withdrawal of petition by petitioner (48 FR 55790).
National Soybean Processors Assoc. (301-40: Brazil)	Petition filed April 6, 1983 alleging that the governments of Argentina, Brazil, Canada, Malaysia, Portugal and Spain engage in unfair practices, including export	On May 23 USTR initiated an investigation against Brazil, Portugal and Spain. A public hearing was held on June 29 and 30. Consultations were requested under Article 12 of the Subsidies Code and were held on Nov. 21. Discussions are continuing.

U.S. SHARE OF WORLD COMMODITY MARKETS



U.S. EXPORTS OF SELECTED COMMODITIES AND THE EXTENT OF FOREIGN GOVERNMENT EXPORT ASSISTANCE IN WORLD TRADE, 1983

[Dollars in millions]

Commodity	1983 U.S. exports	Extent of Governmental Assistance to Exports (in percent): Total [1]	Subsidies affecting exports [2]	Central marketing	State trading
Beet and veal, all types	$391.8	82	31	43	9
Pork, all types	183.5	80	22	13	44
Poultry meats	277.6	85	68		17
Eggs	56.2	97	93	5	
Lard	21.1	80	20		59
Tallow and grease	579.2	4	4		
Cattle hides	742.2				
Wheat and wheat flour	6,505.6	94	63	27	4
Rice	925.6	85	13		71
Coarse grains (barley, corn, oats, grain sorghum)	7,266.0	80	32	39	9
Cotton, except linters	1,817.0	69	12	4	56
Walnuts, in shell	34.6	74	74		
Almonds, shelled	243.2	42	42		
Apples, fresh	146.3	80	48	31	
Grapes, fresh	95.2	34	24	10	
Pears, fresh	25.4	65	41	24	
Raisins	105.5	78	10	68	
Prunes	71.4	89	24		66
Oranges and tangerines	235.1	84	43	37	4
Lemons	93.4	95	87	8	
Grapefruit	117.3	79	9	52	19
Soybeans	5,913.4				
Soybean oil	423.9	62	62		
Soybean meal	1,527.1	71	71		
Tobacco, unmanufactured	1,461.7	36	17		19
Total above	29,259.3				
Other	6,838.8				
Grand total	36,098.1				

[1] Percentages are approximate based on most recent trade data available.
[2] Subsidies in most instances are cash payments on exports but in some they are tax rebates and/or preferential credit.

FOREIGN GOVERNMENT EXPORT ASSISTANCE

Commodity	U.S. exports	Balance of world exports [2]	Subsidies affecting exports [3]	Central marketing [4]	State trading [5]	Total government assistance
World exports of selected agricultural commodities, 1983 [1]:						
Beef and veal, all types (1,000 metric tons)	125	3,559	1,086	1,519	304	2,909
Percent			(31)	(43)	(9)	(82)
Pork, all types (1,000 metric tons)	99	1,210	286	160	536	964
Percent			(22)	(13)	(44)	(80)
Poultry meat (1,000 metric tons)	225	1,142	772		196	968
Percent			(68)		(17)	(85)
Eggs (million pieces)	1,030	9,452	8,791	489		9,280
Percent			([illegible]3)	(5)		(97)
Lard (1,000 metric tons)	43	243	[illegible]1		144	195
Percent			(20)		(59)	(80)
Tallow and grease (1,000 metric tons)	1,447	1,806	78			78
Percent			(4)			(4)
Cowhides and skins, raw (1,000 metric tons)	603	990				
Percent					(6)	
Wheat and wheat flour (1,000 metric tons)	39,939	58,355	36,723	15,632	2,335	54,690
Percent			(63)	(27)	(4)	(94)
Rice (1,000 metric tons)	2,330	9,069	1,217		6,464	7,681
Percent			(13)		(71)	(85)
Coarse grains (1,000 metric tons)	53,984	37,526	12,148	14,781	3,266	30,195
Percent			(32)	(39)	(9)	(80)
Cotton, raw (1,000 bales 480 pound, set)	5,207	13,540	1,675	536	7,610	9,821
Percent			(12)	(4)	(56)	(69)
Tobacco, unmanufactured (1,000 metric tons)	240	1,100	185		211	396
Percent			(17)		(19)	(36)
Walnut, in shell (1,000 metric tons)	61	19	14			14
Percent			(74)			(74)
Almonds, shelled (1,000 metric tons)	59	46	42			42
Percent			(91)			(91)
Apples, fresh (1,000 metric tons)	273	1,075	521	336		857
Percent			(48)	(31)		(80)
Pears, fresh (1,000 metric tons)	36	229	93	55		148
Percent			(41)	(24)		(65)
Grapes, fresh (1,000 metric tons)	111	410	98	41		139
Percent			(24)	(10)		(34)
Raisins (1,000 metric tons)	52	234	24	159		183
Percent			(10)	(68)		(78)
Prunes (1,000 metric tons)	53	38	9		25	34
Percent			(24)		(66)	(89)
Oranges and tangerines (1,000 metric tons)	478	3,855	1,671	1,422	160	3,253
Percent			(43)	(37)	(4)	(84)
Grapefruit (1,000 metric tons)	308	455	39	237	85	361
Percent			(9)	(52)	(19)	(79)
Lemons (1,000 metric tons)	147	708	619	55		674
Percent			(87)	(8)		(95)
Soybeans (1,000 metric tons)	20,684	4,792				
Percent						(0)
Soybean oil (1,000 metric tons)	918	2,843	1,770			1,770
Percent			(62)			(62)
Soybean meal (1,000 metric tons)	4,853	13,477	9,550			9,550
Percent			(71)			(71)

[1] Individual commodity data are for calendar year 1983 or market year 1982-83. Cattle hides and tallow are for 1982.
[2] Intra-European Community trade is excluded.
[3] Numbers in parentheses represent the percentage of foreign exports receiving government assistance.
[4] Commodity marketing boards—national and/or provincial.
[5] State trading in nonmarket economics.

BEEF AND VEAL: [1] EXPORTS IN 1983

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community [2]	426	Cast payment.
Australia	728	Meat Board.
New Zealand	371	Meat Board.
Eastern Europe	304	State trading.
Argentina	420	Meat Board.
Brazil	450	Tax rebate.
Uruguay	210	Rebate of indirect taxes.
Others	650	
Total above	3,559	
United States	125	

[1] Carcass weight equivalent basis, excludes fat, offals, and live animals.
[2] Intra-European Community trade of 1,262,000 metric tons excluded.

PORK: [1] EXPORTS IN 1983

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community [2]	268	Cash payment.
Eastern Europe [3]	536	State trading.
Canada	160	Provincial marketing boards.
Others	246	
Total above	1,210	
United States	99	

[1] Carcass weight equivalent basis, excludes fat, offals, and live animals.
[2] Excludes intra-European Community trade of 1,803,000 metric tons.
[3] Consists of German Democratic Republic, Poland, Romania, and Hungary.

POULTRY MEAT: EXPORTS IN 1983

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community [1]	483	Cash payments to producers/ exporters.
Brazil	289	Favorable production financing. Rebate of taxes, export credit.
Hungary	196	State trading.
Other countries	174	
Total above	1,142	
United States	225	

[1] Excludes intra-European Community trade of 363,000 metric tons.

EGGS: EXPORTS IN 1983

[Amounts in million pieces]

Country	Exports	Type of government assistance
European Community [1]	5,533	Cash payment (export restitution).
Eastern Europe	2,313	State trading, pricing to obtain hard currency.
Finland	547	Cash payment (export restitution).

EGGS: EXPORTS IN 1983—Continued

[Amounts in million pieces]

Country	Exports	Type of government assistance
Spain	398	Cash payment (export restitution).
Australia	199	Egg Board.
Canada	290	Eggs Marketing Board.
Others	172	
Total above	9,452	
United States	1,030	

[1] Excludes intra-European Community trade.

LARD: EXPORTS IN 1982/83 (OCTOBER-SEPTEMBER)

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community [1]	[2] 48	Cash payment.[3]
U.S.S.R.	73	State trading.
Hungary	37	State trading.
Romania	15	State trading.
Bulgaria	19	State trading.
Argentina	3	Tax rebate.
Others	48	
Total above	243	
United States	43	

[1] Excludes intra-European Community trade.
[2] 1983.
[3] Lard exports can be subsidized but European Community is not presently offering any export subsidies for lard.

TALLOW: EXPORTS IN 1982-83 (OCTOBER-SEPTEMBER)

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community [1]	[2] 50	
Australia	201	
Canada	178	
New Zealand	101	
Argentina	78	Tax rebate.
Others	1,156	
Total above	1,806	
United States	1,447	

[1] Excludes intra-European Community trade (estimated at 75 percent).
[2] 1983.
Source: "Oil World," May 6, 1983.

CATTLEHIDES: EXPORTS IN 1982

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community [1]	63	
Australia	125	
New Zealand	23	
Canada	91	
Switzerland	14	
Sweden	16	

CATTLEHIDES: EXPORTS IN 1982—Continued

[In thousands of metric tons]

Country	Exports	Type of government assistance
South Africa	14	
Argentina	36	
Others	608	
Total above	990	
United States	603	

[1] Excludes intra-European Community trade (estimated at 95 percent).
Source: "FAO Trade Yearbook," 1983.

WHEAT AND WHEAT FLOUR: EXPORTS IN 1982/83 (JULY-JUNE)

[In thousands of metric tons]

Country	Exports	Type of government assistance
Canada	21,223	Wheat Board, subsidized rail rates.
European Community [1]	15,500	Cash payment (export restitution).
Australia	8,131	Wheat Board
Argentina	7,501	Grain Board.
Eastern Europe	2,335	State trading.
Others	3,665	
Total above	58,355	
United States	39,939	

[1] Excludes intra-European Community trade.

COARSE GRAINS: EXPORTS IN 1982-83 (OCTOBER-SEPTEMBER)

[In thousands of metric tons]

Country	Exports	Type of government assistance
Argentina	11,561	Grain Board.
Canada	7,048	Marketing Board (barley, oats), export credit guarantees (barley), donations (corn), subsidized rail rates.
European Community [1]	5,100	Cash payment.
Eastern Europe	3,266	State trading.
Thailand	2,423	Government controlled.
South Africa	2,300	Marketing Board.
Australia	920	Marketing Board.
Others	4,908	
Total above	37,526	
United States	53,984	

[1] Excludes intra-European Community trade.

COTTON: EXPORTS IN 1982-83

[1,000 bales of 480 lb net]

Country	Exports	Type of export assistance
U.S.S.R.	3,300	State trading.
Pakistan	1,273	State trading.
Turkey	654	State control cash rebate.

COTTON: EXPORTS IN 1982-83—Continued

[1,000 bales of 480 lb net]

Country	Exports	Type of export assistance
Egypt	920	State trading.
Mexico	410	State and private trading.
Sudan	640	State trading.
Paraguay	335	.
Guatemala	195	Central co-op marketing.
Nicaragua	341	Central co-op marketing.
Argentina	113	
Brazil	1,021	Differential taxes.
Syria	510	State trading.
Australia	617	
India	557	State trading.
Others	2,654	
Total above	13,540	
United States	5,207	

TOBACCO, UNMANUFACTURED: EXPORTS IN 1983

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community	[1] 1	Cash payment.
Canada [2]	44	
Brazil	160	Preferential financing.
Argentina [3]	24	Direct production subsidy.
Zimbabwe	105	
India	75	
South Korea	27	State trading
Philippines	29	
Turkey	100	State trading.
Dominican Republic	24	
Malawi	60	
Thailand	46	
Bulgaria	58	State trading.
Yugoslavia	26	State trading.
Others	221	
Total above	1,000	
United States	240	

[1] Excludes intra-European Community trade.
[2] Province of Ontario has announced it will fund up to 2 cent per pound export payment for the 1984 crop, if necessary. Total cost of export payment would not exceed $1,600,000.
[3] Argentina provides a production subsidy paid from a fund generated by a special cigarette tax. This subsidy reduces the price of [illegible] to export dealers and allows Argentina leaf to compete in world markets.

WALNUTS (IN SHELL BASIS): EXPORTS IN 1982-83

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community [1]	2.4	Cash payments.
India	11.8	Cash payments.
Turkey	5.0	
Total above	19.2	
United States	61.1	

[1] Excludes intra-European Community trade.

RAISINS AND SULTANEAS: EXPORTS IN 1982-83

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community	[1] 24.3	Cash payment.
Turkey	83.0	State control
Australia	57.9	Marketing Board.
Iran	40.3	
South Africa	18.3	Marketing Board.
Mexico	5.5	
Others	5.1	
Total above	234.4	
United States	51.7	

[1] Excludes intra-European Community trade.

PRUNES: EXPORTS IN 1982-83

[In thousands of metric tons]

Country	Exports	Type of government assistance
Yugoslavia	[1] 25.1	State trading (cash payment).
Argentina	4.8	Post-export financing.
Chile	2.9	
France	4.6	Eligible for export restitution.[2]
Others	.2	
Total above	37.6	
United States	52.8	

[1] Excludes intra-European Community trade of estimated 4,400 metric tons.
[2] Although prunes are eligible for export restitution payments, no subsidy data are available, so it is not certain whether any payments have been made.

ORANGES AND TANGERINES: EXPORTS IN 1982-83

[In thousands of metric tons]

Country	Exports	Type of government assistance
Spain	1,472	Internal tax rebates, preferential credit.
Morocco	597	Government control.
Turkey	91	Exchange control—low cost loans.
Lebanon	97	
Israel	508	Citrus Board.
European Community	[1] 4	Cash payment.
Egypt	181	Government control
Cyprus	101	
Mexico	15	
Brazil	66	([2]).
Argentina	38	([3]).
Uruguay	23	
South Africa	317	Citrus Board.
Australia	30	
Cuba	160	State trading.
Others	155	
Total above	3,855	
United States	478	

[1] Excludes intra-European Community trade.
[2] Brazilian tax exemption assists exports of concentrated orange juice.
[3] Argentina reimburses certain taxes on grapefruit juice exports and levies export taxes on fresh grapefruit.

GRAPEFRUIT: EXPORTS IN 1982-83

[In thousands of metric tons]

Country	Exports	Type of government assistance
Cyprus	67	
Israel	177	Citrus Board.
Lebanon	6	
Spain	5	Tax rebate, preferential credit.
Turkey	11	Exchange control, low cost loans, tax rebate.
Argentina	23	([1]).
South Africa	60	Citrus Board.
Cuba	85	State trading.
Others	21	
Total above	455	
United States	308	

[1] Argentina reimburses certain taxes on grapefruit juice exports and levies an export tax on fresh grapefruit.

SOYBEANS: EXPORTS IN 1983-84

[In thousands of metric tons]

Country	Exports	Type of government assistance
Brazil	1,300	([1])
Argentina	2,600	
Paraguay	430	
European Community	[2] 11	
Others	451	
Total above	4,792	
United States	20,684	

[1] Brazil offered preferential financing for drawback operations, which was suspended in 1983-84.
[2] Excludes intra-European Community trade.

SOYBEAN OIL: EXPORTS IN 1983-84

[In thousands of metric tons]

Country	Exports	Type of government assistance
Brazil	875	Tax rebates, preferential credit differential export taxes.
Argentina	380	Tax rebates, preferential credit differential export taxes.
European Community	916	
Spain	435	State trading consumption quota, export tax rebate.
Portugal	80	Export tax rebate.
Others	98	
Total above	2,784	
United States	748	

SOYBEAN MEAL: EXPORTS IN 1983–84

[In thousands of metric tons]

Country	Exports	Type of government assistance
Brazil	7,600	Tax rebates, preferential credit differential export taxes.
Argentina	1,950	Tax rebates, preferential credit differential export taxes.
European Community	[1] 2,249	
Others	1,678	
Total above	13,477	
United States	4,853	

[1] Excludes intra-European Community trade.

RICE: EXPORTS IN 1983

[In thousands of metric tons]

Country	Exports	Type of government assistance
Thailand	3,700	State trading (1/3 of total).
India	165	State trading.
Pakistan	1,299	State trading.
Japan	321	State trading, domestic support program.
European Community	365	Cash payment.
Burma	750	State trading.
People's Republic of China	550	State trading.
Taiwan	531	Sales at less than acquisition cost.
Others	1,388	
Total above	9,069	
United States	2,330	

[1] Excludes intra-European Community trade.

LEMONS: EXPORTS IN 1982–83

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community	[1] 113	Cash payment.
Cyprus	35	Cash payment.
Israel	30	Citrus Board, onetime cash payment.
Lebanon	17	
Spain	315	Tax rebate, preferential credit.
Turkey	135	Exchange control, low cost loans, tax rebate.
Argentina	21	Tax reimbursement.
Chile	3	
Uruguay	5	
South Africa	25	Citrus Board.
Others	9	
Total above	708	
United States	147	

[1] Excludes intra-European Community trade.

ALMONDS, SHELLED: EXPORTS IN 1982-83

[In thousands of metric tons]

Country	Exports	Type of government assistance
Italy	[1] 0.2	Cash payment.
Portugal	2.9	
Spain	42.0	Tax refunds, preferential credit.
Turkey	.5	
Total above	45.6	
United States	58.9	

[1] 2.2 intra-European Community trade excluded.

APPLES, FRESH: EXPORTS IN 1982-83

[In thousands of metric tons]

Country	Exports	Type of government assistance
Canada	64	Marketing Board.
European Community	[1] 301	Cash payment.
New Zealand	93	Marketing Board.
Australia	35	Marketing Board.
Argentina	220	([2]).
Chile	180	
South Africa	144	Marketing Board.
Others	38	
Total above	1,075	
United States	273	

[1] Excludes intra-European Community trade.
[2] Argentina reimburses certain taxes on concentrated apple juice shipped from Patagonia ports; it taxes fresh apple exports.

PEARS, FRESH: EXPORTS IN 1982-83

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community	[1] 23	Cash payment.
Argentina	70	Tax reimbursement.
Chile	21	
South Africa	55	Marketing Board.
Others	60	
Total above	229	
United States	36	

[1] Excludes intra-European Community trade.

GRAPES, FRESH: EXPORTS IN 1983

[In thousands of metric tons]

Country	Exports	Type of government assistance
European Community	[1] 98	Cash payment
Chile	152	
South Africa	41	Fruit Board.
Others	119	
Total above	410	
United States	111	

[1] Excludes intra-European Community trade.

EC EXPENDITURES FOR AGRICULTURE—1982 AND 1983

[Monetary units in millions]

	Total				Intervention				Export subsidies				Subsidies as percent of total appropriations	
	1982		1983 [1]		1982		1983		1982		1983			
	ECU	US	ECU	US	ECU	US	ECU	US	ECU	US	ECU	US	1982	1983
Guarantee section:														
Cereals and rice	1.875	1.838	2.548	2.268	769	754	1.004	894	1.106	1.084	1.544	1.374	59	61
Sugar	1.242	1.217	1.434	1.276	498	488	526	468	744	729	908	808	60	63
Olive oil	493	483	676	602	484	474	671	597	9	9	5	4	2	—
Oilseeds	707	693	1.070	952	703	689	1.065	948	4	4	5	4	—	—
Fruit and vegetables	914	896	1.085	966	855	838	1.020	908	60	59	65	58	7	6
Wine	571	560	634	564	539	528	602	536	32	31	32	28	6	5
Tobacco	672	610	668	595	605	593	645	574	17	17	23	20	3	3
Dairy	3.328	3.261	4.708	4.190	1.807	1,771	2.901	2.582	1.521	1.491	1.807	1.608	46	38
Beef and veal	1.159	1.136	1.474	1.312	515	505	772	687	644	631	702	625	56	48
Pork	112	110	180	160	16	16	30	27	96	94	150	134	86	83
Poultry meat and eggs	104	102	125	111	0	0	0	0	104	102	125	111	100	100
Processed products	414	406	320	285	0	0	0	0	414	406	320	285	100	100
Other agricultural products	539	528	585	521	525	515	585	521	14	14	0	0	0	0
Monetary compensatory amounts	313	307.	412	367	0	0	0	0	290	284	383	341	93	93
Total	12.406	12.158	15.919	14.168	7,352	6.543	9.821	8,741	5.054	4.953	6.069	5.401	41	38
Guidance section	722	707	653	581										
Total	13.128	12.865	16,572	14.749										

[1] Appropriations.

Note.—Columns may not add due to rounding.
Average for 1982, 1 ECU=$0.98; average for 1983, 1 ECU=$0.89.

TOTAL EC AGRICULTURAL EXPORTS AND EXPORT REFUNDS, 1983

[Dollars in millions]

Commodity [1]	Agricultural exports: Total	Agricultural exports: To non-EC countries	Export refunds [2]	Refunds as a percentage of exports to non-EC countries
Grains and preparations	$8.383	$3.595	$1.374	38
Milk and products	3.515	2.969	1.608	54
Agricultural oils and fats	1.154	935	8	1
Sugar and preparations	2.409	1,463	808	55
Beef and veal	3.842	668	625	93
Pork	3,800	603	134	22
Poultry and eggs	1,515	552	111	20
Fruits and vegetables	4,733	1,028	58	6
Wine	2,763	1.240	28	2
Tobacco, unmanufactured	435	214	20	10
Processed agricultural products not specified above	12.081	4,320	285	7
Other (residual)	17,586	5,849		
Total	[3] 69,217	[3] 23,429	[4] 5,401	23

[1] Nimexe items used for groupings were: grains, ch. 10 all, 1101, 1102, 1902, 1903, 1905 to 1908; milk, 0401 to 0404; fats and oils, ch. 15 all; sugar, ch. 17 all; beef, 020104 to 020127, 020684 to 020691, 160252, 160253; pork, 020131 to 020154, 020178 to 020194, 020611 to 020682, 160226 to 160249; poultry 020201 to 020390, 160215 to 160224, 040501 to 040570; fruits and vegs., ch. 8 all, ch. 20 all, wine 2205 and 2206; tobacco, 2401; processed agricultural products, chs. 5, 6, 9, 18, 21, 23 all, 4101, 5301 to 5305, 5501 to 5504.

[2] Appropriations (actual expenditures not yet available).

[3] Consists of trade in NIMEXE chs. 1 to 24, plus 4101, 5301 to 5305 and 5501 to 5504.

[4] Includes monetary compensatory amounts (MCA's) not included in individual categories above (383 million ECU's or $341 million).

Source: Eurostat Nimexe (trade data) and EC Official Journal (export refunds). Converted to dollars from ECU's using 1 ECU=$.89.

JAPANESE RICE EXPORT SUBSIDIES

Calendar year	Producer[1] price ($/MT milled)	Export[2] price ($/MT milled)	Total[2] exports (1,000 MT milled)	Amount of subsidy ($/MT)	Annual[3] subsidy cost ($1000)
1983	1,405	337	239	1,068	255,252
1982	1,325	381	318	944	300,192
1981	1,478	479	193	999	192,807
1980	1,432	382	300	1,050	315,000
1979	1,451	283	168	1,168	196,224

[1] Source: The 59th Statistical Yearbook of MAFF, 1982–83. Milled price calculated using a 0.91 conversion ratio.
[2] Source: Japan Exports & Imports, Commodity by Country, Japan Tariff Association, Various Issues. Includes some food aid exports.
[3] Annual subsidy cost may be overstated, due to inclusion of food aid rice in total rice exports.

Note.—Values calculated utilizing the following exchange rates: 1983: $1 = 238 yen; 1982: $1 = 248 yen; 1981: $1 = 220 yen; 1980: $1 = 226 yen; 1979: $1 = 218 yen.

EXPORT EXPANSION & CREDIT

POLICY STATEMENT

The Commission believes there is a role and a responsibility for government in maintaining and expanding export markets, in addition to developing new markets for U.S. farm products. A policy to improve the competitiveness of U.S. farmers requires that Government maintain and effectively use all the tools that enhance competitiveness which are currently in place. The export market development programs of the U.S. Department of Agriculture (USDA) have generally been effective in providing this support--through export credit activities, market promotion programs and in providing a broad range of market information services to the agricultural export community. These programs should be strengthened as needed to meet unfair foreign competition, improve credit availability for U.S. customers, and develop new markets for U.S. farm products.

During the 1970's growth in the volume of world farm exports averaged approximately 4.5% annually. The growth rate has declined to approximately 1.5% in recent years. The U.S. farmer has absorbed much more of the decline in demand growth than producers in competing exporter nations. The U.S. market share in many commodities has dropped sharply as competitors have used various non-competitive devices to maintain export volumes.

The changed world economic situation U.S. producers face requires a more aggressive use of the USDA's export promotion and market development tools, not only to regain market shares, but to expand the demand for U.S. farm products. Credit programs are not the only answer to the competitive problems facing U.S. agriculture. However, credit programs now being used should be used more aggressively and programs not now funded should be funded. Market promotion programs must be strengthened. The priority in food aid programs (discussed in a separate section) should be on market development and designed to expand demand.

The cooperator market development program administered by the Foreign Agricultural Service of the USDA has been a key factor in expanding export demand over the last 30 years. Continuation of the program should be authorized in the 1985 Farm Bill. This export promotion effort is a joint venture between the Government and, where feasible, non-profit U.S. commodity groups called cooperators. Currently, there are 55 commodity group cooperators (see attached listing). The Government contribution generates more than two dollars in private support for each Federal dollar used.

RECOMMENDATION

1. To meet unfair competition and to develop markets for U.S. commodities and products, the Commission recommends that Congress continue authority in the 1985 Farm Act for GSM-5 direct export credits in an amount not less than $175 million annually to facilitate export development and blended credit programs.

2. The Commission recommends that the 1985 Farm Act direct the Secretary of Agriculture to use export-PIK programs.

3. To facilitate additional on-going assistance to U.S. agricultural exports, the Commission recommends the reauthorization and funding of the export credit revolving fund, which was contained in the 1981 Farm Act but for which no appropriations were ever made.

4. The Commission recommends that the $5 billion limit on GSM-102 credit guarantees be increased by $2 billion in FY 1986 and that Congress direct the Administration to actively pursue export opportunities using GSM-102. The Commission recommends that Congress reject the proposal to impose a 5% origination fee and legislate that the average should be no more than 1/3 of 1 percent.

5. The Commission recommends that Congress direct the Administration to use not less than $100 million annually to fund intermediate credit projects for development of infrastructure and facilities that will expand U.S. export opportunities (GSM-301).

6. The Commission recommends that Congress authorize continuation of the cooperator market development program in the 1985 Farm Bill. The authorization should be "to help develop new markets and to expand and maintain existing markets, using non-profit agricultural trade organizations to the maximum extent practicable." The authorization also should include an exemption of the cooperator market development program from the requirements of OMB Circular No. A-110.

COMMENTARY

The Commodity Credit Corporation (CCC) charter authorizes the U.S. Department of Agriculture to use CCC borrowing authority to provide credit to help finance U.S. agriculture exports. Various approaches have been made over the last 35 years to use this authority, including:

1. Direct credit--CCC loans for up to three years to foreign entities at rates slightly above the cost of Government borrowing (GSM-5).

2. Guarantees against political risks--CCC guaranteed bank loans of up to three years for 98% of principal and 8% interest against all political risks (GSM-101).

3. Export credit guarantees--CCC guaranteed bank loans of up to three years against all repayment risks, generally for 98% of principal and 8% of interest (GSM-102).

4. Blended credit--A mixture of direct credit, GSM-5, and guaranteed bank loans, GSM-102, usually 20% direct credit and 80% guarantees. The interest on direct credit was set at zero, which reduced the cost of borrowing by 20%.

5. Intermediate credit--CCC loans for 3 to 10 years to buy U.S. farm commodities for (a) financing construction of infrastructure facilities that would help to expand U.S. exports, (b) loans for breeding livestock, (c) meeting credit competition, (d) building reserves by importing countries (GSM-201 and GSM-301).

Since February 1985, the only program that has been operational is the GSM-102 program of 3-year credit guarantees. The GSM-102 program has a ceiling of $5 billion in FY 1985, and the same level has been proposed in the FY 1986 budget. The GSM-102 credit guarantee program has worked extremely well in maintaining U.S. market shares in a number of countries with severe debt problems while U.S. market shares were declining in strictly commercial markets (see attached chart). Recent evidence suggests that with current world grain prices, the credit guarantee may not be enough to offset higher U.S. prices brought on by a stronger U.S. dollar.

The 1986 budget contains a proposal to implement a 5% origination fee on the GSM-102 program. Currently, the fee averages about 1/3 of 1 percent. In view of the problems of competitiveness of U.S. grains, the 5% proposal would probably make the credit guarantee program unusable.

The U.S. Feed Grains Council recently prepared estimates of the impact of imposing a 5% origination fee on commodity prices, as follows:

Effect of the Increase in the GSM-102 Loan Guarantee Fee on FOB Prices of Major U.S. Farm Commodities, Making them Noncompetitive in World Markets

	FOB Price	Price plus current fee of 1/3 of 1%	Price plus proposed fee of 5%	Proposed fee % increase
HRW Wheat ($ per MT)	150	150.50	157.50	7.00
Corn ($ per MT)	120	120.40	126.00	5.60
Soybeans ($ per MT)	235	235.78	246.75	10.97
Rice ($ per MT)	429	430.43	450.45	20.02
Cotton	244	244.81	256.20	11.39

A limited blended credit program was used in FY 1983, 1984 and early in FY 1985, but has been suspended following a court ruling that cargo preference laws were applicable to the program on grounds that the zero interest direct credit component constituted a subsidy. (The 20% interest rate saving to the buyer would be more than offset by the substantially higher cost of shipping half the cargo on U.S. bottoms.) There is a budget provision for $175 million in direct credit in FY 1985, but the Administration has not proposed further funding this program in the FY 1986 budget. Initially, the blended credit program was used to finance sales of a wide range of U.S. agricultural commodities. For the last two years the program has been targeted to meeting subsidized competition from the EC for wheat and wheat flour markets in North Africa and the Middle East. Blended credit has been effective and should be maintained as a marketing tool.

The intermediate credit program, authorized in the Agricultural Trade Act of 1978, is not currently funded. In fact, only one project, a grain silo in Israel in 1980, was approved. The private sector and the USDA have identified a number of projects that could usefully be funded under the immediate credit program, such as storage facilities in Mexico and soybean crushing in Turkey. All have potential for long-term benefits to U.S. exports. The cooperator market development program, initially authorized as a part of the Public Law 480 program (The Agricultural Trade Development and Assistance Act of 1954), provided for foreign currencies generated by the sale of U.S. farm products to be used to develop markets for U.S. agricultural commodities. Since the mid-1960's, dollar appropriations have supported the cooperator program.

The 55 commodity group cooperators endeavor to match the USDA funding with contributions by producers and agribusiness groups. Further funding is provided by interested parties located in overseas markets. In addition, an Export Incentive Program is used to promote products for which no cooperator agreement is possible. In this program, the USDA signs an agreement directly with a company to promote export sales on a matching funds basis.

In FY 1983, expenditures of approximately $25 million in Federal funds resulted in a program of around $90 million to promote export sales of U.S. agricultural products (see attached FY 1983 expenditures chart).

Over the years, the cooperator program has been evaluated many times, and the results have generally been extremely positive. The program has had strong support from producer groups in the United States, is supplemented by corporate dollars from agribusiness, and has enjoyed widespread congressional support. In summary, the FAS/USDA market development program has the strong support of all those who are aware of the program and its benefits.

In the Administration's proposed 1985 Farm Bill, the question of continuing the cooperator program is open. The analysis of the proposed 1985 bill, which directs the Secretary of Agriculture to continue to assist producers, processors, distributors and exporters to maintain and expand foreign markets for U.S. agricultural commodities, states that "That assistance could include a continuation of the program of 'cooperator agreements' between the Department of Agriculture and nonprofit agricultural trade associations." The Office of Management and Budget (OMB) has consistently opposed funding the cooperator program. Given OMB's attitude toward the cooperator program, it is doubtful that the Administration could forward a positive report to Congress. The language in P.L. 480 that authorized the cooperator program is tied to use of foreign currencies generated under the program, but all sales are now for dollars. Consequently, the only congressional authority for the market development program is in the annual appropriation bill for the USDA.

USDA's Inspector General (OIG) has made a study of the management system for the cooperator market development program and concluded that the program now falls within the category of a cooperative agreement and must, therefore, comply with controls contained in OMB Circular No. A-110. This means that FAS must greatly modify the regulations to manage the cooperator program. The A-110 controls are designed for domestic programs, and do not meet the needs of either USDA or the cooperators. The program is now working extremely well for both FAS and the cooperators, and an exceptionally effective planning and budgeting system is in place. This system allows for close monitoring of expenditures without materially interfering in day-to-day cooperator operations. The OIG study did not reveal any significant weakness in the current system for program management.

BENEFIT/COST ANALYSIS
GSM 102 CREDIT PROGRAM - FY 84

ASSUMPTIONS AND METHOD

COSTS

1. A 35% ADDITIONALITY FACTOR IS ASSUMED (I.E. $4.0 BILLION TIMES 35% EQUALS $1.4 BILLION ADDITIONAL EXPORTS).

2. CREDIT PACKAGE WAS DISTRIBUTED AMONG THE COUNTRIES IN FIVE RESCHEDULING RISK PROBABILITY CATEGORIES RANGING FROM 0 TO 90% CHANCE OF RESCHEDULING.

3. A PRINCIPLE WRITE-OFF OF 25% AND 15% IN THE TOP TWO RISK CATEGORIES RESPECTIVELY WAS ASSUMED.

4. ON RESCHEDULING A 3 YEAR GRACE PERIOD AND A 10 YEAR AMORTIZATION OF THE BALANCE WAS ASSUMED.

5. A RESCHEDULING INTEREST RATE OF 8% AND A MARKET INTEREST RATE OF 12% WERE ASSUMED (I.E., A 4 PERCENTAGE POINT INTEREST DIFFERENTIAL BETWEEN MARKET AND RESCHEDULING INTEREST RATES.

6. ALL FUTURE VALUES WERE DISCOUNTED TO PRESENT VALUE WITH A 12% DISCOUNT RATE (I.E. EQUAL TO THE ASSUMED MARKET INTEREST RATE).

BENEFITS

1. INCREASED FEDERAL GOVERNMENT TAX REVENUES AT 3% OF THE ADDITIONAL EXPORT VALUE.

2. FARM PROGRAM STORAGE COST SAVING FOR 3 YEARS ON ADDITIONAL EXPORT VALUE.

3. CCC CREDIT GUARANTEE FEES COLLECTED.

RESULTS

	PRESENT VALUE OF:		
	BENEFITS 1/	COSTS 2/	B/C
1. WITHOUT DEFICIENCY PAYMENT SAVINGS	324	247	1.3

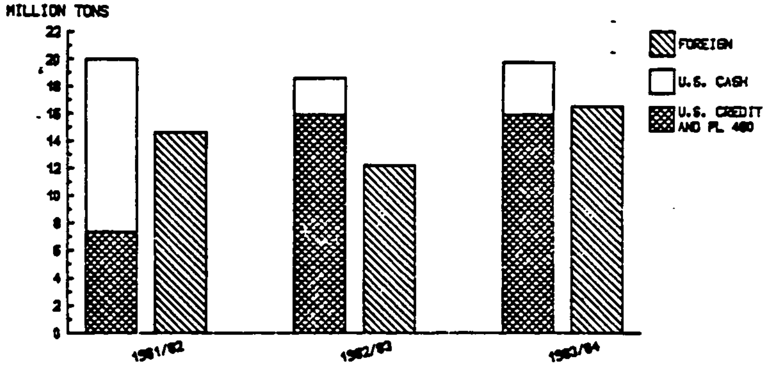
2. CCC BUDGET OUTLAYS WOULD APPROXIMATE $393 MILLION IN EACH OF THE YEARS 1985, 1986 AND 1987 FOR A TOTAL OF $1.2 BILLION PROJECTED RESCHEDULINGS.

1/ PRESENT VALUE OF BENEFITS INCLUDE THE DISCOUNTED VALUE OF THE ADDITIONAL TAX REVENUES, STORAGE COST SAVINGS, CREDIT GUARANTEE FEES COLLECTED.

2/ PRESENT VALUE OF COSTS INCLUDE THE DISCOUNTED VALUE OF NET OUTFLOWS ASSOCIATED WITH RESCHEDULINGS.

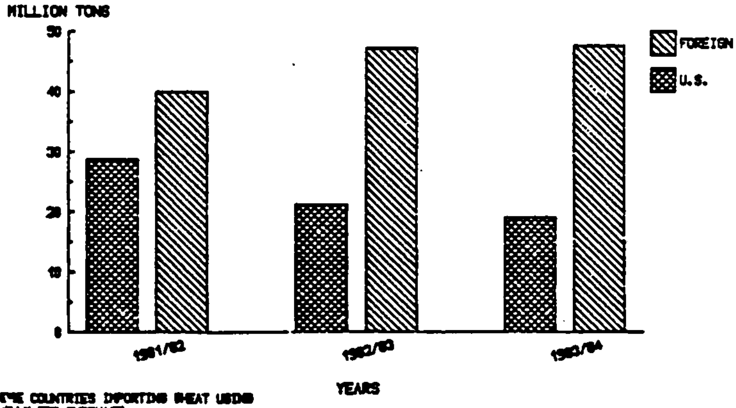
U.S. AND FOREIGN WHEAT EXPORTS TO:

COUNTRIES IMPORTING ON CREDIT, AID, AND CASH 1/



1/ THOSE COUNTRIES IMPORTING WHEAT USING PL 480 & GSM ALONE OR ALONG WITH CASH

ALL OTHER COUNTRIES 2/



2/ THESE COUNTRIES IMPORTING WHEAT USING CASH ONLY FOR PURCHASE

58-046 O - 86 - 6

USDA EXPORT PROGRAMS: COMMERCIAL, CONCESSIONAL, AND OTHER AUTHORIZED

(IN MILLION DOLLARS)

YEAR	COMMERCIAL EXPORT CREDIT PROGRAMS						PUBLIC LAW 480 (CONCESSIONAL) PROGRAMS				OTHER CCC AUTHORIZED PROGRAMS			TOTAL E C PROGRAMS	TOTAL AGRICULTURAL PRODUCT EXPORTS	PERCENT OF AG. EXPORTS
	GSM-5	GSM-101	GSM-102	GSM-201	GSM-301	TOTAL	TITLE I/III	TITLE II	SECTION 416 1/	TOTAL	BARTER	DIRECT SALES: CCC OWNED STOCKS	TOTAL			
1955						0.0	73.0	186.8		259.8	124.6		124.6	384.4	3,144.0	12.2
1956	1.4					1.4	438.8	247.7		686.5	298.4		298.4	986.3	3,496.0	28.2
1957	4.6					4.6	907.8	216.8		1,124.6	400.5		400.5	1,529.7	4,728.0	32.4
1958	11.9					11.9	657.5	223.7		881.2	99.8		99.8	992.9	4,003.0	24.8
1959	38.7					38.7	724.1	160.9		885.0	132.2		132.2	1,055.9	3,719.0	28.4
1960	0.0					0.0	823.9	142.8		966.7	149.2		149.2	1,116.7	4,519.0	24.7
1961	18.0					18.0	951.5	220.9		1,172.4	143.9		143.9	1,334.3	4,946.0	27.0
1962	32.8					32.8	1,048.4	248.7		1,297.1	198.4		198.4	1,528.3	5,142.0	29.7
1963	76.6					76.6	1,145.3	263.5		1,408.8	47.4		47.4	1,532.8	5,078.0	30.2
1964	118.4					118.4	1,104.6	270.0		1,374.6	43.5		43.5	1,536.5	[illegible]	25.3
1965	94.5					94.5	1,299.8	238.7		1,538.5	31.9		31.9	1,664.9	6,097.0	27.3
1966	210.0					210.0	1,047.6	266.5		1,314.1	32.1		32.1	1,556.2	6,747.0	23.1
1967	339.3					339.3	981.0	267.4		1,248.4	22.4		22.4	1,610.1	6,821.0	23.6
1968	140.6					140.6	1,022.8	250.1		1,272.9	6.3		6.3	1,419.8	6,331.0	22.4
1969	116.0					116.0	773.7	264.7		1,038.4	1.4		1.4	1,155.8	5,751.0	20.1
1970	211.3					211.3	815.3	240.6		1,055.9	0.0		0.0	1,267.2	6,958.0	18.2
1971	390.8					390.8	743.0	279.9		1,022.9	0.0		0.0	1,413.7	7,955.0	17.8
1972	371.6					371.6	679.0	403.7		1,082.7	0.0		0.0	1,454.3	8,242.0	17.6
1973	1,028.5					1,028.5	667.4	290.0		957.4	0.0		0.0	1,985.9	14,984.0	13.3
1974	297.9					297.9	575.4	282.2		857.6	0.0		0.0	1,155.5	21,559.0	5.4
1975	248.6					248.6	762.0	334.4		1,096.4	0.0		0.0	1,345.0	21,817.0	6.2
1976 2/	956.9					956.9	1,006.2	378.0		1,384.2	0.0		0.0	2,341.1	22,742.0	10.3
1977	755.3					755.3	762.1	362.0		1,124.1	0.0		0.0	1,879.4	23,974.0	7.8
1978	1,582.5					1,582.5	738.0	337.0		1,075.0	0.0	16.9	16.9	2,675.2	27,289.0	9.8
1979	1,527.4	63.2				1,590.6	792.7	393.0		1,185.7	0.0	17.8	17.8	2,794.1	31,979.0	8.7
1980	717.9	698.1	671.0	1.0	17.5	2,105.5	865.3	508.9		1,374.2	0.0	41.4	41.4	3,521.1	40,481.0	8.7
1981	0.6	118.6	1,743.6			1,862.8	790.6	584.8		1,375.4	0.0	160.0	160.0	3,398.2	43,780.0	7.8
1982	0.0		1,386.5			1,386.5	722.5	405.6		1,128.1	13.0	16.5	29.5	2,544.1	39,095.0	6.5
1983	129.8		3,939.4			4,069.1	807.7	397.7	87.2	1,292.6	0.0	80.7	80.7	5,442.4	34,776.0	15.6
1984	82.3		3,564.0			3,646.3	774.4	459.0	158.9	1,392.3	20.4	80.7	101.1	5,139.7	38,013.0	13.5
1985	325.0 3/		5,000.0 3/			5,325.0	1,106.0	1,001.0 4/	146.7	2,253.7	0.0	19.4	19.4	7,598.1	35,500.0	21.4
1986 4/	0.0		5,000.0				1,030.0	650.0	n/a		n/a	n/a			n/a	

FOOTNOTES:

1--Market value

2--Includes transitional quarter

3--Authorized level

4--Estimated

FAS EXPENDITURES AND
U.S. AND THIRD PARTY COOPERATOR CONTRIBUTIONS
FISCAL YEAR 1983
($1,000)

Commodity and Cooperator	FY 1983 FAS Expenditures	Cooperator Contributions Cash	Cooperator Contributions Goods & Services	Cooperator Contributions Total	Foreign Third Party
COTTON					
Cotton Council International	1,365	2,110	185	2,295	3,033
International Institute for Cotton	2,328	-0-	-0-	-0-	2,233
TOTAL COTTON	3,693	2,110	185	2,295	5,266
DAIRY & POULTRY					
Poultry & Egg Institute of America	862	167	142	309	637
Dairy Society Int'l.	-0-	-0-	-0-	-0-	-0-
TOTAL DAIRY & POULTRY	862	167	142	309	637
OILSEEDS & PRODUCTS					
American Soybean Association	3,272	4,632	288	4,920	4,486
National Peanut Council	622	177	20	197	2,125
North Dakota Sunflower Council	90	85	51	136	107
National Cottonseed Products Assn.	33	24	1	25	85
TOTAL OILSEEDS & PRODUCTS	4,017	4,918	360	5,278	6,803
FRUITS & VEGETABLES					
National Potato Promotion Board	35	120	80	200	-0-
California Raisin Advisory Board	357	1,184	117	1,301	3,294
Florida Department of Citrus	278	1,099	-0-	1,099	580
Northwest Horticultural Council	304	253	64	317	-0-
California Cling Peach Advisory Board	373	637	25	662	483
California Avocado Commission	187	158	-0-	158	60
Papaya Administrative Committee	31	39	71	110	-0-
North American Blueberry Council	1	-0-	-0-	-0-	-0-
California Table Grape Commission	26	72	-0-	72	-0-
Florida Nurserymen & Growers Assn., Inc.	-0-	-0-	103	103	-0-
Western Growers Assn.	13	8	13	21	-0-
EIP's 1/	1,722	4,041	-0-	4,041	3,605
TOTAL FRUITS AND VEGETABLES	3,327	7,611	473	8,084	8,022
GRAIN & FEED					
U.S. Wheat Associates, Inc.	3,857	2,590	1,706	4,296	6,986
Millers National Federation	-0-	2/	68	68	-0-
National Dry Bean Council	33	52	26	78	27
Protein Grain Products International	42	97	25	122	-0-
Rice Council for Market Development	1,257	590	223	813	3,378
USA Dry Pea and Lentil Council, Inc.	124	147	102	249	29
U.S. Feed Grains Council	2,424	2,081	90	2,171	2,898
National Hay Association, Inc.	12	25	44	69	-0-
The Popcorn Institute	47	38	9	47	-0-
TOTAL GRAIN & FEED	7,796	5,620	2,293	7,913	13,318
LIVESTOCK & LIVESTOCK PRODUCTS					
National Renderers Association	842	514	165	679	342
Santa Gertrudis Breeders International	3/	-0-	-0-	-0-	-0-
American Brahman Breeders Association	3/	-0-	-0-	-0-	-0-
American Hereford Association	3/	-0-	-0-	-0-	-0-
American Polled Hereford Association	3/	-0-	-0-	-0-	-0-
American Angus Association	3/	-0-	-0-	-0-	-0-
Tanners Council of America	91	224	-0-	224	-0-
International Brangus Breeders Assn.	3/	-0-	-0-	-0-	-0-
Mohair Council of America	5	9	10	19	-0-
American International Charolais Assn.	3/	-0-	-0-	-0-	-0-
Holstein-Friesian Association of America	167	400	8	408	74
EMBA Mink Breeders Association	215	835	-0-	835	-0-
American Quarter Horse Association	15	48	17	65	-0-
Brown Swiss Cattle Breeders Association	13	10	16	26	-0-
National Association of Animal Breeders	21	85	34	119	-0-
U.S. Meat Export Federation	897	566	147	713	871
National Association of Swine Records	4	5	29	34	-0-
Beefmaster Breeders Universal	3/	-0-	-0-	-0-	-0-
Appalossa Horse Club, Inc.	25	46	21	67	-0-
U.S. Beef Breed Council 4/	29	80	99	179	-0-
Catfish	13	5	-0-	5	-0-
TOTAL LIVESTOCK & LIVESTOCK PRODUCTS	2,337	2,827	546	3,373	1,287

FAS EXPENDITURES AND
U.S. AND THIRD PARTY COOPERATOR CONTRIBUTIONS
FISCAL YEAR 1983 -- CONTINUED
($1,000)

Commodity and Cooperator	FY 1983 FAS Expenditures	Cooperator Contributions Cash	Cooperator Contributions Goods & Services	Cooperator Contributions Total	Foreign Third Party
TOBACCO & SEEDS					
Tobacco Associates	61	234	244	478	-0-
American Seed Trade Association	63	136	112	248	-0-
TOTAL TOBACCO & SEEDS	124	370	356	726	-0-
STATE GROUPS					
EUSAFEC	69	17	123	140	-0-
MIATCO	77	93	118	211	-0-
SUSTA	84	58	208	266	-0-
WUSATA	75	92	146	238	-0-
NASDA	400	-0-	-0-	-0-	-0-
TOTAL STATE GROUPS	705	260	595	855	-0-
FOREST PRODUCTS					
National Forest Products Assn.	512	609	630	1,239	310
TOTAL FOREST PRODUCTS	512	609	630	1,239	310
TOTAL COOPERATOR PROJECTS	23,373	24,492	5,580	30,072	35,643
TOTAL FAS PROJECTS	869	75	-0-	75	-0-
GRAND TOTAL COOPERATOR AND FAS PROJECTS	24,242	24,567	5,580	30,147	35,643
Agricultural Trade Offices	2,841	-0-	-0-	-0-	-0-

1/ EIP's contributions are recorded in year promotion occurred.
FAS expenses are recorded in fiscal year reimbursed.
2/ Less than $500.
3/ Consolidated to U.S. Beef Breed Council in FY 1983.

CMP/EPD/PDB
Revised 11/13/84 (1218P)

FOOD AID

POLICY STATEMENT

Food aid should play a much larger role in U.S. efforts to eliminate hunger, promote market development and foster economic growth in developing countries. Increased food aid would put U.S. agricultural capacity into use with direct benefits to the health of U.S. agriculture and to developing countries which face food deficits and foreign exchange shortages. To accomplish this without additional cost to the government, the share of food aid in the foreign assistance budget should be restored to one-third of total economic aid, the same proportion as provided in 1970 when U.S. stocks were also very large.

P.L. 480 has proved its worth over 30 years as the primary instrument for making better use of U.S. agricultural abundance to help meet the food needs of friendly developing countries. P.L. 480 programs serve multiple U.S. objectives, including humanitarian, market development, economic development, and foreign policy objectives. Food aid should be used for humanitarian purposes, with careful concern for nutritional requirements. However, long-term market development should have the highest priority except to meet humanitarian needs.

A decision to restore the share of food aid in foreign economic aid to 1968-1972 levels would expand agricultural exports and generate resources for a global initiative to channel assistance through private enterprise for market development and economic development. There should be a new title under P.L. 480 with separate funding and implementation to allow sales for foreign currency to any friendly developing country which agrees to permit the United States to lend those currencies to local and American private business firms for projects in marketing, distribution, storage, processing and production of farm products. Existing authority under P.L. 480 for the use of foreign currencies by U.S. private enterprise firms (referred to as Cooley loans) was only considered applicable to "excess" foreign currencies obtained from pre-1971 sales agreements and the authority is no longer used.

Current food aid programs under P.L. 480 Title I/III also need to be examined for greater effectiveness and efficiency in supporting economic development, agricultural policy reforms and the private sector in developing countries. Soundly based economic growth in developing countries is essential to long term market development. In addition, the Commission supports moving additional quantities of high value and value-added agricultural products and increased programming of specialty crops under current programs.

More use should be made of U.S. Government-owned commodities under the authority of Section 416 of the Agricultural Adjustment Act of 1949 to meet humanitarian needs and to support significant agricultural policy reform. Getting the right policy environment for agriculture is the number one priority in tackling the underlying food problem in Africa.

RECOMMENDATIONS

1. The Commission recommends a sense of the Congress resolution indicating that the general policy of the United States is to provide economic assistance to foreign nations in the form of "food first." As a specific goal, Congress should call upon the Administration to restore the proportion of food aid in its foreign economic aid budget from the current level of 18% to one-third of the total of all such assistance, the same proportion of food aid resources as provided in the period 1968-1972. The Commission believes that a shift in resources of this nature would advance the overall objectives of U.S. foreign economic assistance effectively, without additional cost to the U.S. Treasury.

2. In the event Congress does not approve funding for food aid programs as recommended above, the Commission urges Congress to provide such increases in funding by direct appropriation.

3. The Commission recommends that Congress reauthorize P.L. 480, designating responsibility for decision-making to the Secretary of Agriculture with the advice of the Secretary of State and the Administrator of AID in order to clarify management authority and the priority to be given to market development.

4. The Commission recommends that Congress enact a new title under P.L. 480 to be called Private Sector Development Assistance. This will ensure that foreign aid funding shifted into food aid will serve the objective of market development directly and will promote vigorous private enterprise in developing countries. The new title should permit sales of up to $500 million of food aid to developing countries for foreign currencies. The United States would then lend these funds to American and local private business firms for projects which will enhance economic development and promote long term market development for U.S. agricultural products. The new program should be administered by the Secretary of Agriculture and the President of the Overseas Private Investment Corporation (OPIC).

The provision for sales for foreign currency is a key feature for obtaining the participation of developing countries in such a program and for generating the needed investment resources. Current P.L. 480 programs provide only for long term sales for dollars (Title I) and conditional grants (Title III) or grant food aid (Title II). Existing authority under P.L. 480 for use of foreign currencies by private businesses is not used in connection with current P.L. 480 programs.

5. The Commission endorses the concept of a new Food for Progress program of food aid to support agricultural policy changes in developing countries. The program could provide up to 500,000 tons per year of additional food aid to support developing countries which are willing to undertake agricultural policy reforms to permit greater private initiative. The proposal before Congress would hold down any new costs to the budget by drawing this additional food aid from existing Government-owned food stocks under expanded authority of Section 416 of the Agricultural Adjustment Act of 1949. USDA should have a lead role in the design and operation of Food for Progress agreements made with developing countries.

COMMENTARY

Public Law 480, enacted in 1954, launched a noble 30 year effort under which the U.S. has provided $37 billion in food aid to meet immediate needs and to provide the impetus for long-term development of viable commercial markets. The levels, terms and objectives of food aid have evolved markedly during the period (see attached chart). In many ways the 1960's were the heyday for P.L. 480 programs, with deliveries nearing 20 million tons a year and commitments to a single country (India) reaching 14 million tons. Payments on concessional sales were accepted in foreign currencies for reuse in public activities and investment. The program proved that it could work to stimulate growth and investment in demand-enhancing activities in recipient countries. It laid the foundation for the emergence of countries like Korea, Taiwan and Colombia as major new commercial customers for U.S. agricultural products.

With the disappearance of large U.S. grain stocks in the early 1970's and the rapid growth of commercial demand for U.S. grain, food aid levels declined. U.S. food aid fell to only 3.0 million tons in 1974, the low year. As the program was revised in the 1970's and built back to levels averaging 5.5-6.5 million tons per year, it carried harder terms (mostly requiring dollar repayment), became burdened with multiple agency objectives and detailed congressional requirements and was more complex to manage. Despite the reemergence of abundant U.S. grain stocks in recent years, the P.L. 480 program was allowed to grow very little in the 1980's. In an era of tight budgets, Executive Branch agencies gave preference to the funding of other credit and aid instruments to accomplish their international objectives.

The share of food aid in total U.S. foreign economic aid has declined sharply from 33 percent in 1968-72 to 18 percent currently (see attached chart). Funding for contributions to multilateral banks, Economic Support Funds (ESF) and Development Assistance (DA) increased considerably over this period. In contrast, food aid funding fluctuated in a narrow range. If food aid is again to play a major market development role in Third World countries, its share in foreign economic aid must be restored.

Currently P.L. 480 programs operate under three titles of the law. Title I ($730 million in FY85) provides four million tons of commodities to 20 recipient countries on long-term concessional loans (dollar repayment over 15-40 years) in return for specific commitments related to economic development. The program's multiple objectives (humanitarian, market development, economic development and foreign policy) are worked out among USDA, State and AID in the interagency decision-making process, over which OMB and Treasury exercise significant veto power. A clarification of lead responsibility and priorities would be helpful to the program's effectiveness as a market development tool.

P.L. 480 Title III ($106 million in FY85) draws from Title I funds to provide commodities to 2-4 countries on a multiyear basis in return for detailed commitments to economic and social development. If these conditions are met, repayment of the dollar loan is forgiven. Title III was enacted in 1977 with a stress on achieving social equity for the benefit of the poor. Title III has fallen far short of its promise, and its effectiveness as a strategy for promoting economic growth has come into question. Lead time for AID program preparation is approximately three years. Cumbersome procedures and lengthy reporting requirements have proved to be too much for many developing countries and the smaller AID missions located in them. The few programs that it was possible to establish have not, except in Bangladesh, been successful in accelerating policy reform. Title III has been particularly unsuitable for African countries lacking the administrative structure for the detailed central planning which Title III programs promote. The multiyear feature of Title III agreements is useful to developing countries but this could be applied in P.L. 480 Title I agreements as well, under existing authority.

Title II ($800 million in FY85) provides 1.7 million tons of food and ocean freight costs primarily to Private Voluntary Organizations (PVO's) for humanitarian feeding programs and small scale development activities. The law requires that a minimum of 1.4 million tons of food be supplied for the regular, non-emergency activities of the PVO's and the World Food Program. The balance of the Title II budget provides a reserve for emergency relief. When emergency needs exceed the reserve, as have African needs in 1984 and 1985, supplemental appropriations may be provided and the Administration may also draw up to 300,000 tons from the emergency wheat reserve of 4 million tons. A Special Presidential Fund of $50 million for use in connection with extraordinary food emergencies was authorized by Congress in 1985 but is not funded.

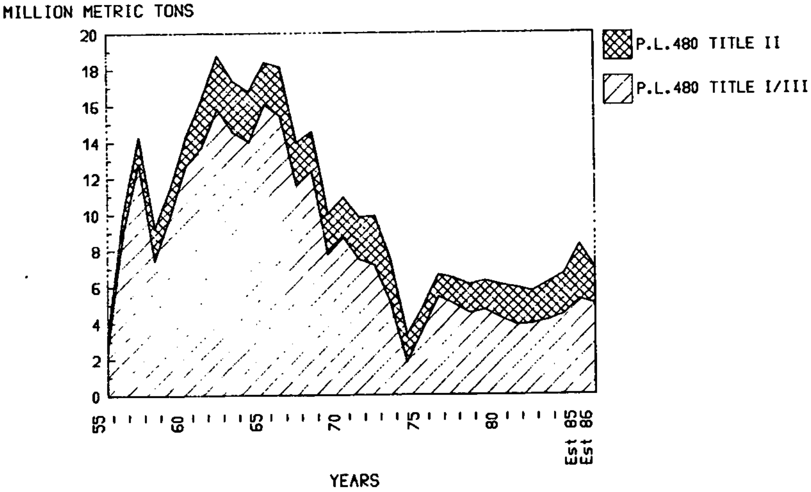
The Commission's recommended new title under P.L. 480 would be called Private Sector Development Assistance (PSDA) and would aim directly at market development through demand expansion. It would be consistent with the finding of the President's Task Force on International Private Enterprise (1984) that the United States should channel increased food aid funding as much as possible through private enterprise. The new title would be funded separately from P.L. 480 Titles I, II and III. Responsibility for implementation of the new title would rest with the Secretary of Agriculture and the President of the Overseas Private Investment Company (OPIC) with the advice of the Secretary of State and the Secretary of Commerce. Decision-making for the new program would be separate from the interagency decision-making machinery for the other P.L. 480 Titles. The new title should be exempted from the statutory requirement that 75 percent of funds go to the developing countries with lowest incomes.

Foreign currencies received in payment by the United States for food sales under the new title would be lent for private investment projects that offer an opportunity to increase the demand for farm products and to foster economic development. Local private companies, U.S. companies and joint ventures could participate in the program. Credit would be limited to a maximum of 95 percent of the cost of the project; loans would be made for up to 20 years with appropriate grace periods and interest rates.

In addition to P.L. 480 programs, the U.S. began to offer Government-owned dairy products in 1982 as grant food aid to foreign governments and private voluntary organizations which undertake to distribute them to the needy. The authority for this program is in Section 416 of the Agricultural Adjustment Act of 1949. The planned level of this program is 200,000 tons of non-fat dry milk in FY85. Last year Congress expanded the donation authority to include wheat and USDA announced an intention to use the authority.

The President has also announced a new food aid effort to be called Food for Progress to support agricultural policy reform in selected African countries. As introduced in Congress, the Food for Progress program would rely on expanded Section 416 authority to draw 500,000 tons from U.S. Government-owned grain stocks in each of the next four years to support food aid grants made under multiyear agreements with eligible developing countries. They would commit themselves to implement reforms of agricultural pricing, marketing and distribution in order to reverse deterioration in their agricultural and food systems. The Food for Progress program is designed to reduce the risk of food shortages during a transition in the participating countries toward greater reliance on private initiative and market incentives in agriculture.

P.L.480 PROGRAM EXPORTS
FY 1955 - 1986
(GRAIN EQUIVALENT BASIS)



Source: USDA Annual Report on Public Law 48

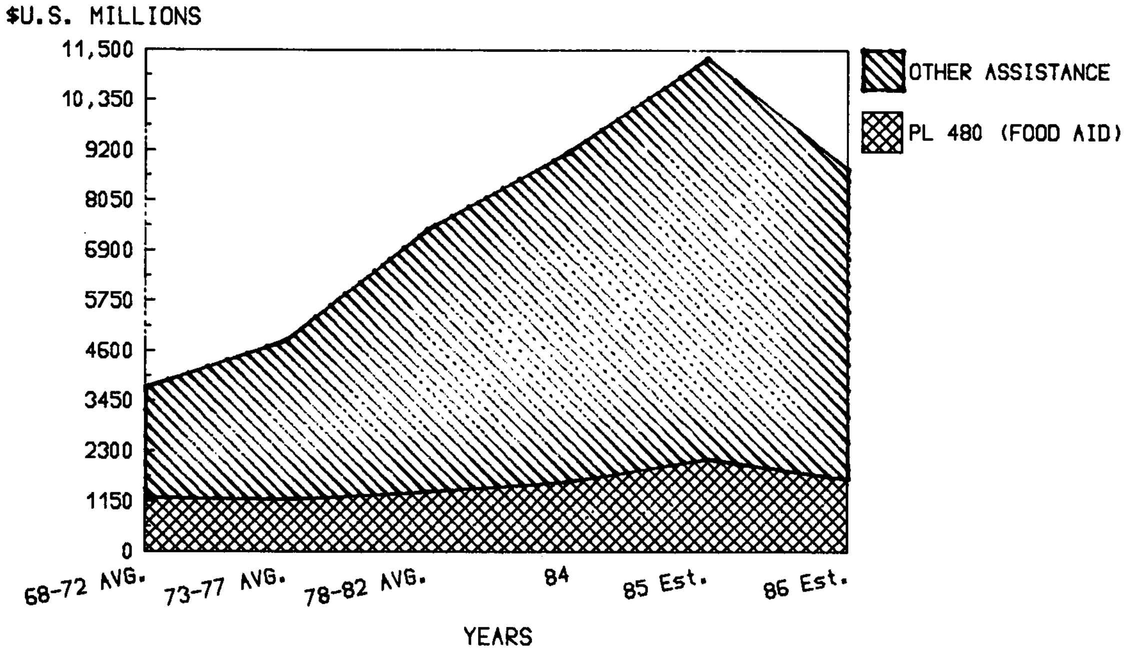
FOREIGN ECONOMIC ASSISTANCE

(current dollars, millions)

	1968-72 (average)	1973-77 (average)	1978-82 (average)	1984	1985 (est.)	1986 (req.)
PL 480 (Food Aid)	1,220	1,182	1,362	1,590	2,107	1,651
Economic Support Fund (ESF)	548	1,154	2,254	3,146	4,213	2,824
Development Assistance (DA)	1,387	1,477	1,940	2,133	2,433	2,142
Contribution to Multilateral Banks (MDB'S)	341	735	1,292	1,324	1,548	1,347
Contribution to International Organizations & Programs	153	192	302	315	358	196
Miscellaneous Programs	83	126	207	612	636	584
TOTAL	3,732	4,866	7,357	9,120	11,295	8,744

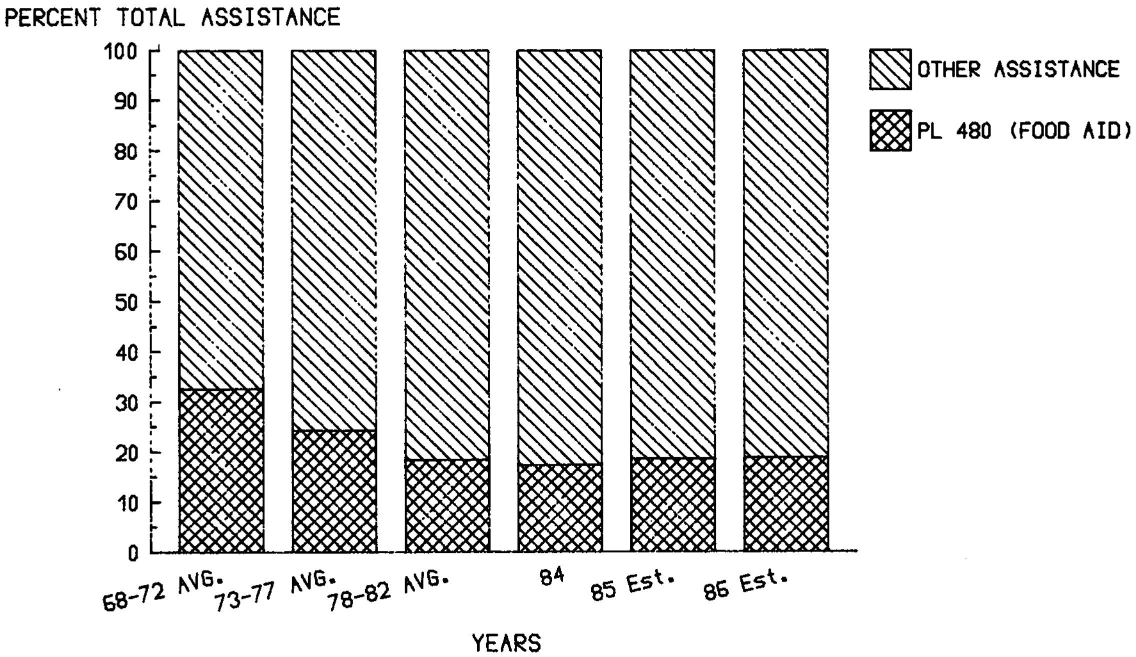
Source: Report of the Commission on Security and Economic Assistance (Carlucci Commission) 1983; Agency for International Development Congressional Presentation FY86.

FOOD AID AS COMPARED TO TOTAL
FOREIGN ECONOMIC ASSISTANCE



Source: Report of the Commission on Security and Economic Assistance (Carlucci Commission) 1983; Agency for International Development Congressional Presentation FY86.

FOOD AID AS A PERCENTAGE OF TOTAL FOREIGN ECONOMIC ASSISTANCE



Source: Report of the Commission on Security and Economic Assistance (Carlucci Commission) 1983; Agency for International Development Congressional Presentation FY86.

AGRICULTURAL EXPORT EMBARGOES AND CONTRACT SANCTITY

POLICY STATEMENT

U.S. government embargoes of exports of agricultural commodities and products have seriously dislocated international markets, spurred foreign competition and given the United States a reputation as an unreliable supplier. When called for political reasons, as in 1980, embargoes have not accomplished their announced political objectives. When called for supply reasons, as in 1973, 1974 and 1975, embargoes have undermined producer confidence in government and deprived producers and export and farm-related industries of business that would have benefited the entire economy.

Export embargoes do not work. They should not be considered an option for government under any but the most serious circumstances.

RECOMMENDATION

The Commission is appreciative to Congress for its efforts in past years to provide protection to agriculture in the event of export embargoes. Provisions dealing with embargo protection and contract sanctity are contained in numerous Acts, including the 1977 and 1981 Farm Acts, the 1982 Commodity Futures Trading Act, and the Export Administration Act, for which authority has currently lapsed.

The current regulations of law pertaining to these issues are unnecessarily complicated. While the Commission recommends retaining all existing authority on the issues of embargo protection and contract sanctity, it believes that clear and concise legislation on these matters should be contained in the 1985 Farm Act.

The Commission therefore recommends that language be contained in the 1985 Farm Act that, notwithstanding any existing provisions of law, would disallow the President from imposing an embargo of agricultural exports for reasons of (a) short supply, (b) foreign policy, or (c) national security, as defined in the Export Administration Act and existing regulations, except in the event of war as declared by the President and the Congress.

The Commission offers as supporting evidence of its policy statement and recommendation the attached report, which indicates the impact of recent trade restrictions on U. S. agriculture and the economy: "Impact of U.S. Export Restrictions: 1973-1981", a report prepared by the U.S. Department of Agriculture pursuant to P.L. 98-1071, the FY 1985 Agriculture, Rural Development and Related Agencies Appropriations Act.

COMMENTARY

Current regulations allow for a suspension of agricultural exports under the following circumstances:

1. Short Supply

a. The President may embargo exports of agricultural commodities and products for short supply reasons provided:

   (i) the Secretary of Agriculture approves such action;

(ii) it is estimated that domestic supplies of the affected commodity or product are less than that needed to meet domestic demand;

(iii) Congress, within 30 days, does not approve a Concurrent Resolution curtailing such embargo.

b. If conditions a(i)(ii)(iii) above are met, the Secretary of Agriculture is required to offer producers of commodities authorized to receive CCC price support loans compensation in the form of loans at a rate of 90% of parity for the period during which the embargo is in effect.

c. If conditions a(i)(ii)(iii) above are not met, the President may still embargo exports for short supply if he determines it to be in the interests of U.S. foreign policy or national security.

d. If products or commodities are embargoed as provided above, the President shall allow delivery of commodities or products under contracts entered into prior to the embargo for a period not to exceed 270 days, except that he can further suspend such deliveries if he determines that a national emergency or state of war exists.

2. Foreign Policy

a. The President may embargo exports of agricultural commodities and products for reasons of foreign policy, provided that Congress, within 30 days, does not approve a Concurrent Resolution disapproving such an embargo.

b. If the above condition is met, the Secretary of Agriculture is required to offer producers of the affected agricultural commodity or product CCC loans at a rate of 100% of parity and, at his discretion, payments equivalent to the difference between 100% of parity and the market average price of the affected commodity or product during the 60 days prior to the announcement of the embargo. Loans and payments under this provision are authorized only for the period during which the embargo is in effect. The provision applies only as follows:

(i) If the embargo imposed exceeds 3% of the total sales of the affected commodity or product for export to all foreign countries during the year prior to the year in which the embargo is announced;

(ii) The embargo is a selective action, affecting only agricultural commodities and products;

(iii) Producers of the affected commodity or product are eligible to receive CCC loans or payments for the commodity or product embargoed.

3. National Security

a. The President may embargo exports of agricultural commodities and products for reasons of national security.

b. If such an embargo is announced, the Secretary of Agriculture is required to offer producers of the affected agricultural commodity or product CCC loans at a rate of 100% of parity and, at his discretion, payments equivalent to difference between 100% of parity and the market average price of the affected commodity or product during the 60 days prior to the announcement of the embargo. Loans and payments under this provision are authorized only for the period during which the embargo is in effect. The provision applies only as follows:

(i) If the embargo imposed exceeds 3% of the total sales of the affected commodity or product for export to all foreign countries during the year prior to the year in which the embargo is announced;

(ii) The embargo is a selective action, affecting only agricultural commodities and products;

(iii) Producers of the affected commodity or product are eligible to receive CCC loans or payments for the commodity or product embargoed.

c. If commodities or products are embargoed as provided above, the President shall allow delivery of such commodities or products under contracts entered into prior to the embargo for a period not to exceed 270 days, except that he can further suspend such deliveries if he determines there to exist a national emergency or state of war, as declared by the President and approved by Congress.

CARGO PREFERENCE

POLICY STATEMENT

The Commission strongly opposes the concept of cargo preference as currently applied to food aid programs and, potentially, to other programs designed to expand sales of U.S. products.

The Commission recognizes that other interests may be served by cargo preference, but has seen little evidence that the objectives of the program are being met. While the Commission does not take issue with the need for maintaining a strong U.S. maritime industry, it does not believe that cargo preference applied to exports of U.S. farm products is the appropriate means to achieve this objective. The Commission believes that U.S. agriculture would lend its support to the maritime industry to strengthen the industry if cargo preference requirements on agricultural products were eliminated. However, cargo preference is not supported by the U.S. agricultural community. The method of financing the program should not be by appropriation to the U.S. Department of Agriculture. Appropriations to carry out the program should be provided by Congress directly to the Maritime Administration. The Commission encourages the U.S. maritime industry to cooperate with agricultural interests toward a goal of greater viability for both industries, as a first step, through exempting agricultural exports from existing cargo preference requirements.

RECOMMENDATION

1. The Commission recommends that Congress immediately enact legislation to exempt all agricultural exports and export programs from existing cargo preference requirements.

2. Congress should direct the Director of the Office of Management and Budget (OMB) to reflect subsidy payments deemed necessary to support the maritime industry in the appropriate function of the Federal budget, other than Functions 150 or 350. Appropriations to carry out assistance to the maritime industry should be provided by Congress directly to the Maritime Administration.

COMMENTARY

Cargo preference requirements result in Federal government outlays incurred by the U.S. Department of Agriculture (USDA). The USDA budget, already facing criticism as a result of the exceptionally heavy cost of farm programs, should not have to bear the cost of ocean freight differentials required to ship agricultural commodities and products on U.S. vessels.

A major share of the cost of cargo preference results from exports under U.S. food aid programs. In the thirty years since the enactment of P.L. 480, the total cost of cargo preference has been more than $1 billion. Currently, costs are running around $75 million annually and are expected to exceed $100 million in 1985.

Costs associated with cargo preference in the Title II program generally are lower than those incurred under Title I because the volume of commodities is lower and there is less use of bulk carriers. In 1984, $20.2 million was spent on ocean freight differentials under the Title II program. This included $1.3 million for processed grain products, $0.8 million for bagged grain and $18.1 million for bulk commodities.

P.L. 480 Title I/III EXPENDITURES
($ millions)

	Commodities	Ocean Freight Differential	Total
1977	723.1	75.5	798.6
1978	671.1	62.6	733.7
1979	754.5	122.5	827.0
1980	845.8	63.0	908.8
1981	781.3	65.1	846.4
1982	712.0	120.1	832.1
1983	766.0	77.2	843.2
1984 (est)	781.0	69.5	850.5
1985 (est)	997.0	109.0	1,106.0
1986 (est)	921.5	108.5	1,030.0

The subsidized flour sale to Egypt in early 1983 was subject to cargo preference because the price of the flour was reduced to meet the EC level of prices of approximately $160 per metric ton. Since a subsidy was involved, cargo preference was applicable. The sale was made using Commodity Credit Corporation stocks of wheat. U.S. flour millers placed bids on wheat stocks from CCC holdings as to the volume of "free" wheat needed in order to sell the flour to Egypt at a reduced price. Since the flour mills were aware that the cost of shipping to Egypt would be increased by the requirement that half the flour go on U.S. bottoms, they increased the volume of wheat needed. ASCS estimates that an additional 6 million bushels of U.S. wheat from CCC stocks were used to offset the increased cost of U.S. bottoms. Based on prices at the time, the estimated cost to CCC was $24 million.

In late February 1985, a court ruling was handed down that cargo preference laws were applicable to the blended credit program. Blended credit is a mixture of direct Government loans and credit guarantees to banks. Under the program, the blend was generally 20 percent direct credit at zero interest rate and 80 percent of guarantees at the prevailing commercial interest rate. The direct credit portion was ruled by the courts to constitute a subsidy and, therefore, cargo preference laws were applicable. This means, of course, that 50 percent of the shipments under blended credit must be in U.S. bottoms at rates $20 to $50 per ton above non-U.S. flag carrier rates. (Only wheat sales to North Africa and a small wheat flour sale to Iraq were programmed under the blended credit program.) Cargo preference would add between 8 percent and 15 percent to the cost of a ton of wheat (approximately

$150). The 20 percent interest subsidy will hardly offset the 8-15 percent increase in the landed price of the commodity. In this instance, cargo preference effectively kills a successful effort to combat unfair EC trade practices and reduces the export volume for U.S. wheat farmers.

According to USDA, companies that received payments in 1984 for ocean freight differentials under Titles I and III of P.L. 480 are:

Company	Payments
Lykes Steamship Co., Inc.	$ 9,356,765
Ultimar Shipping Co., Inc.	8,934,407
Central Gulf Lines, Inc.	7,561,504
Phoenix Bulkship, Inc.	7,395,741
American President Lines, Inc.	5,311,396
Equity Carriers III, Inc.	2,863,950
Waterman Steamship Co.	2,781,852
Delta Steamship Lines, Inc.	2,633,032
Apex Marine Corporation	2,449,000
A.P. St. Philip, Inc.	1,981,650
Asco-Falcon II Shipping, Inc.	1,650,949
Ogden Missouri Transport Inc.	1,587,832
Archon Marine Co.	1,434,160
Universal American Barge Corp.	1,298,500
Ocean Barge Corp.	1,267,537
Transbulk Carriers, Inc.	1,115,224

A total of 14 other companies received payments for ocean freight differential in 1984 for shipments under P.L. 480, with amounts ranging from $13,869 up to $852,066.

U.S. DOMESTIC AGRICULTURAL PROGRAMS

POLICY STATEMENT

Government has an obligation to ensure that its policies maintain an environment that is conducive to a healthy, efficient, and profitable U.S. agricultural system.

U.S. agricultural policies should be based on a commitment to competitiveness and profitability. A commitment of this nature demands a long-term approach to agricultural issues. Government must be consistent in its treatment of agriculture. Farmers, agricultural businesses, and the workers whose jobs depend on agriculture should not be subject to stop-start changes in farm or trade policies.

The future of American agriculture should not be restrained by government uncertainty and a failure to commit to a strong American agriculture. Long-term policies should be in place that provide efficient producers the ability to adjust to changing world economic conditions, with adequate provision for income stabilization during periods of transition.

Maintaining a long-term commitment to competitiveness and international comparative advantage should be an important goal of government farm policies. However, such policies should not be conceived as operating in a vacumm. Today, unfair practices of competitor nations impair the competitive environment. Government economic policies here and abroad directly affect pricing, production, and investment decisions. Uncertainties over policy stifle initiative and long-term planning and can be counterproductive to a competitive environment. U.S. policy makers should recognize these factors in determining the appropriate direction of both farm and trade policy.

RECOMMENDATION

The Commission urges Congress and the Administration to enact a 1985 Farm Act that embodies five key principles:

1. a long-term policy with sufficient flexibility to allow for adjustments to changing world economic conditions but which provides for a reasonably stable and predictable atmosphere for planning purposes;

2. a commitment to policies and programs which will allow U.S. agricultural commodities and products to be competitively priced in overseas markets;

3. a commitment to provide the opportunity of profitability to U.S. agricultural producers to maintain the competitiveness of the U.S. farm and food system;

4. a commitment to preserve and protect our natural resources;

5. a commitment to continue strong support for agricultural research and education.

COMMENTARY

There is a direct link between domestic policy and exports that is reflected in recent history. Support programs of the 1930's were developed in part as a consequence of instability in the U.S. agricultural sector brought on by the collapse of the world trading system in the Great Depression era. For three decades thereafter, domestic programs were geared for the U.S. market.

The growth in world export demand for agricultural commodities and products during the 1970's opened new opportunities for U.S. agriculture. As a result, domestic programs came to be increasingly viewed in relation to their impact on world markets. In addition, U.S. agriculture became increasingly export dependent. The relationship between domestic programs and export performance became even more critical.

Changes in U.S. farm export performance translate consequences directly to domestic programs, both in terms of need and cost. Conversely, changes in domestic programs have a potential to advance or diminish the opportunities which exist for U.S. agriculture under competitive market conditions.

Farm programs provide a price floor for many commodities against which other nations compete. Government has a responsibility to ensure that this policy does not result in uneconomic production at home or abroad. At the same time, farm producers should not be asked to face lower prices if government is unprepared to aggressively pursue fairer world markets for agricultural commodities and products.

International macroeconomic factors and unfair trade practices of foreign countries have eroded the competitive situation in the world and the competitive position of U.S. agriculture in recent years. This has undercut the effectiveness of domestic farm programs, causing them both to be more costly and less useful as a means to provide an opportunity for profitability to agriculture. Nevertheless, such programs remain an important source of income to the farm sector.

U.S. producers face very serious economic problems. Consider the following:

Net Farm Income is Down. Net farm income declined by almost one-half from 1981 to 1984. Total net farm income adjusted for inflation fell to $5.4 billion in 1983, a level comparable with farm income in the Depression years, and it is not expected to rise above $6 to $8 billion in 1985.

Total Farm Indebtedness is Up. Farmers of all commodities, in every region on the country, face unprecedented financial stress: 17.7% of all U.S. farm operations faced a debt-to-asset ratio exceeding 40% on January 1, 1984; 6.6% of all farms had debt-to-asset ratios above 70% and were in imminent danger of economic collapse. Total U.S. farm debt is expected to exceed $215 billion in 1985. The incidence of farm bankruptcies more than doubled from 1983 to 1984, and the trend is expected to continue through 1985.

The Value of Farm Assets is Down. The value of farm real estate continued its rapid decline in 1984. Farm equity may decline by up to 15% in 1985, the fifth straight year in real terms. The loss in farm equity could reach as high as $43 billion in 1985.

Farm Production Expenses are Up. The interest charged on farm debt increased from $19.9 billion in 1981 to a forecast high level of $24 billion in 1984, and could reach as high as $26 billion in 1985. The cost of all other farm inputs are expected to trend upwards again in 1985.

Farm Prices are Down. Following a short period of relief brought on by the dual effect of drought and PIK, farm prices are expected to decline in 1984/85 to trend levels consistent with 1982/83. The ratio of prices received to prices paid could drop by up to 6 percent in 1985 under normal marketing conditions. Prices for corn, wheat, cotton, rice, and soybeans are expected to decline. Choice steer prices could improve; however, broiler prices are expected to be reduced. Carryover levels for all basic commodities should increase, placing downward pressure on future crop prices.

Commodity Program Costs are Up. Less than expected sales of U.S. farm products have caused the cost of farm programs to soar from $2.8 billion in FY 1980 to a record level of $18.9 billion in FY 1983. Lower outlays in FY 1984 as a result of drought and PIK are expected to be followed by spending estimated at between $15 billion and $16 billion in FY 1985, with a likelihood of outlays in excess of $10 billion in FY 1986 under even the most optimistic forecasts.

The health of the agricultural economy has a direct bearing on the health of total U.S. economy and the well being of all American citizens.

In 1982, the farm and food system of the United States generated nearly $628 billion, fully one-fifth of the nation's total Gross National Product (GNP). 24.1 million persons earned their livelihood in some segment of the food and food system, one of every five persons employed in the United States. Farmers spent $142 billion in 1982 for goods and services to produce their crops and provide for their personal needs. Every dollar spent to make a crop or to market a good translates directly into income for the non-farm sector. Conversely, every dollar less is a job lost, a service unperformed, or a need unmet.

Society benefits if government policies maintain an environment that is condusive to profitability of the U.S. agricultural system. This goal cannot be accomplished solely through means of domestic farm programs. Trade policy can play an important role in advancing the goal of greater profitability of agriculture. Most of the growth potential of U.S. agriculture is in export markets. Agricultural exports have the potential to make the economic pie larger not only for agriculture but for the U.S. economy as a whole. But this can only happen if we maintain our competitiveness in world markets. Domestic programs should be designed to allow U.S. agricultural commodities and products overseas to be competitively priced in overseas markets. However, government should provide assistance to farm producers during transitional periods to fairer markets. Farmers and agricultural businesses should play their part in reducing Federal deficits; yet programs designed to immediately eliminate all government involvment in agriculture are not feasible at this time.

Past policy of the U.S. government in respect to trade and agricultural policy has been make-shift and short-term in perspective. A long-term policy is needed now.

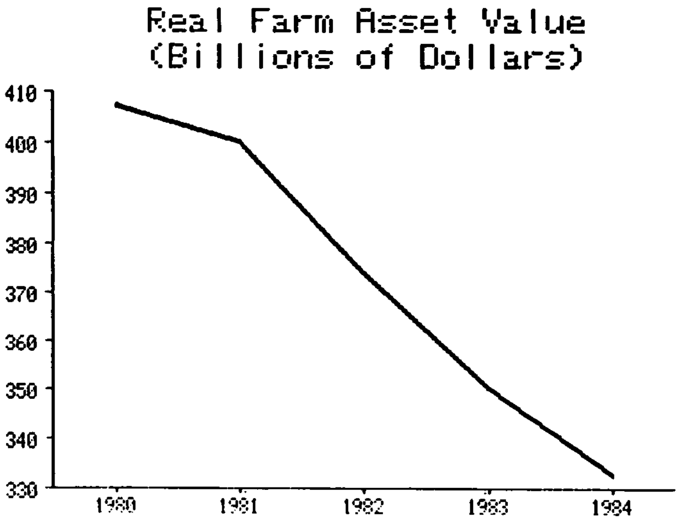
The Commission supports the objective of a long-term domestic farm policy with flexibility to allow for adjustments to world economic conditions. An efficient system of agriculture must be maintained in the United States to build profitability into the Nation's future.

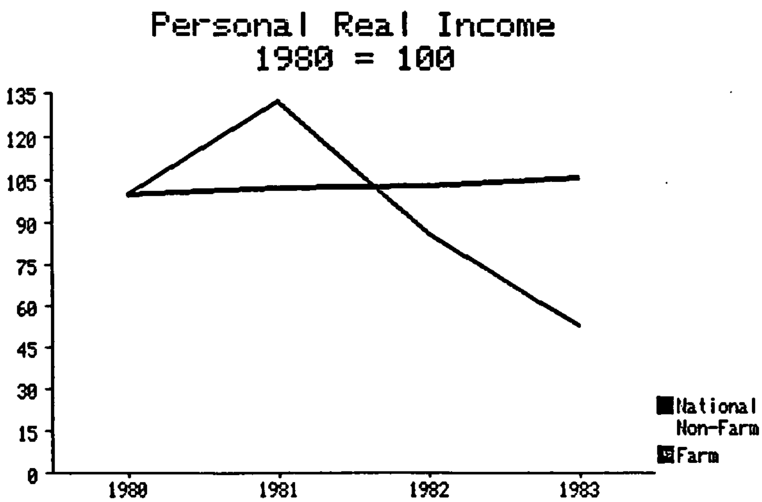
It should be a major policy objective of the United States to capitalize on the productive and technological expertise of our agricultural community, directing this talent to the advancement of economic and social goals, both domestically and abroad. The maintenance of our agricultural productivity is mandatory if the U.S. is to continue its unequalled response to catastrophic world hunger and trade related economic development.

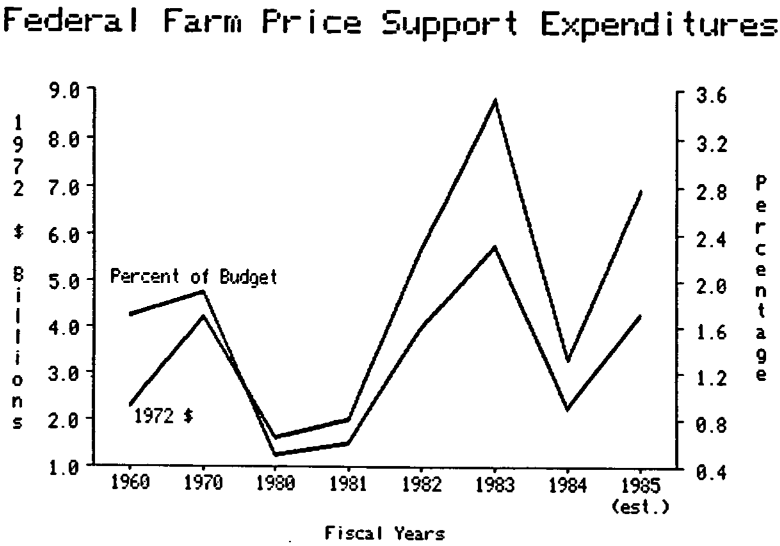
National resources should be protected and preserved. Support for agricultural research and education should be maintained.

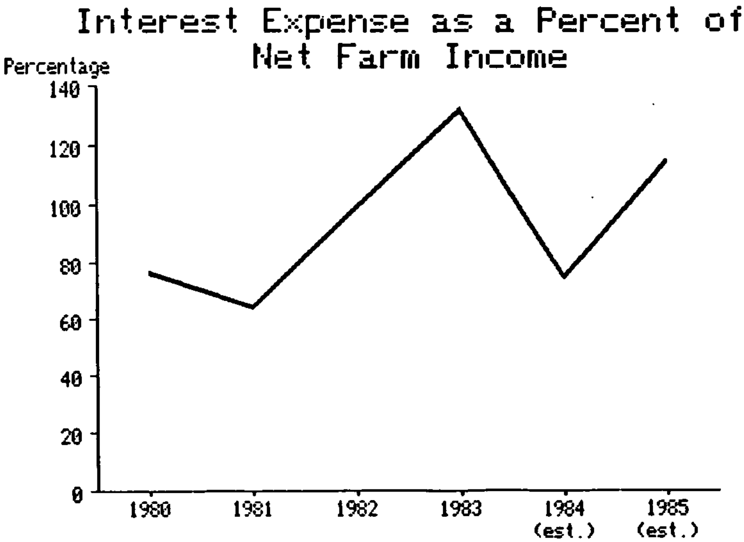
The Commission believes that a complementarity exists between domestic and export programs that can serve the goal of agricultural competitiveness and profitability. There is a direct relationship between domestic farm programs and U.S. agricultural competitiveness. Federal farm programs are a factor in keeping U.S. agriculture competitive in world markets. Awareness of this fact--and a willingness to commit to greater flexibility in response to changing world economic conditions--would improve the possibility that domestic programs serve long-term goals of competitiveness and profitability.

The future of American agriculture should not be diminished by government uncertainty and a failure to commit to a strong American agriculture. Government must be consistent in its treatment of agriculture. A strong commitment by Congress and the Administration to preserve our Nations's vital agricultural sector should be of highest priority.

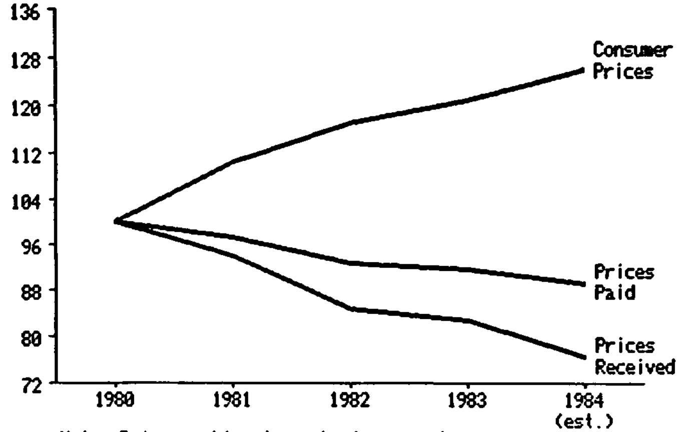

Real Farm Asset Value
(Billions of Dollars)
410
400
390
380
370
360
350
340
330
1980
1981
1982
1983
1984


Personal Real Income
1980 = 100
135
120
105
90
75
60
45
30
15
0
1980
1981
1982
1983
National
Non-Farm
Farm


Federal Farm Price Support Expenditures
1972 $ Billions
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
Percent of Budget
1972 $
3.6
3.2
2.8
2.4
2.0
1.6
1.2
0.8
0.4
Percentage
1960
1970
1980
1981
1982
1983
1984
1985 (est.)
Fiscal Years

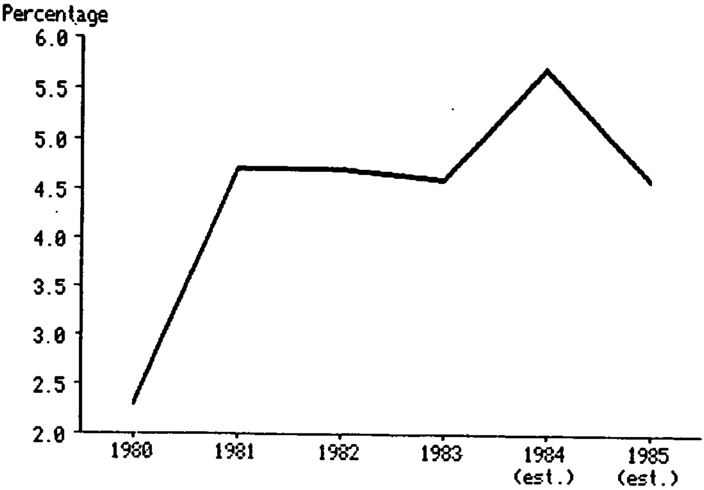

Interest Expense as a Percent of Net Farm Income
Percentage
140
120
100
80
60
40
20
0
1980
1981
1982
1983
1984 (est.)
1985 (est.)

Consumer and Farm Price Indices
1980 = 100



Note: Prices paid and received are real.

Real Interest Rates



Note: 3-month T-bill rates

ASSOCIATE VIEWS OF COMMISSION MEMBERS

JOSEPH R. BIDEN, JR.
DELAWARE

United States Senate
WASHINGTON, DC 20510

March 28, 1985

Mr. Kenneth Bader
Chairman
National Commission on Agricultural Trade
and Export Policy
Washington, D.C.

Dear Mr. Chairman:

We would like to take this opportunity to commend you on the fine work you have done as Chairman of the Agricultural Export Commission. It has been a formidable task for the Commission to develop an interim report on steps to improve American agriculture's position in the world market, especially in light of the time pressures placed on the Commission by the requirement for an interim report by March 31.

However, we are opposed to one of the recommendations contained in the interim report -- the call for the repeal of cargo preference laws. We request that our objections to this recommendation be noted at the appropriate place in the March 31 report.

Your attention to this request is most appreciated. We look forward to working with you during the next several months as we develop final recommendations for the July, 1986 report.

Sincerely,

Joe Biden
Joseph R. Biden, Jr.
United States Senator

Russell Long
Russell B. Long
United States Senator

RUSSELL B. LONG
LOUISIANA

United States Senate
WASHINGTON, D.C. 20510

March 28, 1985

Mr. Kenneth Bader
Chairman
National Commission on Agriculture
Trade and Export Policy
Washington, D. C.

Dear Chairman Bader:

As a member of the National Commission on Agricultural Trade and Export Policy, I would like to call to your attention my concern with a particular recommendation found in the March 31 Preliminary Report.

I have reservations with respect to the section of the interim report on formulation of U.S. agriculture trade policy which recommends a new Deputy U. S. Trade Representative for Agriculture. Therefore, I request that my reservation be noted in the appropriate place in the March 31 report as part of the minority views.

I appreciate your cooperation in this matter.

With best wishes, I am

Sincerely yours,

Russell Long

RBL:pi

JOSEPH R. BIDEN, JR.
DELAWARE

United States Senate
WASHINGTON, DC 20510

March 28, 1985

Mr. Kenneth Bader
Chairman
National Commission on Agricultural Trade
and Export Policy
Washington, DC

Dear Mr. Chairman:

I hereby request that my objections to the conclusions reached by the Commission on the Jackson-Vanik Amendment as described in the background material for the Agricultural Policy recommendations be noted at the appropriate place in the interim report.

Thank you for your attention to this request. I look forward to working with you in the months ahead on the final recommendations of the Commission.

Sincerely,

Joseph R. Biden, Jr.
United States Senator

SUPPLEMENTAL STATEMENT BY CONGRESSMAN LEE H. HAMILTON

TO THE INTERIM REPORT OF THE AGRICULTURAL TRADE AND EXPORT POLICY COMMISSION

I wish to commend the Chairman, the distinguished Members, and the Staff of this Commission for their excellent work in drafting this interim report within its short schedule.

I am pleased to join in general support of the overall report and several specific recommendations, such as those concerning export embargoes, contract sanctity, cargo preference, and the cooperator foreign market development program. I agree with the Commission's intent to maintain U.S. agricultural competitiveness, reliability of supply, and quality assurance. I also support the continuation of hard negotiations on bilateral and multilateral bases to reduce barriers to trade worldwide. Several sections of the report, such as the brief analysis of the U.S. domestic agricultural programs, were excellent. The support material attached to the report provides an abundance of valuable data, which could serve as a good base and resource for the further study to be undertaken by the Commission.

I do wish to express several concerns.

I agree that the value of the dollar and macro-economic factors are major causes affecting U.S. agriculture and agricultural exports. The report does not mention the huge federal deficits. I suggest that the report could be strengthened by stressing the adverse impact of these deficits on American agriculture. Reducing the federal deficits, the interest rates, and the value of the dollar will help the competitiveness of the American farmer more than any other step. I found that several of the Commission recommendations would add substantially to the deficits. I suggest an overall cost estimate of the various recommendations.

Although there are references in the report to commitment to free trade principles, the report does endorse the use of a wide range of subsidies and retaliatory measures to counter foreign trade practices. I am glad that the Commission does not endorse the use of general export subsidies, applied across the board. An extensive use of subsidies might easily trigger a trade war and hurt farm exports and U.S. farmers. In my view, farm exports are extremely vulnerable to trade policies and actions by competitor and importing nations. In the present environment, I favor the selective and focused use of export subsidies when they are necessary to discourage foreign subsidies and to maintain U.S. markets. In the final report I would like to see the development of an export strategy which would focus on alternative ways to offset the negative effects of the strong dollar on agricultural exports. This should include proposals for revising our domestic price support programs to make our goods more competitive in the world marketplace.

While it would be desirable to hold agricultural trade free of the influence of political and foreign policy concerns, as the report urges, I do not believe that we can reasonably expect either the Administration or Congress to ignore the entire range of national interests--economic, political, and foreign policy--in their deliberations and actions.

The report stresses the importance of selling U.S. agricultural products overseas. That, of course, is a worthy goal, and is the mandate for the study by the Commission. However, farm policy should concern itself with more than export promotion. While exports are vital for the health of U.S. agriculture, we must take into consideration other goals of farm policy, including higher prices for farmers, the availability of low-cost food for the consumers, the conservation of natural resources, protection of farmers from severe shocks, and guarding the stability of agricultural production and trade.

I also believe that the proposed changes in food aid programs need further study. The programs are complex and require a delicate balance of differing interests and objectives, such as market development, humanitarian aid, economic development, and foreign policy objectives.

Finally, I fully support the overall intent and efforts of this Commission. I maintain a strong interest in finding acceptable and creative means of promoting trade and of restoring the health of U.S. agriculture. I am looking forward to the final report due next year, which, I have every confidence, will be an important contribution to the policy-making process.

APPENDIX A

SUMMARY OF RECOMMENDATIONS OF RECENT COMMISSIONS AND RESEARCH ORGANIZATIONS IN THE QUESTION OF AGRICULTURAL TRADE

Final Report
The President's Task Force on International Private Enterprise
(Andreas Commission) December 1984

1. Elevate international economic policy to a level comparable to national security

2. Establish an economic security council to counter fragmentation in the policy formulation process

3. Expand opportunities for private enterprise--Use U.S. resources to encourage foreign countries to adopt positive policies towards entrepreneurship

4. Reorient U.S. foreign aid programs as feasible from government-to-government sector flows

5. Press for increased trade flows--Use "mixed credit" trade subsidies to fight unfair competition. Blend AID and EXIM Bank resources. Fully utilize EXIM Bank authority.

6. Constructively use U.S. agricultural abundance--Double P.L. 480

Special Report
Fowler-McCracken Commission, Fall 1984

1. Take vigorous steps to improve the competitiveness of U.S. agriculture and regain U.S. share in world markets

2. Reduce government involvement in agriculture and place greater reliance on market forces, especially in the area of supply management

3. Promote fair free trade on the part of all nations, including the United States, and take steps to promote expansion of U.S. agricultural markets through:

    a. Market promotion

    b. Expanded MTN's

    c. Steps to reduce unfair competition

    d. Prohibition of export embargoes

    e. Use of barter

    f. food aid assistance

4. Provide a more favorable environment for U.S. agriculture by following sound fiscal and monetary policies, particularly aimed at reducing the Federal deficit and lowering interest rates

Final Report of the
Commission on Security and Economic Assistance (Carlucci Commission), November 1983

1. Establish bipartisan leadership support for security and economic assistance as an integral part of U.S. foreign policy

2. Establish a citizens' network to foster support for U.S. security and economic assistance programs

3. Continue support for development education

4. Increase spending on foreign assistance programs

5. Adopt a country approach to program development

6. Integrate security and economic assistance programs, particularly in sub-Saharan Africa, the Caribbean and Central America

7. Support policy reforms in developing countries

8. Greater program emphasis on human resource development

9. Greater emphasis on science and technology--related development assistance

10. Promote and encourage the growth of indigenous private sectors and U.S. private sector contributions to the development process

11. Maintain flexibility in the ESF program and, where possible, use ESF to further economic development and U.S. commercial objectives

11. Increase flexibility in the development assistance account

13. Support development objectives of the P.S. 480 program

14. Establish a mutual development and security administration reporting to the Secretary if State to integrate economic and security assistance and administer assistance and ESF program operations

15. Strengthen interagency coordination through establishment of a consultative group

A-3

Report of
The President's Export Council, December 1984

Basic Policies

1. Sound fiscal policy that reduces the Federal deficit and controls inflation by reducing the growth of spending programs, by making outright cuts in others, and by adopting a tax strategy focused on stimulating savings and investment rather than consumption.

2. Monetary and exchange rate policy that eliminates temporary, unrealistic rates of exchange and its unfavorable impact on our levels of imports and exports.

3. Stimulation of research and development through encouragement of cooperative R&D efforts with accompanying clarification of antitrust interpretation as to the legality of these activities and potential penalties involved.

4. Pressure on trading partner nations to eliminate trade barriers and open their markets to free competition from American products.

5. Vigorous enforcement of our trade laws to create incentives for foreign nations to engage in open trade.

6. Stimulation of our educational institutions to produce more trained scientists and engineers.

7. Recognition that some industries will decline, and examination of alternatives for easing the structural change in the economy.

8. Concerted efforts on the part of our private sector to meet the challenge for efficient and competitive production.

9. Promotion of a national awareness of the importance of free and fair trade to the Nation's economic well-being.

Open Trade Policy Recommendations

1. Opposition to domestic content legislation.

2. Opposition to protectionest legislation.

International Monetary Recommendations

1. Support international agreements for stricter monetary discipline so that currency valuation is not used as a subsidy for exports.

2. Support periodic meetings of U.S. and foreign government treasury officials to promotion solutions to exchange rate problems.

3. Promote greater awareness in Congress and the Administration of the impact of dollar valuation on export industries.

Agricultural Policy Recommendations

1. New farm legislation should have a greater market orientation than legislation that prevails today.

2. A financial safety "net" must be provided for U.S. agricultural producers, but this net should be flexible and should always be maintained at market clearing levels.

3. Legislative and executive action should be directed toward preserving the U.S. share of global agricultural export markets, and gradually expanding the market share to reflect the international competitiveness of American agriculture.

4. Adequate credit and reasonable credit terms must be provided for foreign buyers, particularly those from lesser-developed nations.

5. Applicable branches of Government must be encouraged to follow fiscal and monetary policies--with particular emphasis on reducing the size of the Federal deficit--that will lower real U.S. interest rates, thereby easing the present deflationary trend in American agriculture and helping to repair the severe damage to farm export markets that has resulted from a high-valued dollar.

6. The Administration should respond aggressively to the unfair trading practices of our competitors and our import customers, pursuing changes in such practices 1) bilaterally, and 2) multilaterally, through a new round of GATT negotiations, if necessary.

Export Development Programs

1. President should assume personal leadership of efforts to maintain an open trade system.

2. A U.S. Department of Trade should be established.

3. U.S. Foreign Commercial Service (:Department of Commerce) should be upgraded.

4. Coordination of USAID developmental assistance programs and U.S. export objectives should be improved, to expand opportunities for trade.

Unfair Trade Competition

1. The United States must aggressively enforce its trade laws against unfair foreign trade practices, in the U.S. markets, in the markets of offending countries, and in third-country markets.

2. The United States must continue to seek greater transparency in the trade practices of our competitors through bilateral consultations and in multilateral fora.

3. The U.S. Government should seek continued expansion of the signatories to GATT codes relating to market access and competitive practices and should seek additional coverage and tariff reductions both bilaterally and under the GATT, with a new round of multilateral trade negotiations, if necessary.

Industrial Targeting

1. As a first step, the U.S. Government should work to develop a precise definition of "industrial targeting" as a focus for public discussion.

2. The United States should enhance its economic intelligence network to identify and catalog foreign practices that constitute targeting, especially those practices that may injure U.S. industry.

3. With this information on hand, the U.S. Government should properly examine current trade laws to determine whether they adequately deal with specific targeting practices or whether new statutes or broader interpretation of existing statutes are required.

Trade-Related Investment Policies

1. At the first opportune time, the U.S. Government should renew its initiative within GATT to launch a study on the impact of trade-related investment policies (especially performance requirements) on the free flow of goods and services. The U.S. Government should continue to work through the Organization for Economic Cooperation and Development (OECD)for improvement in the investment climate of member countries. The Council further urges the U.S. Government to continue to give high priority to its data-collection and monitoring activities involving foreign trade- related investment policies.

Export Financing

1. The U.S. Government should continue to negotiate though the OECD for a permanent solution to unfair credit practices. In the meantime, the President should ensure that adequate and competitive financing is available to exporters through the Export-Import Bank of the United States and through government agricultural export financing programs. The special needs of small companies must be continually kept in mind by the Eximbank to assure that these companies have an opportunity to participate in export trade. The successor President's Export Council should place examination of the adequacy of export financing among its top priorities.

Export Controls

1. Barring a national emergency, the sanctity of existing business contracts should be recognized in imposing foreign policy controls.

2. When foreign policy controls are considered, every effort should be made to encourage unified allied nations' participation so that such controls will serve the purpose of denying goods and technology to the targeted country and will not simply divert procurement to nonparticipating suppliers.

3. The U.S. Government must control commodities and technologies truly critical to the national security. Government licensing resources and enforcement efforts should be concentrated in these critical areas, and controls over noncritical goods and processes appropriately reduced.

4. The U.S. Government should continue its efforts to harmonize the interpretation, imposition, and enforcement of export controls among allied nations.

5. Where possible and consistent with national security considerations, every effort should be made to reduce the licensing requirements for exports to and through those countries cooperating most closely with the United States in an export control system to protect mutual security.

6. Restricting U.S. exports to a particular country when the same or substitutable items are available from uncontrolled sources undermines U.S. economic and national security interests. A viable foreign availability program is essential to more effective control of the flow of critical technologies to adversary nations.

7. The U.S. Department of Commerce should embrace a management objective to meet or exceed the average license processing times experience by foreign competitors in their home countries.

8. In developing export control policies, procedures and regulations, the Government should consult closely with industry to develop effective export control instruments, to avoid imposing undue or unintended economic and regulatory burdens on U.S. businesses, and to foster continued government-industry cooperation in enforcement efforts.

<u>Private Sector Responsibilities</u>

1. The President's export Council challenges all members of the business community to consider whether they spend the same amount of time and resources on developing new international markets and new products for foreign consumption that is spent on the more familiar domestic marketplace. The most successful traders view the world as their marketplace and employ strategies tailored to the market segments they serve.

2. The President's Export Council urges the private sector not only to assist the Government in tackling complex issues like export credits, the overvalued dollar, and trade barriers, but also to examine the business and marketing strategies of successful foreign competitors. As businessmen we must ask ourselves some very hard questions. If, for example, the disparities between Japan and the United States in government support of exports were eliminated, would U.S. firms be as successful as the Japanese? Or are we, as exporters, failing to make that extra, concentrated effort to win foreign customers and penetrate new international markets?

APPENDIX B

REPORTS SUBMITTED TO THE NATIONAL COMMISSION

"A White Paper on U.S. Meat Exports"

U.S. Meat Export Federation in cooperation with the Livestock and Meat Industry

"Preliminary Investigation of Cotton Production Subsidies and Incentives in Selected Cotton Producing Countries"

National Cotton Council of America

"An Economic Analysis of Extending Cargo Preference to U.S. Cash Export Sales of Agricultural Commodities"

Bruce J. Blanton, Economic Research Associate, Economic Research Division, American Farm Bureau Federation

"Unfair Trade Practices in Agricultural Markets"

A.E. Staley Manufacturing Company

"Factors Impacting the Competitiveness of U.S. Farmers in World Markets"

Dr. Ray Daniel, Vice President and Managing Director, Industry and Agricultural Services, Chase Econometrics

"The Importance of Competitive Farm Commodity Export Pricing to the Long-Run Economic Well-Being of Agriculture and the U.S. Economy"

Dr. Luther G. Tweeten, Regents Professor of Agricultural Economics, Oklahoma State University

"The Elasticity of Export Demand for U.S. Wheat"

Dr. Luther G. Tweeten, Regents Professor of Agricultural Economics, and Dr. Shida Rastegari, Visiting Assistant Professor, Oklahoma State University

Testimony Given to the National Commission on Agricultural Trade and Export Policy

John W. Goodwin, Vice President for Agriculture, University of Arkansas

APPENDIX C

IMPACT OF U.S. EXPORT RESTRICTIONS

1973 - 1981

INTRODUCTION

U.S. agricultural exports increased at a rapid pace throughout the 1970's and into the early 1980's. The volume of U.S. commodities shipped overseas more than doubled between FY 1970 and FY 1981, while the value of U.S. export shipments rose nearly 5 times from $7.0 billion in FY 1970 to $43.8 billion in FY 1981. The strong growth in U.S. export shipments was attributable to: rapidly rising populations and consumer incomes in many areas of the world, large flows of oil revenues into the Middle Eastern markets, low real interest rates and willing creditors which enabled many developing countries to borrow money relatively cheaply to finance their imports needs, the decision by the Soviet Union to compensate for short domestic supplies with purchases of commodities on the world market, crop shortfalls in major producing areas, and devaluations of the U.S. dollar which reduced the price of U.S. commodities to major buyers.

The sudden growth of agricultural exports and rising commodity prices spurred greater agricultural production in the United States. In the face of the increased output, agricultural exports assumed a new importance to the U.S. farm sector. In the early 1980's, nearly 30 percent of the cash receipts of the U.S. agricultural sector were generated by exports, compared with 23 percent in the 1970's and 15 percent in the 1960's. Export demand also provided a market for the equivalent of approximately 46 percent of U.S. soybean, 63 percent of wheat, 41 percent of cotton, 45 percent of rice, and 24 percent of corn production in marketing year 1981/82.

The export boom ended in 1982. Exports fell from a peak of $43.8 billion in FY 1981 to $34.8 billion in FY 1983, a decline of 21 percent. Stagnant world economic growth accompanied by high real interest rates, large foreign debt obligations of many important LDC markets, and increased production by other exporters contributed to lower U.S. shipments. U.S. export growth was also restrained by a strong value for the U.S. dollar and increased subsidization of exports by competitors.

During the 1970's and again in 1980, the U.S. Government took selective actions to limit exports of U.S. commodities. The reasons for the restrictions on exports ranged from short-supply and high price considerations to foreign policy concerns. An embargo on exports of oilseeds to all destinations was temporarily imposed in 1973, restrictions were placed on exports of wheat and corn to the Soviet Union in 1974, shipments of grains to the Soviet Union and Poland were suspended in 1975, and an embargo was placed on grains, oilseeds and products, and livestock product shipments to the Soviets in 1980.

The various export restrictions have generated considerable discussion in view of the critical importance of foreign markets to U.S. agriculture. Questions have been raised regarding the impact of these restraints on U.S. exports, farm prices and income, and the U.S. market position in the short and longer term.

1973 OILSEED EMBARGO

Nature of Restrictions

An embargo was placed on shipments of oilseeds from the United States to all destinations in the summer of 1973. Authority for the embargo stemmed from the Export Administration Act of 1969. Among the commodities affected by the export restrictions were soybeans and cottonseeds. Also limited were shipments of oilseed products including soybean meal, cake, and oil and cottonseed meal, cake, and oil.

Environment

The 1973 embargo stemmed from developments in the world grains and oilseeds markets. A shortage of U.S. oilseed supplies began to emerge in late 1972 due to:

1. Reduced wheat, coarse grain, and sunflower crops in the Soviet Union. The desire of the Soviets to improve consumer diets contributed to a decision not to liquidate livestock herds in response to the short supplies, but to satisfy their commodity requirements with large imports from the United States. Purchases totaling 900 thousand metric tons of soybeans and 13.7 million metric tons of wheat and coarse grains exerted pressure on the U.S. oilseeds market.

2. A decline in world fishmeal production from 5.2 million metric tons in 1971 to 4.0 million metric tons in 1972. The smaller supplies were due largely to a sharp reduction in the Peruvian anchovy catch.

3. Strong foreign demand for oilseeds and other feed grains. At the beginning of 1973, hog numbers were up in Europe, Korea, Japan, and several other East Asian markets. Poultry meat production was also growing in Europe and Japan.

4. Uncertainties regarding the U.S. supply situation. Wet weather reduced soybean yields and slowed harvesting in many areas of the country during the 1972 harvest. Carryover stocks from 1971/72 were also low.

Policy Actions

Although U.S. soybean and world protein meal production expanded in 1972/73, the strong demand situation raised fears that U.S. soybean supplies would be depleted in early 1973. U.S. soybean prices in Rotterdam rose from $130 per ton to $198 per ton between September and December 1972. In response, the U.S. Government took a number of policy actions in early 1973 to relieve the situation. Restrictions were relaxed on wheat set-aside land to allow production of soybeans and feed grains. As wet weather hindered planting in the spring of 1973 and a devaluation of the dollar further fueled foreign demand, an additional 13.5 million acres of feed grain set-aside was released for feed grain and soybean production. These efforts to increase supply were coupled with the suspension of sales of vegetable oils under the Government's CCC Export Credit Sales and Barter programs. Shipments of edible oils under the P.L. 480 program were also curtailed.

The policy measures did not entirely ease the situation and prices continued to climb. As a result, an embargo on exports of soybeans, cottonseeds, and their products was imposed on June 27, 1973. The embargo was replaced with a system of validated export licenses for soybeans, soybean meal, cottonseed, and cottonseed meal on July 2. The licensing system permitted exports on a contract-by-contract basis, after consideration of domestic needs. Export licenses were to be issued against each verified contract for 50 percent of the unfilled balance of soybean contracts and for 40 percent of the unfilled balance of soybean oil cake and meal contracts. The licensing restrictions were eased in August and export controls were removed October 1, 1973.

<u>Impact of Embargo</u>

The 1973 embargo and related export controls resulted in limiting exports of U.S. oilseeds and products. The volume of U.S. soybean and product exports were 13 percent higher in 1972/73 than shipments in 1971/72. Nevertheless, exports were lower during the July - September 1973 period than in the same months the previous year. Soybean exports in July - September 1973 totaled 32.7 million bushels, versus 66.2 million bushels the previous year. In contrast, soybean meal exports in July - September 1973 were 150,000 tons below year-earlier levels.

The lower volume of shipments was coupled with a decline in export values. For example, the U.S. Gulf Port price of soybeans fell from a peak of $10.69 per bushel in June 1973 to an average of $8.56 per bushel in July. The total loss in soybean export revenue due to the lower price and export volume figures is estimated at $71 million, if it is assumed that the soybean export price would have stayed at its peak June level throughout the remainder of 1972/73 and the export volume for July - September 1973 would have matched the previous year's level.

The decline in U.S. exports affected the incomes of U.S. soybean farmers and exporters. The loss to U.S. farmers is estimated at $50 million, due largely to the reduction in the farm price of soybeans which fell from a peak of $10.00 per bushel in June to an average of $7.99 per bushel for the July - August 1973 period. In contrast, U.S. soybean exporters suffered reduced revenues from both lower export prices and volumes. The lower export values were offset to some degree by reduced farm prices. Nevertheless, exporters also incurred higher storage costs and other marketing expenses as a result of the embargo.

A number of additional conclusions may be drawn regarding the impact of the 1973 oilseed restrictions:

1. U.S. exports were lower than anticipated in the short-run. As indicated earlier, U.S. exports of soybeans and products increased in volume in 1972/73 and 1973/74. Exports declined in 1974/75, then recovered and continued growing throughout the remainder of the decade. However, the level of exports that could have been attained are not known.

2. The U.S. share of the world soybean and products market declined significantly in the years following the embargo. The U.S. market position fell from 68 percent in 1971/72 to 48 percent in 1982/83. This loss of U.S. market position was due largely to increased purchases by importers of soybeans and products from Brazil. Brazil's share of the world market for soybeans and products increased from approximately 7 percent in 1971 to 20 percent in 1979. While the expansion of Brazilian production, processing, and exports were attributable largely to policies that were implemented prior to the embargo; some continue impetus for this development may have stemmed from the U.S. embargo. The increased soybean prices stemming from short supplies in 1972/73 also provided an incentive for all exporters to expand output.

3. The 1973 embargo raised questions regarding the reliability of the U.S. as a supplier of commodities to the world market. Although other

factors played an important role in diversification of supply sources by importers and increased production by competitors, U.S. reliability concerns had an impact on the loss in U.S. market position subsequent to the embargo. For example, the Japanese invested heavily in the Brazilian soybean processing industry and increased their soybean meal purchases from Brazil in the years following the U.S. embargo. Nevertheless, Brazil also acted as a relatively unreliable supplier during the 1970's, intermittantly imposing taxes, licensing requirements, quotas, and sales suspensions on exports of soybeans and products.

1974 EXPORT SALES SUSPENSION

Nature of Restrictions

Actions taken in 1974 to limit U.S. export sales were not technically an embargo. The U.S. Government requested private U.S. grain firms to voluntarily restrain sales and the Soviet Union to limit U.S. purchases in response to short U.S. supplies. Commodities affected by the restraints included wheat and corn.

1974 Environment

The crop years 1972/73-1974/75 were a period of tight world grain supplies and relatively high prices. Crop shortfalls in the Soviet Union, Australia, and India in 1972/73 in the face of increased world consumption, reduced world stocks to low levels and exerted upward pressure on prices. The annual C.I.F. Rotterdam price for U.S. hard No. 2 wheat was 38.7 percent higher in 1972/73 than in 1971/72, and the annual average price for U.S. No. 3 yellow corn increased by 35.3 percent in Rotterdam. In 1972/73, world production improved somewhat, but strong demand kept carryover stocks low. Further supply problems surfaced in 1974/75 as poor weather reduced U.S. wheat and feed grain crops by 14 percent. Other major exporting and consuming areas also experienced unfavorable weather patterns, resulting in a 4 percent decline in world grain production.

The weak supply situation and prospects of significant Soviet purchases contributed to substantial price increases. In July 1974, the average F.O.B. Gulf Port price of No. 2 hard wheat was $169 per ton. This value increased to an average of $192 per ton in October.

Policy Measures

The U.S. Government attempted to ease the situation in the fall of 1974. On October 4, sales by two large exporting firms to the Soviet Union of 2.3 million tons of corn and 900 thousand tons of wheat were suspended until negotiations between the Soviets and the U.S. Government could be held. The U.S. Government also asked exporters to obtain USDA approval before closing any other large single-country contracts. The negotiations between the U.S. and the Soviet Union produced an agreement for the export of 1.2 million tons of wheat and 1.0 million tons of corn. Exports of further quantities to the Soviets were voluntarily limited until March 1975.

Impact of Embargo

The U.S. sales suspension relaxed the upward pressure on U.S. grain prices. The average price for hard wheat in Kansas City fell from $5.47 per bushel in October to $5.36 per bushel in November and remained below pre-suspension levels throughout the remainder of 1974/75. The price reductions resulted in a loss of income for U.S. wheat and corn farmers who marketed their crops subsequent to the sales suspensions. The price reductions, however, benefited U.S. livestock producers and consumers who were experiencing significant increases in feed and food prices.

The weakening of U.S. prices was accompanied by a decline in total U.S. grain exports. In 1974/75 (July-June), U.S. grain exports were 12.1 million metric tons lower than those of the previous year. A good share of this reduction was attributed to lower Soviet purchases which fell 5.6 million metric tons below 1973/74 levels.

1975 EXPORT SUSPENSIONS

Nature of Restrictions

The export restrictions imposed in 1975 were similar to those in 1974. The U.S. Government requested voluntary restraints on sales to the Soviet Union and later, to Poland. Commodities affected by the restraints were wheat and coarse grains.

1975 Environment

The relatively tight world grain supplies from the 1974/75 season again carried over into 1975/76. By spring 1975, pressure on prices had eased somewhat due to larger than originally anticipated 1974/75 crops and reduced world trade. Nevertheless, ending stocks as a percentage of utilization reached a record low. Prospects were good for increased 1975/76 wheat and coarse grain production in several key regions including the U.S., Australia, and Canada. EC crops, however were down significantly and Soviet production in 1975 had fallen 51 million tons below year-earlier levels.

The Soviets began to compensate for their short crops with purchases of 9.8 million tons of U.S. corn and wheat in late July. The market, however, anticipated even greater Soviet imports and prices began to rise sharply.

U.S. consumers became concerned with the new price movements. After enjoying average food price increases of 2-3 percent in the 1960's, consumers had faced increases of 14 percent in 1973 and 1974. The potential for even higher food costs contributed to a decision by U.S. longshoreman to refuse to load ships with grain destined for the Soviet Union.

1975 Actions

The U.S. Government requested U.S. exporters to suspend sales of grain to the Soviet Union on August 11, 1975. When this action failed to stem the price speculation, a similar suspension was announced on September 9 for sales to Poland. In late September, a 5-year agreement was concluded with the Soviet Union which assured the Soviets of a minimum supply of U.S. grains each year, but limited the amounts that could be purchased without approval of the U.S. Government. The initial minimum purchase limit was set a 6 million metric tons and an additional 2 million metric tons could be acquired without consultations with U.S. officials.

The sales suspensions to the USSR and Poland were lifted with the signing of the grain agreement on October 20. Letters regarding grain purchases by Poland under the agreement were exchanged with Polish officials in November.

Impact of Suspension

The suspensions on sales to the Soviet Union and Poland resulted in reducing the speculative pressure on prices. In October, grain prices weakened and continued to decline as: 1) the market had already discounted the effects of the agreement; 2) the Soviet's current import needs were satisfied; and 3) supplies from competitors were available.

Even with the sales suspension, U.S. exports to the Soviet Union and other buyers increased. Soviet net wheat and coarse grain imports rose from less than 1.0 million tons in 1974/75 to 25.1 million tons in 1975/76 of which the U.S. supplied almost 14 million tons. The volume of total U.S. grain exports was up 28.9 percent in 1975/76 from 63.6 to 82.0 million tons.

The growth in U.S. grain exports in 1975/76 continued throughout the remainder of the 1970's. U.S. exports of wheat and coarse grains declined from 73.8 million tons in 1973/74 to 63.6 million tons in 1974/75. Exports then recovered somewhat to 81.7 million tons in 1975/76 and reached 92.7 million tons in 1978/79. This growth in U.S. exports more than kept pace with the expansion in world trade. Between 1973/74 and 1978/79, the U.S. market position in the world market expanded from 53.5 percent to 55.1 percent.

Soviet imports of grain from all sources in the remainder of the 1970's varied widely depending upon the availability of domestic supplies. In 1979/80, however, U.S. imports of grain by the Soviets surpassed 1972/73 levels. However, the U.S. market share in 1977/78 and 1978/79 also totaled 68 percent and 74 percent, not significantly different from the 1973 U.S. share of 73 percent. Estimates of what the U.S. share could have been without the sales suspension are difficult to make and perhaps the U.S. share would have been greater.

1980 SOVIET EMBARGO

Nature of Action

In contrast to the restrictions placed on exports in the 1970's, the 1980 embargo was imposed for foreign policy reasons. The embargo was intended to indicate U.S. disapproval of the Soviet invasion of Afghanistan in December 1979. On January 4, 1980, President Carter announced a suspension of sales to the Soviet Union and subsequently instructed appropriate officials to terminate sales under the Export Administration Act on January 7. Agricultural commodities affected by the embargo were exports of wheat, feed grains, soybeans, animal feeds, meat, poultry, dairy products, and some animal fats. Exempt from the restrictions were 8.0 million tons of wheat and corn covered by the U.S. - U.S.S.R Grain Agreement. The embargo remained in effect until April 24, 1981.

Soviet Situation

President Carter's stated purpose was to limit Soviet access to U.S. grain supplies, thereby causing large liquidations of livestock herds and meat shortages for Soviet consumers. Since the Soviets regard the improvement of consumer diets as a major sign of economic progress, the meat and dairy product shortages were expected to have economic and political ramifications. There was some disagreement as to the magnitude of the impact, but some U.S. officials anticipated that the Soviets would have to undergo significant adjustments to cope with reduced U.S. shipments. The success of the U.S. embargo depended upon soliciting the complete cooperation of other major suppliers to the Soviets. These efforts were less than successful, however, as the EC, Canada, Australia, and Argentina sharply increased shipments to the Soviet Union.

In the absence of the embargo, more optimistic forecasts indicated that the Soviets might buy as much as 37-38 million tons of grain, 2.4 million tons of soybeans and products, and large quantities of meat on the world market for delivery in 1979/80. Furthermore, it was agreed during the October 1979 Grain Agreement consultations that the Soviets could purchase up to 25 million tons of U.S. corn and wheat during the period October 1, 1979 through October 1, 1980. The success of the U.S. embargo depended upon soliciting the complete cooperation of other major suppliers to the Soviets.

Actions To Offset Embargo Impact

U.S. Government actions to restrict exports were accompanied by measures to protect the U.S. farm sector against economic losses stemming from the reduced sales. Among the actions taken were:

1. CCC purchases of embargoed commodities. The Commodity Credit Corporation purchased sales contracts entered into with the Soviet Union by private exporting firms before the date of the sales suspension. These contracts totaled about 14 million tons of corn,

wheat, and soybeans and products. The commodities were, in turn, resold to the highest bidder later in the year. In addition, USDA purchased 4.0 million tons of wheat and 4.2 million tons of corn from U.S. elevator operators and farmers. The commodities were placed in CCC stocks, with 4.0 million tons of wheat set aside for use as a food security wheat reserve.

2. Raised wheat loan rates from $2.35 per bushel to $2.50 per bushel, loan rates for corn from $2.00 to $2.10 per bushel, and loan rates for other feed grains by a comparable amount.

3. Provided additional incentives for farmers to participate in the farmer-owned reserve. These incentives included higher release and call prices for corn and wheat, wider bands between release and call level prices, a waiver of the first year's interest costs for additional quantities of corn moving into the reserve, and an increase in reserve storage payments for all grains. The incentives resulted in movement of an additional 7.2 million tons of corn and 1.4 million tons of wheat into the reserve.

Impact of Embargo

In general, most analysts agree that the export restrictions did not have as great an impact on the Soviet Union as had been originally anticipated. Exporter cooperation did not occur to the extent needed to enforce the embargo, thus the Soviets were able to replace suspended U.S. shipments with grain from other suppliers. In addition, the Soviets increased purchases of non-traditional imports such as wheat flour, rice, tapioca, and soybean meal. Despite their success in securing alternative supplies, the Soviets were often forced to pay a significant premium for and higher transportation costs on shipments from other exporters.

The embargo also had relatively little effect on the aggregate U.S. farm sector in the short-run as the policy measures implemented to offset the export restrictions were largely successful. Nevertheless, some farmers suffered a substantial loss of income due to the embargo. A number of farmers were forced to sell their crops to meet financial commitments during the period immediately following the embargo. Prices declined sharply during this period and the revenues and incomes of these farmers were significantly reduced by the depressed prices. The income loss by farmers would have been greater and more widespread if U.S. Government efforts had not been made to support prices and remove commodities from the marketplace.

Over the longer term, the embargo appears to have had greater negative impact on U.S. agriculture. U.S. agricultural exports and the U.S. market position in grains and other commodities have weakened since 1981. This decline in U.S. exports and market position are attributable to various factors, some of which are more related to the embargo than others. This includes unfavorable world economic conditions, a strong dollar, increased subsidization of exports by competitors, and U.S. agricultural policies which have limited U.S. price competitiveness. Also, the 1980 embargo appears to have played a role in the deterioration of U.S. trade as U.S. access to an irregularly expanding Soviet market was reduced by the sales restrictions. Lower exports to the Soviets have forced the U.S. to sell more grain to other buyers, many of which have cut imports in recent years due to financial difficulties and poor economic growth. In addition, the embargo again raised questions regarding the reliability of the U.S. as a supplier. These concerns encouraged competitors to increase production for the Soviet market and strengthened the resolve of importers to diversify supply sources and domestic production.

Perhaps most importantly, the embargo contributed to increases in U.S. loan rates which occurred in 1980 and 1981. The higher support prices in the 1980's have limited U.S. price competitiveness and provided an additional, economic incentive for other exporters to increase production.

The impact of the embargo and its accompanying policy measures are examined in greater depth below. Analysis has indicated that the actions:

1. Denied the Soviets access to nearly 14 million tons of U.S. corn and wheat and more than 1 million tons of soybeans and products.

2. Resulted in smaller commodity imports than the Soviets anticipated. With the announcement of the sales suspension, the Soviets attempted to fill their import needs with shipments from alternative suppliers. The Soviets were ultimately successful in covering much of their import requirements, but purchases were 6-7 million tons of grain and 530,000 tons of soybeans and products less than if U.S. shipments had been completed. The smaller supplies forced the Soviets to reduce slaughterweights and draw down grain stocks. In addition, minimal increases in cattle and poultry inventories were realized and hog numbers were reduced. Supplies of meat and milk were limited despite Soviet promises to consumers to expand the availability of these items and per capita consumption was down.

3. Reduced U.S. exports. Although the total volume of U.S. commodities shipped overseas increased in 1979/80, it is estimated that an additional 1 million metric tons of wheat, 4-5 million tons of corn, 425,000 tons of soybeans, and 65,000 tons of poultry would have been exported in 1979/80 without the embargo. The lower exports reduced U.S. foreign exchange earnings by approximately $1 billion dollars.

4. Depressed commodity prices for several weeks, but had little impact beyond that point. Cash prices for wheat, corn and soybeans declined immediately following the sales suspension. The price of hard winter wheat in Kansas City fell from $4.40/bushel on January 3 to $4.01/bushel on January 10; #2 yellow corn in Chicago fell from $2.63/bushel to $2.30/bushel on January 11. Prices then stabilized and turned upward. The Kansas City cash price of wheat increased to $4.40/bushel on February 4 and the Chicago corn cash price strengthened to $2.68/bushel on February 5. Overall, it was estimated that the embargo and its accompanying policy measures had little to as much as a positive 5-10¢/bushel impact on wheat and a 0-5¢/bushel impact on corn prices in 1979/80 as the offsetting U.S. Government actions removed at least as much of the commodities from the marketplace as would have been exported. Weaknesses in these prices later in the year were attributed largely to the prospects of good 1980/81 crops.

5. Increased soybean stocks. The establishment of the wheat reserve, movement of more corn into the farmer reserve, and government wheat and corn purchases removed affected supplies of these commodities from the marketplace, relieving downward pressure on prices. No such measures were taken for soybeans, resulting in 425,000 additional tons of soybeans that had to be absorbed by the domestic market. Consequently, soybean carryover was increased and market prices were 5-10¢/bushel lower than if the embargo had not been imposed.

6. Had little impact on immediate farm income. The total effect of the policy actions on farmers' gross receipts in 1979/80 was estimated at a slight reduction to as much as a one-half billion dollar increase in revenues. The impact on farm income was estimated at a fractional decrease to a small increase.

7. Increased government program costs. The cost of the measures to offset the embargo impact were estimated at about $2.2 billion. Nearly $500 million of these expenditures were associated with the purchases and retendering of sales contracts from exporters. An additional $1 billion was spent for direct purchases of grain and $700 million of expenditures were incurred in moving additional commodities into the grain reserve. A good share of the latter $1.7 billion in expenses had been or will be recouped upon resale of the commodities.

8. Reduced the U.S. share of the Soviet market. Prior to the embargo, the U.S. enjoyed a strong position in the Soviet market. In 1978/79, the U.S. supplied 57 percent of the wheat and 83 percent of the coarse grains imported by the Soviets. In calendar year 1979, the U.S. market position in the Soviet market for soybeans and products was a strong 99 percent. The U.S. market position had deteriorated to 20 percent in 1982/83 for wheat and coarse grains and to 14 percent for soybeans and products in 1983. Of particular significance is the inability of the U.S. to penetrate the growing Soviet soybean meal market due to lingering effects of the embargo. The U.S. share of this market, which expanded from about 50,000 tons in 1978/79 to 2.7 million tons in 1892/83, is zero. Soviet officials have stated repeatedly that because of the unreliability of the U.S., they will enter the U.S. meal market only as a last resort.

9. Encouraged other exporters to increase production and exports. Despite continued increases in U.S. exports between 1978/79 and 1982/83, the U.S. share of the world wheat market declined from 45 percent to 41 percent, coarse grains market fell from 65 percent to 59 percent, and soybeans and products market weakened from 63 percent to 58 percent.

POSITION OF REAGAN ADMINISTRATION

The experience with embargoes and other export restrictions in the past decade has led the Reagan Administration to conclude that such measures are largely ineffective and damaging to the U.S. farm sector. As a result, the Administration strongly opposes the use of embargoes and has stated:

1. No restrictions will be imposed on future exports of farm products because of rising domestic prices.

2. Farm exports will not be used as an instrument of foreign policy except in extreme situations and as part of a broader embargo.

3. World markets must be freed of trade barriers and unfair trade practices.

The Administration has also attempted to re-establish the "reliable supplier" image of the United States. Two priorities of the Administration upon assuming office were to remove the 1980 embargo and to sign a new sales agreement with the Soviet Union. The first task was accomplished in April 1981 and a new U.S. Soviet Agreement was negotiated in July 1983. The new agreement requires the Soviets to purchase annually a minimum of 9 million metric tons grain and an additional 3 million tons may be obtained without approval of the U.S. Government. The Soviets may also substitute 500,000 tons of soybeans and products for 1 million metric tons of corn and wheat in accordance with the terms of the new agreement.

Two pieces of legislation have been passed under this Administration in an attempt to limit the future use of embargoes. An embargo protection clause was added to the Food and Agriculture Act of 1981. The clause requires the Department of Agriculture to make payments to producers or to increase loan rates if exports are restricted for national security or foreign policy purposes and a similar ban is not placed on the export of all U.S. goods. In January 1983, an export sanctity clause was also added to the Agricultural Act of 1970. This provision prevents the invalidation of sales contracts which were entered into prior to an embargo announcement and requires delivery of the commodities covered by the sales agreement within 270 days of the embargo imposition date.

CONCLUSIONS

The United States has restricted exports of agricultural commodities several times in the past ten years. These restrictions have been imposed in an environment where exports are critical to the viability of the U.S. agricultural sector. The restrictions reduced U.S. farm prices, incomes, and shipments to foreign buyers in the short-run. Although some portion of the recent decline in U.S. agricultural exports and market position is likely to have occurred despite the actions, the restrictions on exports contributed to increased production by competitors over the longer-term. In addition, the "unreliable supplier" image of the United States which has emerged as a result of the export controls has encouraged buyers to attempt to increase self-sufficiency and diversify their sources of supply. A significant result of the 1980 embargo was the policy actions which were taken to offset the embargo. Higher commodity loan rates in the 1980's in reaction to the embargo as well as anticipated increases in inflation have hindered U.S. competitiveness and provided an economic incentive for competitors to increase output.

The Reagan Administration strongly opposes the use of embargoes and other export restrictions. These restrictions are viewed as ineffective and damaging to the U.S. farm sector. As a result, the Administration removed the 1980 embargo on sales to the Soviet Union soon after assuming office. Furthermore, steps were taken to re-establish the reliable supplier image of the United States including negotiation of a new grain agreement with the Soviets and additions of embargo protection and export sanctity clauses to agricultural legislation.

Representative OBEY. Please proceed, Mr. Luchterhand.

STATEMENT OF BRYCE LUCHTERHAND, DAIRY FARMER, UNITY, WI

Mr. LUCHTERHAND. My testimony is going to be divided in one category: big trouble down on the farm.

A couple of weeks ago, the vice president of the Chase Manhattan Bank came out to Madison. He was good enough to tell us that there is going to be a recession in 1986. The country is going to just slide into it. It won't be sudden. We are just going to slide.

That was a terribly poor statement to make out in America's dairyland. We entered the recession in 1980 and 1981. Right now in rural Wisconsin we are in the throes of a very deep depression, and it is getting worse.

I am a 37-year-old dairy farmer. I run 359 acres, milk 40 cows, have about 115 head, including steers and young stock, replacement stock. It has been in my family since 1900.

The Luchterhands have seen hard times and we have seen less hard times. In 86 years we have never seen good times.

In 1980, we were being paid $13.20 for 100 pounds of milk. This last August 1985, the Minnesota/Wisconsin series price was $11.08 a hundred. In 1978, steers sold for 60 to 65 cents. One of the gentlemen before me said that he thought there had been a 20-percent cut in the price of beef. Baloney. There has been a 35- to 40-percent cut in the price of beef. It is down to 41 cents right now, and I am going to tell you that I have to have $500 a steer if I am going to break even on an 1,100- and 1,200-pound animal.

Cows were selling for 41 cents in 1978. They are down to 29 cents now. A new tractor that I purchased in 1979 cost me $10,000. I went shopping for one last year and that same tractor, if I was going to replace it with an identical tractor, cost me $20,000. I bought a used one, 15 years old, for $1,900.

My utility costs—when I say "mine," I mean every farmer—my fertilizer, my insurance, my taxes, net expenses, repair parts are all up, some of them very dramatically.

The income and the expense disparity increases daily. We don't get any inflation indexing out there in the farm unless it is to knock us down. We certainly never get anything to push us up.

In 1984, we lost 40,000 farms in this Nation. We lost 2,000 of them in the State of Wisconsin. Something that you have to understand, that everybody on your committee I hope would understand, that when a farmer makes money, he doesn't put it in the bank. He spends it.

Farming is too darn tough to be putting money in the bank. There are too many things to buy. When he buys things, that dollar turns over and you make jobs for people to buy houses, and refrigerators, and stoves.

I want to tell you a little bit about how this ripple effect goes out in the country.

A neighboring county of mine has roughly 1,200 farms in it; 175 of them are borrowers of the FmHA. One-third of those are delinquent and one-half of those delinquencies are expected to go bankrupt.

Property tax delinquency in Clark County—that is my county back in Wisconsin—increased by 34 percent in 1985. I want to show you something.

This is a page in one of our weekly newspapers. Let me open that up. This is another half page of that paper. Those little single-spaced lines are names of people that tax action can be taken against. It was published in March, and as of October 1 tax action could—tax lien action by the county can be taken on them.

These are proud people. They don't take pride in having their names mentioned in the local paper that they are in debt for 3 and 4 years on their taxes.

Local officials in the four surrounding townships around me—a township is 36 square miles, so I am talking about a 144-square-mile area—local officials in those areas listed off the new improvements that have been made in the last year.

That included seven sheds, two new silos, and one new mobile home. At least two of those areas saw 50 improvements, 50 improvements a piece in 1978. Over 30 businesses, including co-ops and tractor businesses, farm retail shops, clothing stores, any kind of business that you can think of out there have gone busted in the last 2 years in Clark County alone.

One local implement dealer that I talked to sold 50 new tractors in 1978. He sold 15 in 1984. He happens to handle the New Holland line of machinery, of implements. That is down 50 percent since 1978. He lost three neighboring competitors.

He doesn't feel glad about that—three neighboring competitors, and stretch that across the country.

The use of lime—this is even more significant because it dictates what is going to happen in the future. The use of lime in my part of the area has been reduced by one-half, by 50 percent.

Lime is essential if you are going to get crops in the future. Farmers are sacrificing what they put on the land. They are sacrificing the land for now without being able to expect what they can do with it in the future. It is going to catch up with them.

Governor Janklow had it right. One day they are going to wake up, and they are not going to have a crop. Then the surplus will be over.

Lending institutions that I talked to before I came here are hesitant to talk to you. And that tells me they are in trouble but they won't admit it. They simply say that 5 percent of their agricultural portfolios, or 5 percent of their portfolios, of which varying numbers of them are agriculture, whether it is 35 or 65 percent, but 5 percent almost right down the line of the agriculture lending institutions that I talked to—these are local banks—said: "We have about 5 percent in trouble;" 5 percent in trouble.

"Well, how many do you expect to be in trouble by the end of the year?" I said.

"Another 2 to 4 percent."

"Well, how many can you expect, what percent of your portfolio can you have in trouble before you are in trouble?" "Ten percent" is the answer.

They expect themselves—they didn't say that in so many words, but they expect themselves to be in serious trouble inside of 1 year. What happens when these local banks that are supposed to be guaranteed by the FDIC start going busted even more quickly than they are now?

In the best of times, farmers have stresses unlike those of any other workers in the country. But things aren't what they should be.

Farmers are cutting back on pleasure. More than one spouse, sometimes both of them, are going off the job to look for work. Kids can't be sent to school. They can't go to college because they are needed at home on the farm.

Farmers can't buy health insurance any more. When they cancel their health insurance, they are not qualified to go on medical assistance, so they do without.

What do these people feel? What is the tremendous cost to them? It can't be measured in dollars.

I challenge any member of your committee, which not many are present right now—I wish they were—or any member of the Reagan administration to demonstrate to me a more beneficial expenditure of money than a properly administered base support price for farm commodities.

The diversion program paid people not to produce. Farm production is wealth, and the only thing that is more foolish than paying people not to produce wealth is to punish them for producing wealth.

That is what is happening today. We are destroying the family farm. And many of them are my friends and neighbors. When we destroy the family farm, it is going to be the end of cheap food.

This is a great and a strong Nation. Farmers are doing their part. They have done their part. No nation should punish its workers for being the best in the world. Thank you.

Representative OBEY. Thank you, Mr. Luchterhand.

Next, Mr. Tubbs.

STATEMENT OF ALAN TUBBS, PRESIDENT, FIRST CENTRAL STATE BANK, DeWITT, IA, ON BEHALF OF THE AMERICAN BANKERS ASSOCIATION

Mr. TUBBS. Thank you, Mr. Chairman. I am aware that some of those who I am very close to may choose to leave agriculture this year. I have to conclude that economic problems of a size not seen by generations of Americans are wrenching farm life and rural communities across our country.

Evidence is mounting that fear and despair are spreading among hundreds of thousands of farmers. I think we could see that in the face and voice of Mr. Luchterhand.

There are something over 2 million farms in our country. By U.S. statistics, 680,000 of those farms are family farms, those producing between $50,000 and $500,000 of farm products per year.

Over one-third of these producers are in serious trouble by almost any statistics that we might look at.

The problems of these farmers alone is a grave matter, but the ripple effects on nonfarm businesses and rural communities is becoming abundantly clear.

Mr. Chairman, I want to illustrate that with a few brief points from my own community of DeWitt, IA. We are a community of about 4,500 people dependent upon agriculture and agriculture related industries.

The farm base is being eroded by the lack of profitability in agriculture and is evidenced by the loss of two out of three combination grain dealers and farm supply stores. Our community has lost four out of six farm equipment dealerships. We have lost two out of four new car dealerships. We have lost numerous retail stores and as those are closed, the loss is reflected in retail sales. Fourth quarter retail sales in Iowa in 1982 amounted to $7.9 million. By 1983 it was down to $7.7 million. And fourth quarter retail sales for 1984 were $7 million.

Additional loss of employment is evidenced by the loss of two out of three manufacturing plants, costing our community 250 jobs. We have lost a district office of the Omaha Farm Credit Bank. With the decline of employment from that loss, we are presently witnessing a substantial cutback in the employment of the community's only white-collar employer, Iowa Mutual Insurance Co.

Our industrial base is largely agricultural in nature and thousands of jobs have been lost in surrounding communities as a result of agricultural cutbacks.

It is reflected in school enrollments. School enrollments are down from 1,913 in 1980 to 1,673 in 1985. This past year school enrollment is down 51 students costing a budget loss of $127,000 which must be made up in increased property taxes.

It also is reflected in an attitude by the citizens to vote down any improvement bonding that might occur for the improvements to the school district facilities.

In terms of residential real estate, I checked with our DeWitt multiple listing. We found that in the first 6 months there were 132 listings on the DeWitt multiple. There were 17 sales. We have approximately 10 new housing developments in the area. There were two new homes built in 1984.

We have a referral center which is a community project, and they report a doubling of requests from families needing assistance. The loss of confidence in rural communities is reflected by First Bank Systems of Minnesota's decision to sell 28 of its smallest banks located in rural communities.

Finally, our whole city area is dependent on agriculture related industries: John Deere, International Harvester, Caterpillar, Case, and support industries to those major manufacturers.

The Quad Cities metropolitan area has lost 22,600 jobs since August 1979 and they have experienced double-digit unemployment in 42 out of the last 43 months.

I think a national signal of the intense problems in agriculture is the critical problem facing the Farm Credit System. The Cooperative Farm Credit System, through its production credit associations and Federal land banks, became a very aggressive lender in the 1970's. Now, due to low income and asset devaluation in agriculture, the net income of the farm credit banks has declined in the last 2 years. The Farm Credit Administration report shows that 11 of the 37 banks had more problem loans than capital on July 30, 1985.

It is not surprising that the major problems rest in the Omaha and Spokane districts with nonperforming loan to capital ratios of 637 percent and 571 percent, respectively.

The Farm Credit System problem is a problem of national significance. They hold 78 billion dollars' worth of outstanding farm debt. They owe $73 billion in agency-bonded indebtedness. It is important that that system survive. It is important to the Nation and important to agriculture, and it will likely require some Federal assistance.

A major concern that all lenders in the Omaha district have is the domino impact of rapid liquidation procedures of Farm Credit System loans as may be required under the loss-sharing provisions within the system. These liquidation standards, as well as arm's-length regulation of the system, should be addressed in whatever assistance packages come forth.

Because real estate constitutes 75 percent of total assets, changes in the value of farmland will dominate all changes on the asset side of the farm balance sheet. Farm sector assets have been decreasing since January 1981.

Most recent USDA figures show that Iowa farmland values have declined 49 percent since 1981. A part of the problem of assessing this is getting adequate and current information.

Let me bring you up to date. It is common today to experience real estate value declines of 60 to 70 percent from peak values, and in my estimation this would translate into a capital loss in Iowa of $50 to $60 billion and nationally of over $1 trillion.

We have, in the process, current information on loan delinquencies and problem loans in a survey that the ABA is now tabulating. We can make that survey available at a later time.

Obviously, banks are having problems with dealing with this kind of agriculture. The problem in farm lending at banks is not prevalent all across the country. It depends upon regions, it depends on crops, and it varies from State to State. The worst hit banks are in the Midwest, principally Iowa and Nebraska. If we look at the number of problem banks, we find that we have had a tremendous increase in the number of problem banks, and the percentage of those banks that are agriculture banks has increased also. Just last week it was announced that the FDIC list includes 1,032 problem banks up from 828 last year with the expectation that that number could reach 1,300 by yearend. That is 10 percent of our Nation's banks.

I know one thing: That is, that life is too short to be in constant conflict with good people with whom I live, with whom I go to church and with whom my children attend school.

Many bankers, I think, are feeling the same way and they would escape if they possibly could. I think that what we are beginning to see on the horizon is a loss of hope and despair in rural areas. That is what is happening today. Thank you for the opportunity to discuss these issues with you.

Representative OBEY. Thank you, Mr. Tubbs.

[The prepared statement of Mr. Tubbs follows:]

PREPARED STATEMENT OF ALAN TUBBS

Mr. Chairman and members of the Committee, I am Alan Tubbs, President, First Central State Bank, DeWitt, Iowa. I am representing the American Bankers Association, and I am currently Chairman of the Executive Committee of the Agricultural Bankers Division of the American Bankers Association.

The performance of the farm economy impacts more banks than many people realize. There are some 5,000 to 7,00 out of the 14,500 plus commercial banks that qualify as agricultural banks. The agricultural economy contributes over one-fifth of the U.S. Gross National Product considering both the direct and indirect impact of the industry. In many communities, the farm dollar is the first dollar of income to begin through the economic cycle which multiplies the income several times over. Agriculture is a significant creator of new real wealth year after year, and it is a major contributor to our national balance of trade.

It is not unusual to hear about farm problems. In most cases, these problems are corrected by normal economic cycles in the farm economy which cause the industry to rebound and recover. However, this time we have some structural changes occurring within the agricultural industry that normal economic cycles will not correct without massive social and economic dislocation. These problems threaten the existence of a significant percentage of farms and an unknown, but growing number of agricultural - related banks and businesses.

Economic problems of a size not seen by generations of Americans are wrenching farm life and rural communities across the country's principal food-producing regions. Evidence is mounting that fear and despair are spreading among hundreds of thousands of farmers who are looking at millions of acres of farms either already lost or likely to fall into the hands of creditors soon. They are among the nation's 2.37 million farmers who are struggling to pay interest on total liabilities that have soared 63% since 1979 from $132 billion to $215 billion. The interest now totals more than $21 billion a year, and total farm income averaged only $23 billion a year in the past two years. In addition to from new economic data, signs of the severity of the problem have been evident over the last few months in visits and telephone interviews with farmers, bankers, and rural merchants.

Mr. Chairman, I want to illustrate this point briefly with examples from my community, DeWitt, Iowa. The deteriorating situation is spreading ripples through our local economy. In DeWitt we have:

- Lost 2 out of 3 farm supply grain dealers
- Lost 4 out of 6 farm equipment dealerships
- Lost 2 of 4 new car dealerships
- Lost 2 of 3 manufacturing plants for a total of 250 jobs
- Lost Numerous retail stores
- DeWitt lost a main office of Farm Credit System (PCA & FLB). It will not be a branch with a reduction in employees from 60 to 15.
- None of these industries or jobs have been replaced.
- In these small communities, if banks close they are not replaced.
- And finally, the whole Quad Cities area relies on agriculture related industries: John Deere, International Harvester, Caterpillar & Case. I believe that these industries have lost about 60,000 jobs.

BACKGROUND

Agricultural problems have been building for 15 - 20 years, especially when inflation was high and interest rates were low which led to a strategy of "borrow and buy". The dollar was valued at a low level relative to other currencies, contributing to export expansion and good markets. Land was the asset to own and more and more land was brought into production as cash flow needs arose. These artificially prosperous times were analogous to international lending conditions to the extent that excessive lending was done based on prosperous economies and unsustainable low interest rates. In addition, the Cooperative Farm Credit System, through its Production Credit Associations and Federal Land Banks, became a very aggressive lender, basing its performance on volume of loans outstanding. The Farm Credit Banks lend directly to individuals and businesses as well as to farm associations and cooperatives. The latter groups, in turn, either lend to agricultural and aquatic producers or provide services to the agricultural sector.

Balance Sheet of the Farm Credit Banks ($ in M)

Year End 1984

Assets: Loans made to private lenders	Other Assets	Total Assets, or total liabilities plus equity	Liabilities: Credit Mkt Debt	Other Liabilities	Equity
77,089.0[1]	7,742.5	84,831.5	72,936.3	2,652.9	9,242.3

[1] This amount includes loans made directly to individuals and businesses.

Source: FRB Bulletin, June 1985

However, the net income of the Farm Credit Banks has receded some in the last two years. Because these banks are owned by farm cooperatives, the only purpose of profits is to add to capital as total assets increase so as to maintain the same relative cushion for potential loan losses. With asset growth flat, the Farm Credit Banks could reduce earnings. Their borrowers, many of them undergoing financial strain, consequently received some interest rate relief. Increases in loan losses and in non-performing loans, however, also reduced profitability and limited the extent of interest rate relief.

Ratio of Net Income to Average Assets

Year	Farm Credit Banks
1978	.78
79	.50
80	.43
81	.45
82	.60
83	.80
84	.96

Source: Federal Reserve Bank Bulletin, June 1985

A Farm Credit Administration report showed that 11 of the huge credit system's 37 main banks had more problem loans than capital on June 30, a warning signal of the banks' inability to absorb future loan losses. Not surprisingly the system banks shown as in the worst trouble are the intermediate credit banks in Omaha, Nebraska and Spokane, Washington, with nonperforming loan-to-capital ratios of 637% and 571%, respectively. Among all 37 banks, the ratios of total loans to capital was 104%, an indication of the growing concern about the system's financial viability.

When the strategy of "borrow and buy" got individuals into financial difficulty, further inflation, price support programs by the Federal Government, or Farmer Home Administration credit was there to save the day. In fact, up to 1980, few farmers failed because there were so many safety nets in place.

In the late 1970's, the economic rules changed. First, there was a grain embargo, hampering the United States' reputation as a reliable supplier of agricultural commodities to the rest of the world. Second, there was a basic change in Federal Reserve policy resulting in limited monetary growth and more volatile interest rates. Consequently, there was a group of less efficient and/or overleveraged farmers whose operations worked well with high inflation and low real interest rates, but who could not withstand deflation, declining land values, continued high input costs, and historically high real interest rates. (Table 1)

A second, but still significant result is the depressed level of economic activity in small town businesses in agricultural areas. In some ways, small business owners have less staying power than farmers because they may have less capital and solving their problems can be tougher. For example, while a farmer may be able to come back from a difficult period by planting a small amount more, it is hard for a banker to advise a merchant to increase sales.

In summary, it can be said that past abrupt changes in monetary policy, and to a much greater extent, irresponsible fiscal policy, have had a much greater impact on agriculture than any farm policy during that time. This is true when you consider the impact on agriculture of the rapid changes from inflation to deflation, negative real interest rates to historically high real interest rates, overproduction based on record exports (a low valued dollar) to a curtailment of exports (high valued dollar).

The Current Situation in Agriculture

Let me analyze the current agricultural situation from 4 vantage points: farm assets, borrowing capacity, cash flows and agricultural exports.

Farm Assets

Because real estate constitutes about 75 percent of total assets, changes in the value of farmland dominate all other changes on the asset side of the balance sheet. Farm sector assets have been decreasing since January 1981, and financial stress in the agricultural sector is at its greatest level since before World War II. This point was confirmed by recent figures released by the U.S.D.A. stating that farm values declined by an alarming 12 percent in 1984, the greatest decline since the Great Depression. For example, land in central Illinois that sold for $4,000 an acre in 1981 is difficult to sell at $2,500 per acre today. The average reduction in the price of farm land in the Midwest has been 30-40 percent during the past three to four years.

Borrowing Capacity

During the early 1980s, farmers' borrowing capacity diminished as a result of the declines in farmland values, high interest rates, and low real farm income. Even though the cost of funds has gone up, ample funds are available to credit-worthy farmers. However, once again, farmland values have made it more difficult, if not impossible, for highly leveraged farmers to obtain loans. As these farmers find it more difficult to finance their activities, they will be forced to liquidate part or all of their assets just to survive. This will inevitably force a re-allocation of assets that will continue to erode asset values.

Although thousands of farmers and farm-related businesses have gone bankrupt, and the nation's farm economy remains under heavy stress, indications are that more farmers than expected have been able to obtain credit.

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Cash Flows

As the cost/price situation intensifies and the leverage ratio dramatically increases, farm operators are facing more severe cash flow problems. From my perspective, those efficient and productive farmers who are cash flowing at 110 percent are presently my quality borrowers, and I will continue to loan them operating and other necessary capital without government assistance.

Agricultural Exports

Since 1980 and 1981, when U.S. agricultural exports peaked in volume and value, U.S. agricultural exports as a percent of total U.S. exports have declined. To put this in context, in 1973, agricultural exports accounted for 25 percent of total U.S. exports, whereas in 1983 agricultural exports totaled only 18 percent of our total exports. U.S. agricultural exports fell 17%, from $43.3 billion to $36.1 billion between 1981 and 1983; over the same period, total U.S. exports dropped 14%, from $229 billion to $196 billion. Among major U.S. export commodities, wheat (down 21%), rice, (down 39%), feed grains (down 23%), cotton (down 20%), and vegetable oils (down 18%) fell by greater percentages than did all agricultural exports, while oil/seeds (down 7%), tobacco (down 4%), and meat (down 8%) fell at lesser rates. Several factors, namely the strength of the U.S. dollar, foreign debt burdens and the underlying declines in incomes of developing countries, excellent weather conditions, and a worldwide recession, have contributed to markedly reduced agricultural exports.

Current Condition of Rural Banks

The low crop prices and falling land values that have made life miserable for many U.S. farmers for some time now are causing problems for the nation's farm lenders as well. Farmers owe public and private lenders about $200 billion. (Table 2) Of the 79 U.S. banks that failed last year, 25 were agricultural lenders. The effort to find a solution to the agricultural credit problem will touch Americans who never get closer to a farm than opening a package of Wonder Bread.

But not all farm-lending banks are in trouble. It varies from region to region, crop to crop, state to state. The worst-hit banks are in the Midwest - Iowa and Nebraska especially. That is the heart of the farm and farm-lending crises. There are also some problems at banks in the Southeast where some loans to tobacco growers are performing poorly. In California, agriculture loans are suffering from sluggish cotton and citrus exports. Loans to California vineyards have been affected, too, due to an influx of French wine brought on by the strong dollar. And a number of regional banks in Texas and Oklahoma have had farm-loan problems added to poor energy and real-estate loans.

Let me also analyze the current condition of agricultural banking from 4 vantage points: delinquent loans, loan losses, problem banks and U.S. bank failures.

Delinquent Loans

Data as of December 31, 1984 indicate that agricultural banks, defined as those banks with agricultural credits comprising 25 percent or more of total loans of the bank and less than $500 million in assets, had a larger percentage of their loans delinquent as opposed to other small banks. This was not true three years ago prior to the agricultural crisis when loan delinquencies at agricultural banks were lower than at other small banks.

Delinquent Loans
As a Percent of Total Loans
December 31

	1982	1983	1984
Agricultural Banks	4.9	5.2	6.2
Banks with Total Assets under $500 Million			
Farm Loans As a Percent of Total Loans:			
1 to 4%	4.9	4.6	4.7
45 to 49%	4.8	5.0	6.5
70 to 74%	3.5	4.2	6.3

Source: Board of Governors of the Federal Reserve System.

Loan Losses

The relative losses (net charge-offs) and provision for possible loan losses rose at agricultural banks during 1984, reaching levels that significantly exceeded loss rates at other small banks. The loan loss experience at agricultural banks was 1.22 percent of total loans. This figure exceeded the loan loss experience at other small banks by more than half a percent.

Problem Banks

The number of problem banks reported by the FDIC have increased over the last decade. But the significant increase in the number of problem banks has occurred during the last three years, as shown below.

Number of Problem Banks

1970	1974	1978	1982	1983	1984
252	183	342	369	642	828

U.S. Bank Failures

Until recently, agricultural banks were under-represented among failing banks. For example, out of the 10 bank failures in 1981, only one was an agricultural bank. However, out of the 79 bank failures that occurred in 1984, 32 were agricultural banks. As shown, below, the number of bank failures closely parallels the rapidly increasing number of problem banks among agricultural banks since 1983.

Agricultural Bank Failures

Year	Total	Agricultural	Agricultural As a Precentage of Total
1981	7	1	4
1982	35	11	31
1983	45	7	16
1984	78	32	41
1985 (August)	68	36	53

Source: Board of Governors of the Federal Reserve System, FDIC

As the number of problem and failed banks continues to increase, confidence in the nation's banking system is eroded. Not surprisingly, the bulk of today's troubled banks have a high percentage of agricultural loans.

Proposed Changes

In attempting to suggest methods of easing the impact of current agricultural problems on banks with a high percentage of agricultural loans, our Association has, for the past three years, conducted regular meetings with the chief supervisory personnel of the federal banking agencies. The focus of these meetings has been on the need for understanding on the part of bank examiners when examining agricultural banks and agricultural borrowers. Although our Association would not suggest and could not support any generalized moratorium on bank closings, we do believe that, given time, many banks will be able to manage their way out of the current difficulties. Meanwhile, we think there are a few areas in which improvements should be made.

Farmer Home Administration

In 1984, when farm balance sheets were not much better than in 1985, the FmHA reported that 6,713 of its borrowers left farming because of financial stress. Since FmHA makes loans to the shakiest farm enterprises -- those which cannot obtain credit elsewhere -- this number should be a substantial fraction of all farm failures. Nonetheless, the decline in land prices since 1981, the declining real commodity prices, and the high real interest rates are undoubtedly placing many farm operators in a real financial squeeze even if they do ultimately survive in farming.

The operation of the Farmers Home Administration (FmHA) must be examined in relation to the whole structure of this country's financial institutions and the credit needs of the agricultural sector of the economy. During consideration of the 1985 Farm Bill, the ABA recommends that the credit programs administered by the FmHA be restructured.

Any federal credit activity involves a subsidy and the costs of subsidies are borne by the taxpayer.

The insured loan program of FmHA is much more dependent on government funding and commands more of a subsidy than does the guaranteed loan program where the loans are provided by private lenders. We believe more of each year's appropriations should be used for loan guarantees in lieu of direct lending by FmHA.

Three major issues need to be resolved in the guaranteed program: the timely processing of guarantee loans, the consistent application of FmHA regulations at the state and local county levels, and a commitment by FmHA to honor the guarantee in the event of default. Let me highlight in more detail the issue of confidence in the FmHA guarantee.

In order to remove the lack of confidence in the FmHA guarantee in the event of default, we believe that procedures must be modified for more expeditious payment with fewer complicating restrictions. The common perception that guarantees through FmHA are not collectible or at best undesirable due to the required complete liquidation of assets prior to any disbursements must be addressed. If the guarantee must be exercised and the lender has followed prudent lending practices, then FmHA should reimburse the lender to the full extent of the guarantee. A procedure for liquidation similar to that offered under the Small Business Administration guarantee loan program should be implemented allowing for early disbursements of guaranteed proceeds based on expected liquidation values.

Congressional attention to the agricultural situation has resulted in the addition of an interest rate write-down to the FmHA's Debt Adjustment Program (DAP) and the adoption of provisions that closely follow recommendations made by the Agricultural Bankers Division of the ABA. These provisions include: reduced cash flow requirements; an extended period of time over which loans can be restructured; and improved guarantee provisions. While these changes came too late, our Association urged our members to work with their farmers to restructure these loans.

Other Proposed Changes

Our Association is interested in exploring possible solutions to the major problem of declining land values. A secondary market for agricultural loans should be given serious consideration as well. The ABA also encourages additional emphasis on export incentives for farm commodities versus the heavy reliance on internal supply controls.

Conclusion

The American Bankers Association supports the goal of reducing government's role in agriculture. Nevertheless, with today's fragile agricultural economy, any rapid and major shift to market orientation, or significant decline in price and loan support levels could be disastrous, especially in the central grain producing states. Farmers, agricultural suppliers, and creditors must be given time to adjust to the current environment of deflation of assets, high real interest rates, and the over-priced dollar.

We believe our proposed changes would help, but the best way to achieve a sound farm economy over the long term is through lower real interest rates and more realistic international exchange rates. We believe the over-valued dollar which appreciated by almost 15-20 percent last year and high real interest rates, precipitated by huge Federal deficits are the primary problems. Some agricultural issues will be addressed in the 1985 Farm Bill, but the most important issues remain with the overall Congressional budget, authorization and appropriation process underway. We believe that a consistently sound monetary policy combined with an effective policy for controlling the federal deficit are necessary to strengthen the agricultural sector.

Thank you for the opportunity to testify before you today. I will be pleased to answer any questions you may have.

TABLE I

Average Effective Interest Rate on Bank

Non-Real Estate Loans to Farmers

Year	All Loans
1979 - Q1	11.0
- Q2	11.2
- Q3	11.3
- Q4	13.6
1980 - Q1	14.1
- Q2	17.4
- Q3	13.5
- Q4	15.5
1981 - Q1	17.9
- Q2	17.9
- Q3	19.6
- Q4	18.8
1982 - Q1	17.7
- Q2	17.8
- Q3	16.8
- Q4	14.8
1983 - Q1	13.8
- Q2	13.3
- Q3	13.7
- Q4	13.6
1984 - Q1	13.5
- Q2	14.3
- Q3	14.5
- Q4	14.3
1985 - Q1	13.5
- Q2	13.1

Source: Agricultural Finance Data Book,
Board of Governors of the Fed Reserve
System, July 1985

TABLE II

Farm Debt Outstanding at Reporting Lending Institutions
($ Millions)

(Non-Real Estate Debt)

Year	Banks	Cooperative FCS	CCC	Life Insurance Companies	FmHA	Individuals & Others	Total
1978	24,295	13,352	4,540	---	2,764	11,999	56,950
1979	26,718	14,877	5,666	---	5,086	14,011	66,358
1980	29,327	18,053	5,070	---	7,904	16,278	76,632
1981	29,989	19,749	4,978	---	10,345	17,367	82,428
1982	31,301	21,268	8,011	---	12,718	18,404	91,702
1983	34,341	20,524	15,433	---	12,988	19,139	102,425
1984	37,100	19,364	10,801	---	12,888	18,566	98,719
1985 *	37,755	10,879	8,892	---	13,775	17,835	96,336

Real Estate Debt

Year	Banks	Federal Land Banks	CCC	Life Insurance Companies	FmHA	Individuals & Others	Total
1978	6,994	19,645	---	8,150	3,613	19,556	57,978
1979	7,717	22,677	---	9,698	3,747	21,712	65,551
1980	7,798	27,335	---	11,278	6,467	25,660	78,538
1981	7,924	33,203	---	11,991	7,021	27,801	87,940
1982	7,610	40,272	---	12,136	7,965	29,291	97,274
1983	7,673	43,878	---	11,898	8,282	29,527	101,258
1984	8,480	44,936	---	11,833	8,513	29,847	103,609
1985 *	9,260	45,220	---	11,575	9,110	27,510	102,675

* Estimate

Source: Agricultural Finance Databook, Board of Governors of the Federal Reserve System, July 1985.

Representative OBEY. Mr. Randall, please proceed.

STATEMENT OF DEAN RANDALL, EXECUTIVE DIRECTOR, SOUTH DAKOTA RETAILERS ASSOCIATION, PIERRE, SD

Mr. RANDALL. I am pleased to have opportunity to stress the serious concern of all South Dakotans regarding farm prices. South Dakota is a small State with a total population of well under 1 million people. Farming is vital to the economy, and by now I believe it is common knowledge that this industry has been changing and has run into hard times. While employment is only one factor measuring importance of any industry to a State's economy, I would like to cover that area. Farming and two other industries, retail trade and services have significant importance to the South Dakota economy. The tremendous importance of these three to employment in South Dakota has been relatively stable over the past three decades.

The providence of each industry has been shifting over the past decade. In 1960, the agriculture industry was South Dakota's greatest employer. By the end of the next decade, it was replaced by the service industries. There was another change during the 1970's. The services remained stable but retail surpassed agriculture. So for whatever reasons, the employment in the agriculture industry has seen a dramatic reduction.

The services industry picked up much of the slack during the 1960's; manufacturing was some help in the 1970's. And it should also be recognized that unemployment has increased from 4.1 percent of the civilian labor force in 1960 to 5.5 percent today.

With these changes, the magnitude of the importance of agriculture to the State of South Dakota remains a very real and—reality. The current crisis is having a very negative impact on not only agriculture-related businesses but retailers in general, particularly in our smaller towns. The most obvious indication has been the declining number of implement dealers remaining in business. The takeover of International Harvester by Case further decreased the number of implement dealers in our State.

When farmers lose the necessary borrowing capacity to buy machinery, the manufacturers suffer sales losses just as retailers do.

One example is Dale Manufacturing, which you are familiar with, a farm equipment manufacturer located in Madison, SD, my hometown, a town of around 6,000 people. They started production in 1973. By 1980, they employed 312 people, the town's largest employer. Since 1980, they have steadily laid off people and today are at a low point of 77 employees. The home plant for DOE manufacturing, as you know, is in West Bend, WI, where they at one time employed over 1,100 people. Today they employ just over 400. The home plant has been virtually shut down 2½ out of the last 5 years.

The farm crisis in South Dakota has created a dual economy. We find that the 10 largest towns and cities are mostly holding their own regarding retail sales, but the smaller towns which are obviously more dependent on farm trade are suffering sales losses and are gradually dying out.

When a small town loses a business on main street today in South Dakota, that building remains vacant. It has been reported that at least 25 percent of South Dakota farmers are in serious financial trouble. According to one report, our State will lose one business.

The forecast that South Dakota will lose 3,000 farmers within the next year becomes a reality, then we will see 300 other business failures, most of which will be retailers and retailers are the largest employer in the State of South Dakota.

The situation is not uncommon to other areas of the country. Nationally the combined food system, farming plus the farm supply and food processing and retail industries is one of the largest sectors of our economy.

This is an interdependent system, much of the economic health of each part is influenced by the performance of the others. When farmer's production is significantly reduced, sales of farm supply industry declines. Exported volumes fall and food manufacturers and retailers see their businesses as affected. Of course, the consumer ultimately must pay more for foreign products.

Thus our food system must be considered in its entirety when making food and agriculture policy. Agriculture must be able to grow and adapt to a competitive environment.

The role of the Government must be to facilitate competition, not to impede it. Unfortunately, the Government role has not always worked to this end.

The questions for Government should be to fashion policies creating an even cry environment in which the food and agriculture system can compete and flourish, insuring a continuing supply of food and fiber for the American consumer at affordable prices. A small proportion of the farms produce the vast majority of the food and fiber for the Nation's consumers and for export to foreign markets. Yet a larger number of small farms remain an integral part of rural economics and these people are vital to the economy of South Dakota.

Events of recent years underscore agriculture policy. Real interest rates and exports importantly may determine the economic health of the farm and food system. As farms have become larger, more capitalized, specialized, and integrated into the nonfarming world economy, they are increasingly subject to the same forces that affect the rest of the economy.

This makes macroeconomic policy a central concern of all elements in the food and agriculture system. Retailers, farmers, and ranchers have much in common. When the farmers and ranchers are prosperous, so are most rural businesses. I would agree with Mr. Luchterhand that all of us in South Dakota know, when the farmer makes money, he spends it. In that State we all prosper.

Food retailers depend on the economy of the farmers. When there is a poor farm economy, it affects everyone that lives in or near a small rural town.

We retailers have much in common with all segments of our society. We must continue to improve the economic climate throughout our great Nation and provide the basis for a growth in which we will share in the benefits. We need to work together cooperatively so that continuing farm stress will not increasingly magnify.

With that, I am out of time. I would be happy to respond to some questions if you desire.

Representative OBEY. Thank you, Mr. Randall.

Please proceed, Ms. Testolin.

STATEMENT OF NEDALYN D. TESTOLIN, LIVESTOCK PRODUCER, CHAIRMAN, PLATTE COUNTY SCHOOL DISTRICT NO. 1, AND EXECUTIVE DIRECTOR, WYOMING RURAL SUPPORT NETWORK

Ms. TESTOLIN. Thank you. Good morning, Mr. Chairman. I am pleased to be able to speak to you because it tells me you recognize the very real and far-reaching social and educational consequences resulting from the current agricultural economic crisis, consequences that are in addition to the financial plights of the producers and their lending agencies.

I am a member of a pioneer farming family. We began to work with livestock in 1880, 10 years before Wyoming achieved statehood. We operate a dairy program in southern Wyoming today in which I am a working participant and manager.

I would support many of the comments made by other people here at this panel in regard to what is really taking place in agriculture today.

I have worked with schools and school boards for 20 years and serve as director of the Wyoming Rural Support Network. So daily I first hand see farmer-ranchers going out of business and with every farmer in serious financial stress goes a main street business.

At least a third of the remaining farmers are in very serious financial stress while suicide, divorce, and drug use increase rapidly. The media report of suicides among financially troubled farmers but the emotional stress experienced by the children of these troubled agriculture families has been largely overlooked.

Children's problems have taken a back seat. Faced with foreclosure notices bringing about the loss of three and four generation family farms and ranches, bankruptcy petitions, and a fractured family, these children will become the emotionally needy of the 1980's. Given our necessary time constraints in this hearing, it is difficult to describe adequately the magnitude of people in anguish resulting from this financial crush.

These children have been school age, scholarship, and 4-H members representing all that is best in the communities. Today we see something quite different.

Statistics show adults under personal or occupational stress do not perform as well on the job. Students under stress exhibit the same symptoms in the school setting. Suicides, depression, school program rejection, and refusal to participate in activities often mean the child is so sensitive to the changing economic conditions in the home, he or she simply cannot reveal to classmates, teachers, and family that there just is no money any more.

Believing themselves to be an additional burden on an already distraught family, some of these children think suicide would be the most viable option to life.

World hotline networks report that teachers call to inquire about ways to relate to young faces, who stare vacantly out the window and don't or won't see or hear, whose only reaction is to shrug their shoulders and return to their shell of hostility or indifference. Teachers asked about ways to work with the pregnant student who believes she just can't share that information within a family that is already emotionally beaten and defeated by foreclosure; teachers calling to seek someone to listen when 12- and 13-year-old children tell of having watched their 4-H projects being reclaimed by presenters as a part of loads of cattle being shipped out to satisfy debts.

The child's grief turns quickly to fear and fury. Fury against parents for letting it happen. Fury against the banker who must precipitate this action, and most of all, against a system they see as teaching them one set of values and then practicing another.

Directors from a State regional runaway shelter program just last week requested an indepth training session from the Walt Hill agriculture hotlines, sponsored by the Nebraska Center for Rural Affairs. They seek this training response with a markedly increasing number of farm runaways showing up at their doors. Runaway agricultural children are a new phenomenon. A national think tank symposium is being activated to respond.

Many rural States tell us the bottom line is that tax dollars are just not coming in in amounts necessary to support schools. Districts are borrowing money and cutting programs. First sports, second special education, counseling, remedial assistance, followed by reduced purchase of equipment, maintenance, instructional material.

Edward Hunter, assistant administrative secretary of the Wyoming School Board Association shares that though Wyoming's particular funding process still provides adequate revenue, he sees the greatest concern being one of attitude.

Traditionally, the farmer-rancher has been education's greatest supporter. The despondency among rural people now carries through in terms of bond issues, school services, salaries, and critical reduction in staff.

Farmers are being forced out of farming. They are relocating; if not relocating, they are withdrawing from civic, church, and community activities.

Either way, the community is losing the cream of the crop. Without the continuity, commitment, and perseverance of these agricultural people, world communities will die.

The current agricultural disaster has huge impact far beyond the farm gate. Most depressions have been triggered by agricultural collapse. But the staggering cost involved in this farm collapse is too large to envision.

Studies show Nebraska can expect to lose 500 small towns well before 2000. Nebraska is no island. It has been 90 years since one of Nebraska's favorite sons William Jennings Bryant said, "Tear down the city and leave the farms. The cities will rise as if by magic. Tear down the farms and grass will grow in the streets of every city in the land."

Immediate remediation and prevention efforts must be introduced to help these children while we develop long-term agricultural policies in order to aid the agricultural recovery. But we must assist people who are leaving agriculture as well as support those who may be able to survive. Programs must be implemented, State by State, community by community, based upon needs cited by the community rather than by needs perceived by bureaucrats.

Block funding can accomplish this. But to do so programs must be brought about in the next 60 days, not a year from now. We need counseling and intervention programs involving training for board members, administrators, and staff with the requirement that the programs must be developed through agricultural field staff with a minimum of redtape and governmentese and maximum control by local agriculturalists to insure students benefit from the support effort.

Time does not permit me to give you the recommendations I feel that are necessary to be made in vocational agricultural training. But I would like to tell you, we must use team approached. Schools must draw upon the agricultural support networks being established and use them as referral agents. Job training and vocational planning programs need to be developed to help some agriculturalists select another profession. Programs are needed to aid in assessing and marketing skills for job interviews, résumé writing, job service, and training partnerships that can only be helpful if they are allowed to adopt realistic eligibility guidelines that actually meet today's needs. Rural people are both versatile and resourceful. They have had to be.

As displaced workers, they simply will not accept remaining on welfare roles. They will find, and they will retain jobs at a much higher rate of success than other groups of skilled technicians. These rural people will be well worth the moneys expended in their behalf for job placement or training.

Rural communities and their schools can't be separated. Therefore we must have a proactive team member aimed at prevention and next must accept the fact that producer, creditors, consumers, and political leaders all have a stake in the family farm. Thank you.

Representative OBEY. Thank you, Ms. Testolin.

[The prepared statement of Ms. Testolin follows:]

PREPARED STATEMENT OF NEDALYN D. TESTOLIN

Mr. Chairman and Members of the Joint Economic Committee:

I am pleased to be able to make this presentation, because it tells me, you as a group, recognize there are some very real and far reaching social and educational implications in the current agricultural economic crisis that are in addition to the financial plights of producers and lending agencies.

May I digress briefly to share certain pertinent background information that will provide you substantiation of my long time personal involvement in both the field of agriculture and the field of education. I am a member of a pioneer family who began to work with livestock in Wyoming Territory in 1880, ten years before the area achieved statehood. Our livestock operation has been continuously operating since that time and I am currently a working participant and manager of the Thirty One Bar Ranch Company, a cow/calf/yearling operation in southeastern Wyoming. As manager of this company I am faced daily with a previously unequaled myriad of developments that are undermining our agricultural solvency, personally, locally, and nationally. Never have such varied forces attacked the base of agriculture from so many directions. Once subject to drought and depressed prices, we are now immediately effected by fluctuations in the world market, oversupply, governmental regulations designed to provide assistance to one segment, that in turn destroy the hard won gains achieved in some other segment. We must react to commodity adjustments, futures contracts, taxing structures, zealous and strategic use and abuse of tax shelters, import-export ratio, rising labor costs, inflationary prices for equipment and services, and as you already recognize, these are but a few of the factors influencing United States production and sales today. Obviously no single solution can heal this many tentacled malignancy in our industry.

For twenty years I have served on school boards in Wyoming and have been concerned with educational issues facing our communities, state and nation, and am currently Chairman of the Platte County School District #1 Board of Trustees and a past director in the Wyoming School Boards Association.

I have recently accepted the position of Executive Director with the Wyoming Rural Support Network, an organization formed to help Wyoming people through this financially difficult period. This group is being established in an effort to take a pro-active approach to agricultural problems, and will provide an efficient referral service for financial, legal, emotional and educational requests.

INTRODUCTION: Effects on Rural School Systems

The agricultural economic crisis in America is well documented and widely identified as the major problem facing farmers and ranchers.

--Every day between 250 and 300 farms discontinue operation.

--1 mainstreet business closes with every 5 to 7 farms lost.

--1/3 of our remaining farmers are in serious financial stress.

--Suicide, divorce, and substance abuse increase daily.

(Statistics from: Ag Support Group - Beatrice Nebraska)

Although the media have reported suicides among financially troubled farmers and ranchers, and it is acknowledged that people in agriculture are experiencing emotional difficulties, this same emotional stress experienced by the children of these financially troubled agricultural families has been largely overlooked. Their problems have taken a backseat to the recent widespread attention given to the plight of adult farmers and ranchers. However it is these same children and adolescents who have been reared to a "way of life" and a value system based upon them continuing in agriculture or at least returning to their rural community in an allied occupation. Faced with foreclosure notices, bankruptcy petitions and a family unit that is unable to cope these youngsters will become the "emotionally needy" of the 80's. In the past they have been the leaders in school and extra curricular activities, the scholarship recipients and the 4-H and FFA leaders of the community. Typically they have further developed their skills through vocational training or college programs to better prepare them for an agribusiness occupation or remained on the family farm utilizing the practical knowledge they have learned from generations of agricultural involvement.

Today's scenario is much different. We know in the adult world that people under personal or occupational stress do not perform as well on the job, therefore it can be generalized that students exhibit the same symptoms in the school setting. A significant finding by Heffernan's in their 1985 study was that "56% of the families surveyed noticed major changes in their children's behavior." School problems, increased tears, isolation and withdrawal, anger and symptoms of anxiety were commonly cited. The following 10 examples are cited from the Farm Crisis Network Hotline (a program coordinated through the Center for Rural Affairs in Walthill, Nebraska. Kathleen M. Severens, Coordinator.) The data was gathered from Hotline reports in adjoining states of Nebraska, Colorado, South Dakota, Iowa, and revealed the following requests from callers:

1. Directors from a five state regional runaway shelter program request an in-depth training session from the Walthill Agricultural Hotline to meet specific needs in responding to the markedly increasing numbers of farm runaways now showing up at their doors.

2. A ministerial request to assist in the organization of a group of young people identifying themselves with the acronym SAFE - Students Against Farm Economy. This group was organized on a local basis in Nebraska, but now has spread state wide to meet the needs of children of families of the Rural Support Network outreach. These children express the following symptoms:

a. Total family breakdown in communication - each member gradually withdraws from the family group.
b. Suppressed emotions - each member hides miseries and fear.
c. Suddenly poor and without funds, unable to purchase even the most basic needs for school or activity participation

SAFE gives these children a forum through which they share these experiences with their peers and together find ways to begin to put family communications back into the family home life.

3. Suicides, deep depression, school program rejection, and

refusal to participate in activities may mean the child is so sensitive to changing economic conditions that he or she simply cannot reveal to classmates, teachers, and family that there is no money. Seeing themselves as additional burdens to an already overwrought family, some of these children believe suicide to be their most viable option.

4. Hotline operators report teens having been served with various legal papers while at school by overburdened law enforcement officers who are unable or unwilling to travel the many miles to serve papers on parents. This has of course resulted in intimidation, humiliation and fear on the part of the young person.

5. Frequent calls are received from farm/ranch wives asking "How can I keep my family from falling apart? We have two teenage sons. The school calls and says we have one who is verbally abusive, the other refuses to talk at all and has become totally withdrawn, he won't even talk to me! My husband is so immersed in our financial problems, he doesn't have time to talk to any of us and I simply can't push one more thing on him. I don't know what to do.

6. Teachers call to inquire ways to relate to young faces who stare vacantly out the window and don't or won't see or hear; whose only reaction is to shrug their shoulders and

return to their shell of hostility or indifference.

7. Teachers ask about ways to work with a pregnant student who believes she just can't share information within the family that is already fractured by foreclosure.

8. Teachers call to seek someone to listen when twelve and thirteen year old children tell of having watched their 4-H project being reclaimed by creditors in the load of cattle shipped out earlier in the morning. Grief turns quickly to fear and fury against parents for letting it happen, against bankers who participate in the action, and most of all against a system they see as teaching them one set of values and practicing another.

9. Hotlines respond to numerous pleas stemming from three generation family owned farms and ranches where children find themselves caught in a web of intra-family tension resulting from deeply imbedded bitterness on the part of the grandparent over the loss of the family farm for which he has struggled so valiantly, while they watch their parents respond with guilt and fear. Normally nonjudgmental grandparents may be supported by grandchildren doubling the grief and sense of responsibility shouldered by the parent or linking generation.

10. Delano Cunningham, widely recognized educational leader associated with Inter-Faith Ministries shares that he has been invited to participate in a National "Think Tank" Meeting sponsored by directors of shelters in Missouri, Indiana, Nebraska, and Kansas to seek a solution to the increasing numbers of runaway agricultural children. This is an entirely new phenomena and is taking on such proportions as to be a concern of directors from all over the nation, rather than one just being confined to the rural Midwest. Mr. Cunningham also shared information received in recent interviews with school officials in surrounding states. Schools show two kinds of emotional reactions; extreme hostility and abusive behavior, or high degree of obedience and compliancy. Numbers of ranch/farm children are simply doing exactly what they are told, while holding in their real feelings. They seem to seek acceptance, and feel a need to do something right. The too good robotlike child syndrome is seen as being counterproductive. It means stifled leadership, loss of hope, and a lack of purpose.

The Heffernan study of 1985 cites the following information from Extension Agriculturalist Donald Baily of the Northeast Missouri Extension Area. The following changes in children were noted by the school systems in the area. The list includes:

1. Stress shows on students of all ages

2. Large increase in free lunches
3. Noticeable need for medical attention in some children
4. Need for dental work
5. Students "gobble up" school lunches
6. Students come to school hungry
7. Students no longer complain about school lunches
8. One school has an agreement with a discount store and a service club to buy shoes for those farm youngsters who need them or any other student.
9. One school is working out an eye glass purchase plan for students with a local service club. Many students need glasses - a note is sent home and nothing happens.

In Wyoming the problems have just begun to surface but many school people have been ill prepared in their training to recognize symptoms of these problems in students. Many school and other special services staff need to become more aware of these community issues in order to respond to the needs of agriculture families and their youngsters if many of these young people are going to survive this crisis without falling heir to problems of juvenile delinquency, dropping out, withdrawing, running away, or substance abuse. Many schools have experienced decreased enrollments in vocational agriculture programs due to disillusionment and frustration on the part of students who feel that their parents, their teachers and their communities have let them down by on one hand encouraging them for the past several years in training programs geared to make them more technologically knowledgeable in agriculture and now pulling the future out from under them by the current economic upheaval.

State Departments of Education in rural states tell us the bottom line is that tax dollars are just not coming in amounts necessary to support schools, so districts are borrowing money, and cutting programs. The first programs to go are sport programs, and second are special education, counseling, and remedial assistance. Purchase of equipment, maintenance and other instructional materials are reduced next. This in turn discourages administrators, teachers and pupils alike. Edward Hunter of Wheatland, Wyoming, Assistant Executive Secretary of the Wyoming School Boards Association tells us that not only are agricultural people still the major source of revenue, but that traditionally, they have been educations greatest supporters, but now we are seeing such despondency among them that it carries through in terms of bond issues, school services, teachers salaries, and sometimes even critical reduction in staff. Agricultural people are facing such a grim future, that it is bringing about a change in attitude and he sees grave problems in being able to provide future educational excellence, without the support of this heretofore strongly educationally oriented segment of society.

COMMUNITY EFFORTS:

As stated earlier a school and its community are one and the same when viewing the whole picture. The same analogy can be made when looking at mainstreet in rural America. As agricultural communities across the nation are faced with ever increasing economic crisis the effect on rural communities is that for every 5 farm operations which are lost, one mainstreet business also goes under.

Another important statistic which has been found in rural communities is that on the average a farmer who files bankruptcy leaves $77,000 worth of unsecured debt in the community.

As people are forced out of farming many of them are relocating because the rural community cannot provide other forms of employment for them. If they are not relocating they are withdrawing from civic, church, and other community activities in which they have usually been leaders. The community is losing the "cream of the crop". Without the continuity, commitment and perseverance of many of these agriculture people rural communities are going to die.

The current agricultural disaster has huge impact far beyond the farm gate. Most depressions have been triggered by agriculture collapse. The staggering social and human cost involved in the farm collapse is too large to be touched here.

One more statistic: Studies have shown that Nebraska can expect to lose 500 small towns well before the year 2000. And Nebraska is no island.

It has been 90 year since one of Nebraska's favorite sons, William Jennings Bryan, said "Tear down the cities and leave the farms, and the cities will arise as if by magic...tear down the farms and grass will grow in the streets of every city in the land."

RECOMMENDATIONS:

This section can best be divided into two segments - one dealing with agriculture policy changes and one dealing with community remediation and prevention efforts to help us survive until policy changes can be made and the agricultural economy begins its recovery.

The short term recommendations are ones that need to be implemented immediately in order to be of assistance to people who are leaving agriculture as well as those who still have a chance of survival. These programs need to be implemented state by state and community by community based on need cited by communities rather than needs perceived by bureaucrats. For those programs needing funds a block grant system of funding for these proposals would be the best means of accomplishing that end. Again, if programs are going to be effective they need to be implemented in the next 60 days rather than a year from now.

The following recommendations are perceived as crucial in the ultimate survival of families, of schools and communities.

1. Counseling and intervention programs in schools to help students cope with the current social and economic crisis. These programs need to be developed in much the same way as the agricultural support networks for adults with community input and resources an integral part of the system. Inservice training for board members, administrators and staff needs to be immediate so that students can be identified before problems reach crisis proportions. These kinds of programs could be set up through the Department of Health and Human Services or the National Institute of Mental Health with service providers in local communities submitting proposals for needs in their areas. One requirement of these programs must be that they work directly with

agricultural people and agricultural support field staff in the community to best develop programs that respond to the crisis. A minimal amount of red tape and "government ease" with maximum local control by agricultural support people is the ideal method of ensuring that students actually benefit from the support efforts.

2. Vocational agricultural programs that are up to date and meet the needs of today's young agriculturalist. These curricula must include sections on stress, coping with the loss of the family farm/ranch, financial planning and knowledge of foreclosures, bankruptcies, etc. Besides technical training, young people must be prepared to cope with the transitions in agriculture. Curricula in the past have dealt with technical knowledge only and at this time need to focus on:

1. legal knowledge
2. agriculture economics
3. financial planning
4. farm/ranch management
5. production and technology
6. agriculture policy and political issues
7. human side of agriculture.

In the past agriculture programs have many times been looked upon as non-academic and geared for the student who was unprepared to go into business. This entire philosophy needs to be changed in order to become agribusiness and farm/ranch management oriented rather than simply production oriented. Only with this broad based foundation of academic, social and vocational skills will there be any chance for agriculture programs to survive the funding crunch and low enrollment they are currently experiencing.

3. To coincide with the changing face of these programs vocational classroom requirements must be amended and become flexible enough to utilize the skills of the farmer or rancher who is forced off the farm. Through "practical certification" such as is seen in many current vocational school programs a whole new work force of highly skilled people could be utilized within the school setting. What better person to teach students about agriculture, its problems and benefits than someone who can speak from first hand experience. Utilizing a team approach community agribusiness experts, lenders, and displaced farmers or ranchers may be able to help the student in any area from embryo transfer to Farm Home lending policy. Again, it is the myriad of skills and expertise that can be found in each of these rural communities which needs to be utilized. An example would be to have the local extension agent do a segment of the futures market, a local rancher do a program on artificial insemination and a banker a class on agricultural financing. Schools need to use groups such as the

Wyoming Rural Support Network to serve as referral agents for educational resources as well as financial, legal and emotional. Proposals on the short term could be developed within rural areas to identify these resource people and pay them on a scale comparable to substitute teachers for classroom work. These efforts would have to be jointly pursued by school systems and community agricultural support networks in the form of block grants or special job training funds. Because of the general feeling of doom and gloom throughout rural America; farm and ranch people who have in the past been the schools greatest supporters are currently ambivalent about school programs. Through a community effort to hire some of them for specific areas they may again become actively involved and supportive of their school systems.

4. Job re-training and vocational planning programs designed to help the agriculturalist in transition from the farm to another vocation. These programs are desperately needed to aid the farmer/rancher in marketing his skills, applying for new jobs, writing a resume and developing himself in a new job area. Local adult education programs can be of benefit for the educational component. Job Service and job training partnerships can be very helpful if they adopt realistic eligibility guidelines to meet the needs of the farmer and rancher. Current estimates have

cited that 256,000 farm jobs will be lost in the next year. This is a frightening figure to add to the already spiraling unemployment. In the past farmer/ranchers have not qualified for any federal monies for re-training or employment search. When self-employed they have long been recognized as being extremely versatile and resourceful. As displaced workers they are not going to remain unemployed or on welfare rolls; they will find and retain jobs at a much higher rate of success than other groups of skilled technicians. They will be well worth any monies expended in their behalf for job placement and training.

5. On a agriculture policy level two recommendations can be made that will in turn benefit all of us. They include: 1. lower interest rates for operating money for agricultural operations that have good credit histories and production plans; and 2) Congress and the President shall enact a full parity all crop price supports system with strict payment limits and cross compliance. If these two actions do not occur the freshet of farm and ranch failures will become a flood and the number of agricultural producers will eventually be reduced to a number able to dictate farm prices. Exxon and IBM don't farm a lot, but that's not to say they wouldn't. The consumer can pay us now, or pay them later. That's not a threat - the powerless don't make threats - and in the system agricultural producers are powerless.

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Although they run a trillion dollar business, they don't control it. They just produce raw material.

The beef business, my family's business for 100 years seems chancy and a little lonely, but what can be expected of an industry whose two largest final outlets (packers) are conglomerate subdivisions of an oil company and a grain giant. The point is that the consumer does have a stake in the family farm well beyond his immediate digestive needs. The system keeps food a bargain and a healthy agriculture has historically bulwarked a strong national economy. The reason isn't hard to find. Agriculture is virtually unique in that it annually creates new wealth rather than redistributing existing resources. One can look at the decade 1942-1952 and see parity prices with inflation, unemployment and interest rates all below five percent. The system can work. Those numbers aren't merely good things for statisticians, they represent good things for consumers, good things for America. After all, the trillion dollar agricultural industry is America's largest consumer. And can be one if its largest taxpayers.
(#5 quoted by permission from Charles Coleman, livestock producer - Platte County, Wyoming)

SUMMARY:

A rural agricultural community and its school system cannot be separated when viewing the whole picture. Therefore schools can play a tremendously important role in the scenario by addressing community needs through the students. With inservices for staff, intervention and support groups for students and an up to date practical vocational agriculture program that addresses the "human side" of the current agriculture situation as well as the future; schools can better prepare agriculture youth for the necessary transitions that will occur in the next five years.

We all have a stake in the future of agriculture and only by approaching the impending issues through a pro-acitve team effort can we begin to pull together our industry and place ourselves in a position to benefit our agricultural families, our schools, our communities, and in turn our entire country.

Representative OBEY. Please proceed, Mr. Heffernan.

STATEMENT OF WILLIAM D. HEFFERNAN, PROFESSOR OF RURAL SOCIOLOGY, UNIVERSITY OF MISSOURI-COLUMBIA

Mr. HEFFERNAN. Thank you Mr. Chairman. I am a professor of rural sociology at the University of Missouri. We appreciate the opportunity to share with you some concerns and recommendations evolving from our research focusing on the impact of farm crisis on farm families and communities.

The consequences of this crisis for rural communities are numerous. Lower farm income for all farm families inevitably means the loss of many farm families from the community, among them young leaders. These consequences include not only a decline in the economic activity of the community, but also a deterioration in the social life of the community.

At a time when local tax revenues are declining, schools, health facilities, mental health facilities, and other social services are facing new problems and often an increase in demand for their services. Many of these new demands are the direct consequence of the farm crisis.

With financial assistance from the Economic Research Service of the USDA, we conducted a study in the early spring of 1985 to determine some of the social costs of families being forced out of farming for financial reasons. We also sought information about the Government services these families had utilized and/or needed, as well as information on their current location and occupation.

A focus county was selected based primarily on two criteria. The county ranked as one of Missouri's top agricultural counties—based on farm sales—and it was more than 50 miles from a metropolitan area, making it more difficult for farm families to obtain nonfarm jobs to help support the farm.

A list of all farm families forced out of farming for financial reasons from January 1, 1980, to January 1, 1985, was developed. Because quitting farming is often a process extending over a period of time, we used as our criteria for defining a person as no longer farming when all their livestock and equipment had been sold. Some farmers had retained some older rusty equipment and were still renting a small piece of land even though their good modern equipment had been sold or repossessed. These farmers were not included in our study. Other farmers had lost all their equipment, but had temporary title to some land and planned to work for another farmer in the area in exchange for the use of equipment to put in some crops of their own. These farmers were included in our study.

The list consisted of 46 families. Two families could not be traced. One family was experiencing such serious illness that we chose not to interview them. A fourth family rescheduled the interview a couple of times and then refused to be interviewed saying that it was simply too painful to discuss the experience. Our analysis is based on 42 completed schedules. In most cases, both the husband and wife were present for the interview. Four families either had divorced or were in the process and in these cases, only the man was interviewed.

As earlier research noted, young families were more likely to be represented in the list of farm families being forced off the farm for financial reasons; 75 percent of the men and 84 percent of the women were less than 45 years of age. About 90 percent were less than 50 years of age. About one-third of the men had more than 12 years of education and only two men had less. The education level for women was slightly higher.

The families averaged 2.9 children. Because the respondents were relatively young, they had an average of 2.1 children still at home. Indeed this suggests that the current farm crisis is directly touching the lives of many youth.

When the farming operation was still a financially viable operation these families reported they were very active in community activities. They had held positions such as the chairperson of the county pork producers and the county cattlemen's association. In addition, they were members of the county extension council and were active in church and school activities. When given the choice between more active than average, just average, less active than average in the community, 45 percent said they were less active than other members in the community at the time of the interview. This represents an important loss of leadership and participation in rural communities.

The major commodities produced were corn, soybeans, wheat, hogs, and beef cattle. The average size farm was just over 500 acres. Of this, approximately 200 acres were owned and 300 acres were rented; 58 percent of the farmers had begun farming by renting all of their land and 55 percent began farming with relatives, usually parents. Only 18 percent had purchased any major piece of new equipment since 1975. They farmed with equipment bought used or borrowed from family or neighbors. Clearly, these families were not speculators. They were young families trying to establish a commercial farming operation. Interestingly, economic analysis suggests that farms in the 500 to 600 acre range producing these commodities can take advantage of most of the economies of size. In general, these farming operations represented efficient size units.

The loss of the farm and the transition out of agriculture leads to tremendous personal and psychological costs which have serious implications for the farm family and the rural community. The respondents were asked whether they had experienced a series of 15 common reactions to stress. They were next asked whether or not they continued to experience these. This part of the interview was conducted by giving both the men and the women a list of reactions and asking them to check which applied to them. Each answered his/her own questions without discussing it with their spouse.

All of the women and all but one of the men indicated they experienced depression at some time during the process. Over half of the men and almost three-fourths of the women continued to experience depression. Almost two-thirds of the men and women became withdrawn from family and friends and noted that they became unusually silent for periods of time. Obviously, reduced communication within the family and with friends leads to many additional family problems.

Half of the respondents became nauseous and lost their appetite. Half of the women and three-fourths of the men had problems sleeping. Over two-thirds of both the men and the women also experienced feelings of worthlessness. The majority indicated that they became restless and unable to concentrate and many did anything to keep busy.

Increased substance abuse was also reported. A fourth of the respondents increased smoking and 18 percent of the men increased drinking. Half of those who experienced increased smoking and drinking reported that they continue to experience them. Half of the men and a third of the women also reported that they became more physically aggressive. Undoubtedly, this is related to the increased family abuse reported by persons in social service agencies and health delivery organizations.

Half of the men reported they became confused and a third of the men indicated that they became unable to think or respond logically or rationally.

The respondents were asked what types of help they received from churches, other organizations, and government agencies during this time of transition. Only five families—12 percent—said they received any assistance from such groups. The Government help identified was by two farmers who had returned to college on Pell grants which enabled them to train for positions outside of agriculture.

The respondents were then asked a series of questions in terms of what type of help they needed. Assistance that was related directly to farming included, lower interest rates, a need for Farmers Home Administration and banks to reorganize loans, higher commodity prices, and better government policy. Most families did not make strong statements about these items, however. They often indicated that they thought the need for such help was obvious. In many cases, the farmers were still thinking of ways to blame themselves, even when they admitted that with such a set of circumstances, very few could make it.

With regard to help needed of a nonfarm nature, four categories of assistance were identified. Some families said they needed food stamps and some listed Medicaid. Many families also indicated that they needed help to find another job and someone in an agency to answer questions. These families knew where to get information about farm production techniques, marketing, and financial services, but they did not know where to get information about bankruptcy, tax liability after bankruptcy, social services available and how to go about seeking a nonfarm job.

When the respondents were asked what type of assistance they received from others which was most helpful, they listed social-psychological support as most important. The question was asked in an open-ended format which allowed several items to be mentioned. The items were then categorized. The categories of assistance received that were most frequently mentioned were "moral and emotional support," "people listening to and talking with us," and "encouragement and understanding," 36 percent, 33 percent, and 28 percent, respectively. About 15 percent of the families indicated they had received money, food or more time to make repayment of a loan. In summary, however, these families reported receiving little assistance from Government agencies in making the transition out of agriculture, and little assistance from any other organizations.

Thirty-eight percent of the respondents still had title to their farmland although they had been forced to sell livestock and equipment. They were behind in their payments and the land could be taken at any time by the lending agency. For a variety of reasons, the lending agencies have not reclaimed the title to the land and usually the land is being carried on the record at a value much above what it would bring on the market today. As a consequence, many of these families do not qualify for some entitlement programs such as food stamps and Medicaid.

Regarding the debt left by bankrupt farmers, we asked the respondents from whom they had borrowed and whether or not they had paid their account in full. Seventy percent of the respondents indicated they had borrowed from a local commercial bank. Fifty-seven percent did not pay this debt in full. Almost three-fourths of the farmers had borrowed from Farmers Home Administration and two-thirds had not paid in full. Fifty percent of the farmers reported that they had accounts with agribusiness firms such as implement, seed and feed companies and over half of those indicated they had not paid that account in full.

Thus, not only has business activity declined for these agribusiness firms because of low farm income for all farmers, but also unless other arrangements are made to share the farm debt, much of the debt which is not serviceable with current farm income will be transferred to agribusiness firms, including lenders. It is quite possible that we will lose a greater percent of agribusiness firms in the community than farms.

Much attention is currently being focused on who will own and farm the land after the farm crisis subsides. Perhaps a more important question is: Will there be an adequate infrastructure in the farm community to service those farms that survive? Given their already reduced volume of activity, local agribusiness firms will not be able to absorb much of the farm debt. Some of the large, multinational firms which provide inputs into agriculture could absorb more of the unserviceable farm debt, but such action would certainly change the structure of the agricultural input industry in rural communities. For example, I understand that contract hog production is becoming quite popular in States like Nebraska, Iowa, and Illinois. As in the poultry industry, large, multinational firms are providing the short-term capital and controlling the production process. Such a system depends very little on local businesses for goods and services.

Another direct spinoff of the impacts of the crisis on the farm family is the consequence that it has for older persons in the rural community. Many of our elderly people in rural communities planned on income from their farm to help pay their retirement expenses, including health and nursing care. In some cases, the elderly people continue to own the land and rent the land to farmers. If the tenant becomes financially insolvent, the landlord will not receive any rent payments. Other elderly people sold their land on contract at higher prices only to have the land turned back to them when a buyer went bankrupt. In many parts of our State, land is worth only about a third of what it was in 1980, if one can find a buyer. The implications for our elderly, and for the businesses, and agencies in the community which provide services to them are becoming obvious; 12 of the 40 respondents have moved from the county; 5 have moved to contiguous counties, 2 to other counties in Missouri, and 5 to other States. Of these who have left the county, all but one—a laborer—are in occupational categories classified as professional, managerial, sales, technical, or are college students. All but one of these families has moved to a town or city; 28 of the 40 respondent families continue to live in the county; of these, 5 have moved into town; 5 have moved to other rural locations, including 1 who has been forced to move in with relatives; 8 are in the same home they lived in when they farmed and they will likely continue to live there; 10 of the families still living in the county are in a situation that could only be described as "limbo." They continue to live in the farmhouse, but only until their lender who has foreclosed on them finds a buyer for the property or asks them to move.

Although a few of those who continue living in the county have continued the skilled jobs which they held while farming, for most who remain, the picture is not as encouraging. A few have found work they feel good about and like. Two have gone to college. Five are essentially unemployed and most of the remainder are, at best, underemployed.

Based on findings of this study, we wish to propose some recommendations which are not directly related to farm programs. In no way do we wish to diminish the importance of current efforts on the 1985 farm bill. In fact, we would like the farm problem put into a larger context. We believe that this country needs to be discussing what type of food system we want now and in the future. The issue of sustainability of our food system should not be taken for granted.

But regardless of what farm legislation is passed this year, many farm families are already experiencing tremendous personal costs because they were at the wrong stage in the development of a family farm when certain monetary and fiscal policies were changed, and when certain world events occurred over which they had no control. These families, and others who will undoubtedly follow them, deserve some additional Government assistance. Without outside intervention some of the families we interviewed appear to be heading toward a lifestyle similar to that described by Janet Fitchen in her book "Poverty in Rural America." In the book, she describes Appalachian families that move back and forth between welfare and unskilled jobs, making relatively little contribution to the industrial sector of this country. Many of those in our cities who are referred to as "third-generation welfare recipients" are members of families which were forced off the farm and never given the assistance they needed to become productive citizens in the nonfarm economy.

The following is a list of services which would help such families being forced out of farming and away from rural communities. These measures would insure that such families will continue to contribute socially and economically to the well-being of our society.

Farm families need help in finding other employment as do the families of others in small communities who have lost their source of income because of the farm crisis. More resources should be devoted to rural economic development efforts. This includes assistance in attracting large firms to rural areas, but it should also place new emphasis on helping to support smaller, local entrepreneurs. Many talents and opportunities exist in rural communities, but often the two do not come together. Smaller, locally owned and controlled firms often contribute more socially and economically to the community than do large firms owned and controlled from outside the community. Assistance in recognizing new business opportunities for rural communities, efforts to develop entrepreneurial skills on the part of the local persons, and assistance in developing marketing systems could help facilitate the development of more small locally owned business.

All but two of the men in our study had grown up on a farm and most had no nonfarm experience. Most said that farming was all they had ever wanted to do. These men need help in résumé writing, developing interviewing skills, and learning now to make contact for new jobs.

Although most of these farm families would like to stay in their community, and most of the community leaders hope to keep them, many farm and nonfarm families will need to leave in search of opportunities. Many of these opportunities exist in other parts of the State or in other parts of the country. However, local employment offices have little information about job opportunities in other parts of the country. A nationwide job network needs to be available for these families.

Many of these farmers have developed a multitude of skills in the process of farming. Many can weld, do plumbing, carpentry, or mechanic work. The problem is that they have no experience using these skills in an industrial setting. More importantly, they are not certified in such trades. Greater effort needs to be made to develop training and job certification programs in rural areas accessible to these families.

Our list of stress reactions suggests that many of the families need assistance to maintain good mental health. In most rural areas across the country today mental health workers devote much of their time and attention to what is called clinical practice. Many of these farm families need help before they reach the stage where clinical attention is required. More funds need to be made available for what is referred to as "mental health outreach programs," such as social support networks, mental health education, and crisis hotlines. If properly funded, such programs could be operated in schools, church basements, local community hospitals, and even in the homes of the families. Thus, much of the social stigma associated with going to the mental health office could be avoided.

Many of these families told us they did not know where to get information about legal assistance, Government programs, bankruptcy, and new jobs. Greater effort needs to be made to consolidate the information about the programs which are available. In some States, hotlines have been established which not only provide immediate assistance to callers facing a life-threatening situation, but also serve as an information center providing callers with specific answers or with specific referrals where the caller can get answers to his/her questions.

The special needs of the children affected by this crisis must not be overlooked. In increasing numbers, farm children are reporting to school underfed and lacking the basic medical and dental care they had previously enjoyed. In addition to unmet physical needs, many children are suffering from the unmet social and emotional needs that come from living in families undergoing severe stress and change. School counseling programs, support groups for children, and classroom discussions of farm-crisis issues could be helpful to these children.

Education assistance will be critical for farm children if their own futures are not to be foreclosed on by the farm crisis. Many children planned for college educations and/or a return to the family farm for their future lives. Clearly, returning to a now nonexistent family farm is out of the question. More—not less—scholarship assistance is needed for rural youth if they are to be competitive with their counterparts from urban areas when entering the future job market.

Most of our farm families do not qualify for entitlement programs because of the value of their assets. Many times these assets are carried at inflated prices because it is advantageous for the farmer and/or lending agency. In addition, when farm families with relatively high debt loads have a negative farm income, it is possible to have assets but no money with which to buy food or health care for the family. We do not have specific recommendations on changes that should be made, but such Government programs should be reexamined to ask if there is a way to make these programs more available to farm families in need, while not making them available for persons for whom they are not intended.

Likewise, some of the income tax policies also lead to problems both for the farm family and for agribusiness firms. Many farmers bought land at relatively low prices and then borrowed against that land as the value increased. Some farmers would sell out earlier while they still had some equity and were able to pay their debts if it were not for the capital gains tax. Since farmers are responsible for capital gains tax on the difference between what they paid for their land and the price at which it is carried on the books, they realize that capital gains tax would leave them bankrupt and possibly responsible for an IRS debt that would consume future earnings. They feel trapped. They must continue farming for another year even though the probability of success is very small.

In conclusion, many communities and States have begun programs of rural economic development. Others have begun to address the problem of job searching, job skills, and certification. Still others have had mental health outreach programs and are developing new programs specifically to addressed the current farm crisis. New initiatives are occurring in many rural communities across the country. Models are available, but resources are limited.

The rural crisis is real, but a crisis brings with it opportunities. There are opportunities to provide needed services and help ease the personal cost for families and reduce the declining quality of life in rural communities.

Thank you.

Representative OBEY. Thank you, Mr. Heffernan.

[The prepared statement of Mr. Heffernan follows:]

PREPARED STATEMENT OF WILLIAM D. HEFFERNAN

Mr. Chairman, and Members of the Committee: We appreciate very much this opportuntiy to share with you concerns and recommendations evolving from our research focusing on the impact of the farm crisis on rural families and communities.

Introduction

In 1979, farm income in Missouri was $1,343,000,000. By 1983, it had fallen to $151,000,000. Farm income in 1983 was just 11 percent of the 1979 level, while the 1983 nonfarm income in the state was 140 percent of the 1979 level. In many counties in which the major economic base was agricultural production, farm income was negative in 1983. For example, farm income in the northwest Missouri county of Nodaway, was $22 million in 1979. It declined to a minus 4 million dollars in 1983. (Negative farm income is possible because inventory is included in the calculation of farm income.)

With negative farm incomes, one would expect most farm families to be facing serious economic consequences. Data from a statewide poll we conducted in 1984 indicated that 46 percent of the commercial farmers (farms with sales of over $40,000) were seriously concerned with their farm debts (Heffernan and Campbell, 1985). That was up from 35 percent in 1983.

In 1984, when farmers were asked about their debts and assets, the commercial farms had an average debt to asset ratio of 30 percent. Given the current low farm income, economists suggest that any farm with more than a 30 percent debt to asset ratio faces serious financial problems. That almost half the farmers perceived themselves as having a serious financial problem is thus consistent with the evaluation of the economists.

In the spring of 1985, Farm Journal (1985) conducted an inventory of the farm financial conditions in the United States. They divided their sample into four regions. Using a debt to asset ratio of 40 percent, they reported that 46 percent of the farmers in the Midwest region were in a serious financial condition. In the remaining three regions, between 20 and 27 percent of the farmers were in the same situation.

Both the Farm Journal study and our study clearly show that the financial condition is most critical for the younger farmers. Over 60 percent of farmers under age 45 are in serious trouble in the Midwest and the figure is over 40 percent in all other regions. Those who began farming in the 1960s and the 1970s constitute the largest portion of those in financial trouble today. They began farming at the wrong time in history.

The consequences of this crisis for rural communities are numerous. Lower farm income for all farm families inevitably means the loss of many farm families from the community, among them young leaders. These consequences include not only a decline in the economic activity of the community, but also a deterioration in the social life of the community. Increasingly, farm families able to survive the economic problems are asking what will be the quality of life in their communities in the future. At a time when local tax revenues are declining, schools, health facilities, mental health facilities, and other social services are facing new problems and often an increase in demand for their services. Many of these new demands are the direct consequence of the farm crisis.

The Sociological Study

With financial assistance from the Economic Research Service of the USDA, we conducted a study in the early spring of 1985 to determine some of the social costs of families being forced out of farming for financial reasons. We also sought information about the government services these families had utilized and/or needed, as well as information on their current location and occupation.

A focus county was selected based primarily on two criteria. The county ranked as one of Missouri's top agricultural counties (based on farm sales) and it was more than 50 miles from a metropolitan area, making it more difficult for farm families to obtain non-farm jobs to help support the farm.

A list of all farm families forced out of farming for financial reasons from January 1, 1980 to January 1, 1985 was developed. Because quitting farming is often a process extending over a period of time, we used as our criteria for defining a person as no longer farming when all their livestock and equipment had been sold. Some farmers had retained some older rusty equipment and were still renting a small piece of land even though their good modern equipment had been sold or repossessed. These farmers were not included in our study. Other "farmers" had lost all their equipment, but had temporary title to some land and planned to work for another farmer in the area in exchange for the use of equipment to put in some crops of their own. These farmers were included in our study.

The list consisted of 46 families. Two families could not be traced. One family was experiencing such serious illness that we chose not to interview them. A fourth family rescheduled the interview a couple of times and then refused to be interviewed saying that it was simply too painful to discuss the experience. Our analysis is based on 42 completed schedules. In most cases, both the husband and wife were present for the interview. Four families (10 percent of the population) either had divorced or were in the process and in these cases, only the man was interviewed.

Family Characteristics

As earlier research noted, young families were more likely to be represented in the list of farm families being forced off the farm for financial reasons. Seventy-five percent of the men and 84 percent of the women were less than 45 years of age. About 90 percent were less than 50 years of age. About one-third of the men had more than 12 years of education and only two men had less. The education level for women was slightly higher.

The families averaged 2.9 children. Because the respondents were relatively young, they had an average of 2.1 children still at home. Indeed this suggests that the current farm crisis is directly touching the lives of many youth.

When the farming operation was still a financially viable operation these families reported they were very active in community activities. They had held positions such as the chairperson of the county pork producers and the county cattlemen's association. In addition, they were members of the county extension council and were active in church and school activities. When given the choice between more active than average, just average, less active than average in the community, 45 percent said they were less active than other members in the community at the time of the interview. This represents an important loss of leadership and participation in rural communities.

Farm Characteristics

The major commodities produced were corn, soybeans, wheat, hogs and beef cattle. The average size farm was just over 500 acres. Of this, approximately 200 acres were owned and 300 acres were rented. Fifty-eight percent of the farmers had begun farming by renting all of their land and 55 percent began farming with relatives, usually parents. Only 18 percent had purchased any major piece of new equipment since 1975. They farmed with equipment bought used or borrowed from family or neighbors. Clearly, these families were not speculators. They were young families trying to establish a commercial farming operation. Interestingly, economic analysis suggests that farms in the 500 to 600 acre range producing these commodities can take advantage of most of the economies of size. In general, these farming operations represented efficient size units.

Reactions to Stress

The loss of the farm and the transition out of agriculture leads to tremendous personal and psychological costs which have serious implications for the farm family and the rural community. The respondents were asked whether they had experienced a series of 15 common reactions of stress. They were next asked whether or not they continued to experience these. This part of the interview was conducted by giving both the men and the women a list of reactions and asking them to check which applied to them. Each answered their own questions without discussing it with their spouse. (See Table 1.)

All of the women and all but one of the men indicated they experienced depression at some time during the process. Over half of the men and almost three-fourths of the women continued to experience depression. Almost two-thirds of the men and women became withdrawn from family and friends and noted that they became unusually silent for periods of time. Obviously, reduced communication within the family and with friends leads to many additional family problems.

Half of the respondents became nauseous and lost their appetite. Half of the women and three-fourth of the men had problems sleeping. Over two-thirds of both the men and the women also experienced feelings of worthlessness. The majority indicated that they became restless and unable to concentrate and many did anything to keep busy.

Increased substance abuse was also reported. A fourth of the respondents increased smoking and 18 percent of the men increased drinking. Half of those who experienced increased smoking and drinking reported that they continue to experience them. Half of the men and a third of the women also reported that they became more physically aggressive. Undoubtedly, this is related to the increased family abuse reported by persons in social service agencies and health delivery organizations.

Half of the men reported they became confused and a third of the men indicated that they became unable to think or respond logically or rationally. At a time when the families are being forced to make major changes in their lives and futures the inability to think rationally has many negative consequences.

Help Needed

The respondents were asked what types of help they received from churches, other organizations, and government agencies during this time of transition. Only five families, (12 percent) said they received any assistance from such groups. The government help identified was by two farmers who had returned to college on Pell Grants which enabled them to train for positions outside of agriculture.

The respondents were then asked a series of questions in terms of what type of help they needed. Assistance that was related directly to farming included, lower interest rates, a need for Farmers Home Administration and banks to reorganize loans, higher commodity prices, and better government policy. Most families did not make strong statements about these items, however. They often indicated that they thought the need for such help was obvious. In many cases, the farmers were still thinking of ways to blame themselves, even when they admitted that with such a set of circumstances, very few could make it.

With regard to help needed of a nonfarm nature, four categories of assistance were identified. Some families said they needed Food Stamps and some listed Medicaid. Many families also indicated that they needed help to find another job and someone in an agency to answer questions. These families knew where to get information about farm production techniques, marketing and financial services, but they did not know where to get information about bankruptcy, tax liability after bankruptcy, social services available and how to go about seeking a nonfarm job.

When the respondents were asked what type of assistance they received from others which was most helpful, they listed social-psychological support as most important. The question was asked in an open-ended format which allowed several items to be mentioned. The items were then categorized. The categories of assistance received that were most frequently mentioned were "moral and emotional support," "people listening to and talking with us," and "encouragement and understanding", (36 percent, 33 percent and 28 percent respectively). About 15 percent of the families indicated they had received money, food or more time to make repayment of a loan. In summary, however, these families reported receiving little assistance from government agencies in making the transition out of agriculture, and little assistance from any other organizations.

Thirty-eight percent of the respondents still had title to their farmland although they had been forced to sell livestock and equipment. They were behind in their payments and the land could be taken at any time by the lending agency. For a variety of reasons, the lending agencies have not reclaimed the title to the land and usually the land is being carried on the record at a value much above what it would bring on the market today. As a consequence, many of these families do not quality for some entitlement programs such as Food Stamps and Medicaid.

Unpaid Debt

Reports by economists suggest that half (56%) of the farm debt is being carried by 18 percent of the farmers. (Bullock, 1985, Economic Research Service, 1985). Economic analysis suggests that there is no way that this debt, which amounts to something over 100 billion dollars, can ever be fully paid by the farm families. As farm families go bankrupt, they leave behind thousands of dollars worth of non-collectible debt in their rural communities.

In answer to the often raised question of who is going to pick up this debt left by bankrupt farmers, we ask the respondents from whom they had borrowed and whether or not they had paid their account in full. (See Table 2.) Seventy percent of the respondents indicated they had borrowed from a local commercial bank. Fifty-seven percent did not pay this debt in full. Almost three-fourth of the farmers had borrowed from Farmers Home Administration and two-thirds had not paid in full. Fifty percent of the farmers reported that they had accounts with agribusiness firms such as implement, seed and feed companies and over half of those indicated they had not paid that account in full.

Thus, not only has business activity declined for these agribusiness firms because of low farm income for all farmers, but also unless other arrangements are made to share the farm debt, much of the debt which is not serviceable with current farm income will be transferred to agribusiness firms, including lenders. It is quite possible that we will lose a greater percent of agribusiness firms in the community than farms.

Much attention is currently being focused on who will own and farm the land after the farm crisis subsides. Perhaps a more important question is: will there be an adequate infrastructure in the farm community to service those farms that survive? Given their already reduced volume of activity, local agribusiness firms will not be able to absorb much of the farm debt. Some of the large, multi-national firms which provide inputs into agriculture could absorb more of the unserviceable farm debt, but such action would certainly change the structure of the agricultural input industry in rural communities. For example, I understand that contract hog production is becoming quite popular in states like Nebraska, Iowa and Illinios. As in the poultry industry, large, multi-national firms are providing the short term capital and controlling the production process. Such a system depends very little on local businesses for goods and services.

Another direct spin-off of the impacts of the crisis on the farm family is the consequence that it has for older persons in the rural community. Many of our elderly people in rural communities planned on income from their farm to help pay their retirement expenses which include health and nursing care. In some cases, the elderly people continue to own the land and rent the land to farmers. If the tenant becomes financially insolvent, the landlord will not receive any rent payments. Other elderly people sold their land on contract at higher prices only to have the land turned back to them when a buyer went bankrupt. In many parts of our state, land is worth only about a third of what it was in 1980, if one can find a buyer. The implications for our elderly and for the businesses and agencies in the community which provide services to them are becoming obvious.

What They Are Doing Now

Twelve of the 40 respondents have moved from the county. Five have moved to contiguous counties, two to other counties in Missouri and five to other states. Of these who have left the county, all but one (a laborer) are in occupational categories classified as professional, managerial, sales, technical or are college students. All but one of these families has moved to a town or city.

Twenty-eight of the 40 respondent families continue to live in the county. Of these, five have moved into town. Five have moved to other rural locations, including one who has been forced to move in with relatives. Eight are in the same home they lived in when they farmed and they will likely continue to live there.

Ten of the families still living in the county are in a situation that could only be described as "limbo". They continue to live in the farm house, but only until their lender who has foreclosed on them finds a buyer for the property or asks them to move.

Although a few of those who continue living in the county have continued the skilled jobs which they held while farming, for most who remain, the picture is not as encouraging. A few have found work they feel good about and like. Two have gone to college. Five are essentially unemployed and most of the remainder are, at best, underemployed.

Recommendations

Based on findings of this study, we wish to propose some recommendations which are not directly related to farm programs. In no way do we wish to diminish the importance of current efforts on the 1985 Farm Bill. In fact, we would like the "farm problem" put into a larger context. We believe that this country needs to be discussing what type of food system we want now and in the future. The issue of sustainability of our food system should not be taken for granted.

But regardless of what farm legislation is passed this year, many farm families are already experiencing tremendous personal costs because they were at the wrong stage in the development of a family farm when certain monetary and fiscal policies were changed, and when certain world events occurred over which they had no control. These families, and others who will undoubtedly follow them, deserve some additional government assistance. Without outside intervention some of the families we interviewed appear to be heading toward a life style similar to that described by Janet Fitchen in her book Poverty in Rural America. In the book, she describes Appalachian families that move back and forth between welfare and unskilled jobs, making relatively little contribution to the industrial sector of this country. Many of those in our cities who are referred to as "third generation welfare recipients" are members of families which were forced off the farm and never given the assistance they needed to become productive citizens in the nonfarm economy.

The following is a list of services which would help such families being forced out of farming and away from rural communities. These measures would insure that such families will continue to contribute socially and economically to the well-being of our society.

I. Rural Economic Development

Farm families, need help in finding other employment, as do the families of others in small communities who have lost their source of income because of the farm crisis. More resources should be devoted to rural economic development efforts. This includes assistance in attracting large firms to rural areas, but it should also place new emphasis on helping to support smaller, local entrepreneurs. Many talents and opportunities exist in rural communities, but often the two do not come together. Smaller, locally-owned and controlled firms often contribute more socially and economically to the community than do large firms owned and controlled from outside the community. Assistance in recognizing new business opportunities for rural communities, efforts to develop entrepreneurial skills on the part of the local persons and assistance in developing marketing systems could help facilitate the development of more small locally-owned business.

II. Job Training, Networking and Certification

All but two of the men in our study had grown up on a farm and most had no nonfarm experience. Most said that farming was all they had ever wanted to do. These men need help in resume writing, developing interviewing skills and learning now to make contact for new jobs.

Although most of these farm families would like to stay in their community, and most of the community leaders hope to keep them, many farm and nonfarm families will need to leave in search of opportunities. Many of these opportunities exist in other parts of the state or in other parts of the country. However, local employment offices have little information about job opportunities in other parts of the country. A nationwide job network needs to be available for these families.

Many of these farmers have developed a multitude of skills in the process of farming. Many can weld, do plumbing, carpentry or mechanic work. The problem is that they have no experience using these skills in an industrial setting. More importantly, they are not certified in such trades. Greater effort needs to be made to develop training and job certification programs in rural areas accessible to these families.

III. Mental Health Outreach Programs

Our list of stress reactions suggests that many of the families need assistance to maintain good mental health. In most rural areas across the country today, mental health workers devote much of their time and attention to what is called clinical practice. Many of these farm families need help before they reach the stage where clinical attention is required. More funds need to be made available for what is referred to as "mental health outreach programs", such as social support networks, mental health education and crisis hot lines. If properly funded, such programs could be operated in schools, church basements, local community hospitals and even in the homes of the families. Thus, much of the social stigma associated with going to the mental health office could be avoided.

IV. Information Services

Many of these families told us they did not know where to get information about legal assistance, government programs, bankruptcy and new jobs. Greater effort needs to be made to consolidate the information about the programs which are available. In some states, hot lines have been established which not only provide immediate assistance to callers facing a life-threatening situation, but also serve as an information center providing callers with specific answers or with specific referrals where the caller can get answers to his/her questions.

V. Youth Assistance

The special needs of the children affected by this crisis must not be overlooked. In increasing numbers, farm children are reporting to school underfed and lacking the basic medical and dental care they had previously enjoyed. In addition to unmet physical needs, many children are suffering from the unmet social and emotional needs that come from living in families undergoing severe stress and change. School counseling programs, support groups for children and classroom discussions of farm crisis issues could be helpful to these children.

Education assistance will be critical for farm children if their own futures are not to be foreclosed on by the farm crisis. Many children planned for college educations and/or a return to the family farm for their future lives. Clearly, returning to a now non-existent family farm is out of the question. More (not less) scholarship assistance is needed for rural youth if they are to be competitive with their counterparts from urban areas when entering the future job market.

VI. Entitlement Programs and Tax Policies

Most of our farm families do not qualify for entitlement programs because of the value of their assets. Many times these assets are carried at inflated prices because it is advantageous for the farmer and/or lending agency. In addition, when farm families with relatively high debt loads have a negative farm income, it is possible to have assets but no money with which to buy food or health care for the family. We do not have specific recommendations on changes that should be made, but such government programs should be reexamined to ask if there is a way to make these programs more available to farm families in need, while not making them available for persons for whom they are not intended.

Likewise, some of the income tax policies also lead to problems both for the farm family and for agribusiness firms. Many farmers bought land at relatively low prices and then borrowed against that land as the value increased. Some farmers would sell out early while they still had some equity and were able to pay their debts if it were not for the capital gains tax. Since farmer are responsible for capital gains tax on the difference between what they paid for their land and the price at which it is carried on the books, they realize that capital gains tax would leave them bankrupt and possibly responsible for an IRS debt that would consume future earnings. They feel trapped. They must continue farming for another year even though the probability of success is very small.

One of our "success stories" was a family which sold their farm, paid off all their debts, and had about $60,000 left with which to buy a house in a different state and start over with a new job, a new house, in a new community. Shortly after our interviews were completed, we received a call from this family who were previusly unaware of this tax problem. They had just received word from IRS and that they had one week in which to pay $70,000 in capital gains tax. Thus, family which had just begun to pull itself together economically, psychologically and emotionally was once again beaten down. The question is: is there some way to change the tax code to prevent this type of problem without opening the doors to other inequities as a result of the change.

In conclusion, many communities and states have begun programs of rural economic development. Others have begun to address the problem of job searching, job skills and certification. Still others have had mental health outreach programs and are developing new programs specifically to addressed the current farm crisis. New initiatives are occurring in many rural communities across the country. Models are available, but resources are limited.

The rural crisis is real, but a crisis brings with it opportunities. There are opportunities to provided needed services and help ease the personal cost for families and reduce the declining quality of life in rural communities.

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FIGURE 1
CHARACTERISTICS OF FARM FAMILIES FORCED OUT OF FARMING

Age:

75 percent of men less than 45 years
83 percent of women less than 45 years

Education:

8 percent of men less than 12 years
62 percent of men 12 years
30 percent more than 12 years

5 percent of women less than 12 years
65 percent of women 12 years
30 percent of women more than 12 years

Children:

2.9 average number per family
2.1 average number still living at home

Current Involvement in Community Activities:

27 percent more active than average
28 percent average
45 percent less active than average

TABLE 2

PERCENT OF FAMILIES BORROWING FROM SPECIFIC LENDERS AND NOT PAYING DEBT IN FULL WHEN FORCED OUT OF FARMING

	Borrowed From	Not Paid in Full
FHA	72	63
Commercial Bank	70	57
Agribusiness Firms (implement, feed, etc.)	50	57
Related private person	28	83
Federal Land Bank	15	66
Non-related person (land contract)	15	57
Production Credit Association	10	50
Landlord	5	33

Representative OBEY. Before you proceed, Mr. Moore, let me explain that the rollcall machine is broken. This means that if I leave to go vote, I won't be back here until the cows come home. So I think even though I hate to miss the vote on the Amtrak, I will miss it or it will totally mess up the remainder of this hearing.

Please proceed.

STATEMENT OF L. CALVIN MOORE, VICE PRESIDENT, OIL, CHEMICAL & ATOMIC WORKERS INTERNATIONAL UNION, AFL-CIO

Mr. MOORE. Thank you, Mr. Chairman. I am Calvin Moore, vice president of the Oil, Chemical & Atomic Workers International Union, AFL-CIO. I welcome this chance to emphasize organized labor's recognition of the importance of agriculture to America's economy—and of the jobs it creates for American workers.

Too often, we are inclined to underestimate the economic importance of agriculture because of the dwindling percentage of the Nation's population engaged in production agriculture.

What we need to remember is that the impact of agriculture doesn't stop at the farm gate. Our food chain, from production through processing, distribution, and marketing to the end consumer, accounts for over 20 percent of the gross national product [GNP] and 22 percent of the Nation's total employment. The output of people directly employed in farming creates an additional 20 million jobs: 2.5 million supplying inputs, 1.7 million in primary processing, 5 million in manufacturing end products, 7.6 million in transportation, wholesaling, and retailing, and 3.2 million in eating establishments.

When agriculture is in economic trouble, its ripple effect spreads widely. When farmers can't earn a living, they can't buy fertilizer and farm machinery, and there are job layoffs in fertilizer and tractor plants. When our agricultural export markets are wiped out, as is now happening, we lose jobs on railroads, bargelines, ships, and processing plants preparing farm products for export in value-added form.

During the past 4 years, over 60,000 workers in the agricultural implement section of the United Auto Workers Union—UAW—have lost their jobs, probably forever. Thousands more have suffered repeated layoffs and short paychecks, as the industry struggles through its worst collapse since the Great Depression. Between 1979 and 1984, unit sales of tractors over 100 horsepower plunged 61 percent, combines fell 65 percent, and bailers dropped 56 percent. No end to the tailspin is in sight.

The economic policies of the Reagan administration are the central reasons for the problems facing agricultural implement workers and the farm community generally. Those policies have fostered high interest rates and pumped up the value of the dollar against foreign currencies. And ironically, at this time of maximum farm distress, millions are starving on the continent of Africa, and hunger is no stranger in America, either.

The Department of Commerce estimates that every billion dollars in exports means 25,000 jobs. With farm exports down more than $10 billion, that means at least a quarter of a million jobs lost each year. These are jobs that affect the membership of many unions, including my own union.

Plant shutdowns and job losses have a serious impact on our members and their families. The potent combination of high unemployment and community deterioration ultimately leaves in its wake a terrible human toll, visible in increasing rates of alcoholism, suicide, and marital and family problems. Our members suffer from the loss of homes, cars, family possessions and broken homes, as husbands can no longer support their families.

Our members are highly skilled employees. Shutting the door on their jobs not only leads to industrial and personal decay, it also forces them to accept jobs—if they can find them—in much lower paying fields, which would be a blow to anyone's confidence.

Recently Markley Roberts, an AFL-CIO economist, defined the current unemployment crisis in the following terms:

> Suppose you take the population of New York City, Chicago, and Los Angeles. That's about 13 million people. Then add the population of Atlanta, New Orleans, Pittsburgh, and Boston. That's another 2 million, raising the grand total to 15 million.
>
> Now imagine those 15 million people—who might include you—without jobs or working part time because there are no full-time jobs.
>
> This gives you some idea of the real size of America's big, forgotten, ignored economic problem—persistent, high unemployment in the midst of relative affluence.
>
> It's much too easy to forget, to ignore America's unemployed men and women. They seldom demonstrate in front of TV cameras. They are not filling our newspapers with protests against economic policies which wrongly use unemployment to fight inflation.

Whatever the cause, for every production job that disappears, there are two or three service jobs in the community that are adversely affected.

According to the Bureau of Labor Statistics, unemployment is worse in construction, mining, and agriculture.

The job loss impact falls heaviest on workers in agriculture processing plants, because the greatest decline in farm exports has been in value-added products. It might not make much difference to the farmers whether their wheat or corn or soybeans are exported in raw commodity or processed form, but it makes a tremendous difference to unions, workers and to the rest of the Nation's economy. Every time we export flour rather than just wheat, soybean oil, and soybean meal rather than just soybeans, or processed corn products rather than just corn, we are keeping more jobs at home. When we export commodities instead, which in turn need to be processed for the consumer's use in other countries, we are simply exporting jobs.

American farmers can compete against foreign farmers. American workers can compete against foreign workers. American companies can compete against foreign companies, but neither farmer, worker, nor U.S. corporations, can compete successfully against treasuries of other governments.

"Free trade" just doesn't exist, and can't exist when other governments openly subsidize exports in competition with our private enterprise.

Unfortunately, whenever we try to equalize trading opportunities we are called "protectionists."

Why is it protectionist to ask to do business by the same ground rules? Why is it protectionist to ask for a level playing field?

Instead of our Government acting to equalize chances of fair competition, we are seeing too many examples of this administration leaning over backward to protect the subsidized imports of other countries—particularly if, like Brazil, they owe money to American banks and threaten not to pay.

Labor support of farmers is rooted in our history. The following are excerpts from a statement by Walter Reuther before the House Committee on Agriculture on March 15, 1955:

> . . . Our organization, from its very beginning, has had a deep feeling of kinship for America's farm families and an abiding concern for the welfare and preservation of the family-owned farm as the keystone of American agriculture.
>
> Aware of the lessons of history, we know that the welfare and destiny of farmers and wage earners are closely interrelated, that each depends upon the prosperity of the one to lift up the living standards of the other.
>
> . . . We must recognize the basic economic fact that in our modern society, the well-being of every group is increasingly dependent on the sustained well-being of all the others.
>
> . . . We believe this principle of interdependence is particularly true in the relationship between farmers and industrial workers.

There are people who try to set agriculture against labor, and labor against agriculture on trade policy, using scare tactics about protectionism. But more and more, farmers and workers are learning together that you can't have a healthy, productive, prospering United States without fair play for both farmers and workers—and Government policies that at least assure U.S. exporters an equal opportunity, instead of stacking the cards against them.

Thank you, Mr. Chairman.

Representative OBEY. Thank you.

[The prepared statement of Mr. Moore follows:]

PREPARED STATEMENT OF L. CALVIN MOORE

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> This gives you some idea of the real size of America's big, forgotten, ignored economic problem — persistent, high unemployment in the midst of relative affluence.
>
> It's much too easy to forget, to ignore America's unemployed men and women. They seldom demonstrate in front of TV cameras. They are not filling our newspapers with protests against economic policies which wrongly use unemployment to fight inflation."

Whatever the cause, for every production job that disappears, there are two or three service jobs in the community that are adversely affected.

According to the Bureau of Labor Statistics, unemployment is worse in construction, mining and agriculture.

The job loss impact falls heaviest on workers in agriculture processing plants, because the greatest decline in farm exports has been in value-added products. It might not make much difference to the farmers whether their wheat or corn or soybeans are exported in raw commodity or processed form, but it makes a tremendous difference to unions, workers and to the rest of the nation's economy. Every time we export flour rather than just wheat, soybean oil and soybean meal rather than just soybeans, or processed corn products rather than just corn, we are keeping more jobs at home. When we export commodities instead, which in turn need to be processed for the consumer's use in other countries, we are simply exporting jobs.

My own union has suffered a loss of 5,000 members in the wet milling industry, as corn refining and soybean refining plants have been forced to close due to loss of export market sales.

This regrettable shift away from higher value and value-added exports is reflected in the fact that our annual value of farm exports has fallen far sharper than the tonnage of agricultural products.

The concentration of U.S. exports at the low-value end of the trade scale emphasizes the fact that we have reverted to the status of raw material supplier in world trade, and we have failed to realize and derive the greater economic benefit potential inherent in value added markets.

We haven't lost our farm markets because of inefficiency. If anything, American agriculture has been too efficient for its own good.

We've lost our export markets for value-added processed farm products because we have listened to platitudes about "free trade" while our competing nations are violating every principle of "free trade" to take away our markets.

American farmers can compete against foreign farmers. American workers can compete against foreign workers. American companies can compete against foreign companies. But neither farmer, worker, nor U.S. corporations can compete successfully against treasuries of other governments.

"Free trade" just doesn't exist, and can't exist when other governments openly subsidize exports in competition with our private enterprise.

Unfortunately, whenever we try to equalize trading opportunities we are called "protectionists".

Why is it "protectionist" to ask to do business by the same ground rules?

Why is it "protectionist' to ask for a level playing field?

Instead of our government acting to equalize chances of fair competition, we are seeing too many examples of this administration leaning over backwards to protect the subsidized imports of other countries — particularly if, like Brazil, they owe money to American banks and threaten not to pay.

Let me cite just one example. When America faced an energy crunch, it was official U.S. policy to encourage production of ethanol from corn -- a renewable resource. Private enterprise invested heavily in production facilities to achieve that goal, creating a new U.S. industry, new U.S. jobs, and new markets for U.S. corn. As an incentive to get that industry started, Congress exempted ethanol from 60 cents a gallon federal tax.

Congress made clear that exemption was for U.S. industry -- and not to be applied to foreign imports. But once that industry was established, and a new U.S. market created, Brazil started trying to take it away from domestic producers with heavily subsidized competition. The U.S. Ambassador to Brazil, instead of worrying about American farmers and American jobs, asked the U.S. Customs Department to help him find loopholes for Brazil imports of ethanol by a Citicorp trading company. Customs obliged -- and provided the loopholes for such unfair competition. U.S. corn growers and processors took every administrative step open to them, and the International Trade Commission ruled they were right. Customs was told to change the loophole regulations. On August 1 they did -- but further obliged Citcorp by granting "grandfather clause" exemptions which would permit continuing import of Brazil ethanol, without the 60 cents tax, for another three months. No limits were set on amounts -- and the rush is now on to flood the U.S. market with subsidized Brazil ethanol. The continued evasion of taxes specifically designed by Congress to eliminate unfair foreign competition could wipe out a major share of annual U.S. production before the three months "exemption" expires. That would wipe out jobs -- and further force down the already collapsed prices for corn.

Is it "protectionist" to protect such abuse of the intent of Congress and demand enforcement of the law? U.S. corn growers don't think so, and have had to turn to the federal courts for relief.

More and more, labor and agriculture are finding common ground on the need to fight unfair competition, and to insist on "fair trade", not just "free trade".

Labor support of farmers is rooted in our history. The following are excerpts from a statement by Walter Reuther before the House Committee on Agriculture on March 15, 1955:

> "....Our organization, from its very beginning, has had a deep feeling of kinship for America's farm families and an abiding concern for the welfare and preservation of the family-owned farm as the keystone of American agriculture.
> Aware of the lessons of history, we know that the welfare and destiny of farmers and wage earners are closely interrelated, that each depends upon the prosperity of the one to lift up the living standards of the other.
> ....We must recognize the basic economic fact that in our modern society, the well-being of every group is increasingly dependent on the sustained well-being of all the others.
> ....We believe this principle of interdependence is particularly true in the relationship between farmers and and industrial workers."

There are people who try to set agriculture against labor, and labor against agriculture on trade policy, using scare tactics about "protectionism". But more and more, farmers and workers are learning together that you can't have a healthy, productive, prospering U.S. without fair play for both farmers and workers — and government policies that at least assure U.S. exporters an equal opportunity, instead of stacking the cards against them.

Thank you, Mr. Chairman.

Representative OBEY. We have run almost an hour over, but let me ask a few questions before we shut down.

First of all, let me say to you, Mr. Luchterhand, that I want to take this statement which you gave earlier and put it into the Congressional Record before we debate the farm bill. I think your comments put a personal face on the issues that we are dealing with. I think it is very helpful if people who don't generally deal with agricultural problems understand what these problems are doing to human beings.

There is nothing wrong with getting emotional, nothing wrong with getting angry, nothing wrong with getting frustrated when you see what happens to people in those situations.

If you don't have a certain sense of rage, if you don't have a certain sense of frustration about stupidity and injustice or sometimes just downright confusion that surrounds Government policy or social habit I don't think you are a very alert citizen or a very alert Member of Congress.

I appreciate both your statement and the force with which you delivered it.

I would simply like to make a comment to Ms. Testolin. I think you really hit it right on the button when you pointed out some of the kinds of programs that need to be in effect not a year from now but 30 days from now or now in dealing with the fallout from these problems. The problem is, those programs aren't going to be in effect.

As one of the members of the Labor—Health and Human Services—Education Subcommittee of the House Appropriations Committee, I know what is in our bill for this year for some of the programs that you are talking about. We have not, because of budget considerations, been able to adequately respond. We are too busy, in my judgment, erroneously doubling the military budget on borrowed money and providing tax cuts on borrowed money to face our social obligation in those areas.

That is always considered old fashioned in this new age, but Mo Udall once described the country politician as giving a speech for 2 hours and then telling the assembled crowd, if you don't like my ideas, I will change them. I ain't going to change my views. Those are my views and I think they are still correct.

In terms of the behavior of banks or other financial institutions, let me give you a specific example and then ask you each to respond. Mr. Luchterhand knows about this community.

I was walking down the street in Thorp, WI, a few months ago. I went in to shake hands up and down Main Street, stick my nose in businesses. I went into the bank, talking with people in line. The banker said, "Come on in, I want to talk to you."

He started asking me what we were going to do on the farm program and what we were going to do on the deficit. Then he started pointing to the different businesses on Main Street and just gave me a credit profile of virtually every single one of them and told me what was happening. He said, you know, it isn't just the farmers who were overextended too. It is two out of every three people on Main Street in this town.

And I know that is not the only community. Are there many communities with which you deal where the situation is that serious? Is that an over-painted picture of what is happening in communities that you deal with or not? Anybody want to comment on that?

Mr. TUBBS. I believe some of the comments that I made in my previous statement made the case that that was certainly true for the community of DeWitt, IA, and I know it is true of many of the smaller communities throughout the State of Iowa and the surrounding States. The comments that I had given you cited a loss of two out of three grain and supply dealerships, two out of four new auto dealerships, four out of six equipment dealerships.

The answer to your question is, in my perspective, yes, that is happening in rural communities across mid-America.

Representative OBEY. Let me ask Mr. Heffernan, if you were to pinpoint the three or four most important areas for us to take action on to deal with the problems you described in your statement, what would they be?

Mr. HEFFERNAN. Again, I realize I have avoided talking about the farm programs and anything to do with that part. I am over on the social side. I think the one is we have to come to grips with the extreme mental health problems we have created out there.

It is not only the farmers. It is most of those who are currently still farming and facing this tremendous problem. The families are falling apart as a consequence. I would put a mental health outreach program up quite high. I hate to have to say this, but I would also put high on my list the job retraining and assistance to move people out of rural areas.

I hate to say that because that means we are admitting the fact that a lot of these communities are going to become ghost towns. That is why I put economic development on my list first.

It is terrible to have to say that, but if we step away from the farm bill, we have to face the fact that some of these people are simply not going to make it farming and they are going to have to look for something else. For the best interest of our society, I think we have an obligation to those individuals to help them move into other productive employment.

Representative OBEY. Mr. Randall or Mr. Tubbs, how many South Dakota banks or Iowa banks do you think are on the FDIC list of problem banks and how many more do you think would be if they were really playing it straight?

Mr. RANDALL. I am sorry. I would have to generalize. Based on numerous newspaper articles in recent months in South Dakota, I know that many of the banks—I can't give you a number or percentage—are in serious trouble. We are seeing a lot of them folding in the smaller towns, particularly. I believe Mr. Tubbs made reference to the First Bank systems from his State. They just made the announcement in our State as well that 20-some of their small banks would be closing.

Mr. TUBBS. Except for the lag that occurs in normal examination procedures, I believe that the valuations that have been dictated by the superintendent of banking in the State of Iowa have forced a realistic reevaluation of the assets on the statements of the banks.

My latest information suggests that about one-fourth of the banks in Iowa are on the State's watch list. That is a State list as opposed to the FDIC list. I don't have information on the FDIC list.

But 25 percent would be on the State's watch list as of the last information that I have.

I do believe that the superintendent has forced the actual and realistic valuation of assets on farm statements and other assets on the books of the bank.

I don't believe that we are fooling ourselves except for the fact that much of that information is lagged. As we continue to go in and make current examinations, the problems become more real and more up to date all the time.

Representative OBEY. Thank you.

Mr. MOORE. I would like to comment on or rather add to the comments made by Mr. Heffernan. You made a point, that we are very familiar with in organized labor, dealing with the retraining of those workers or farmers that might be victimized by whatever the circumstances.

I would just like to say that I am probably least among the panelists able to offer a solution for the problem. We only pick up the problem where we meet it at the plant level and how it has affected our workers in the wet milling industry and how it affected the United Auto Workers. But I think it is very important, as we have done in labor and in supporting the Trade Adjustment Assistance Act of 1974 and what we have done recently in the fighting for the extension of that—we look at that as being a temporary solution to the problem.

Obviously the problem that causes us to have to train workers, retrain workers, relocate workers, those things that are offered in the Trade Adjustment Assistance Program are temporary solutions to a very serious problem which is in my opinion caused by the amount of imports and the strength of the American dollar.

I think there is some merit that while this solution is going to be far, far beyond what perhaps I could even add to or in any way offer any solution, I think it is important, that looking at some means of training farmers, those who have been victimized and I think we have acknowledged the fact that some will close and perhaps close forever, I think that it is important to train those to do other things so that they can become helpful and somewhat of a benefit to that community that has been victimized.

Representative OBEY. Thank you.

One other question, Mr. Moore, you indicated over 60,000 UAW workers had lost their jobs in the past 4 years in the agriculture implement section and that your own union has lost over 5,000 in the corn wet milling industry due to loss of farm export sales.

Is that mainly attributable to trade and export policies or do you think that the other factors which have been mentioned today are just as important or more so?

Mr. MOORE. I think that the other factors are as important.

In speaking for labor, more than just my union, we join together in a program that we call Export Processing Industry Coalition. What we have done is promoted the idea that in order for jobs to remain in America, in order for the farmer to get a better price for his product, that those jobs be processing. If you want to send so many metric tons of wheat to Egypt, then it ought to be sent in a form of flour that is going to provide jobs.

In the automobile industry it is a little bit different. I think that a portion of the loss of jobs in the plants, such as International Harvester and other farm equipment companies is due primarily to the introduction of robotics. There is some loss of jobs that must be attributed to the automation that has creeped into that industry. But a substantial amount, based on the information that we received from them, is due directly to the foreign market sales, exports of a product or imports of a lot of the products that farmers would normally sell on the American market.

Mr. TUBBS. I have some current information on that from the Quad Cities. I mentioned the manufacturers there, John Deere, Case, and International Harvester. In 1980, June 1980, there were 32,147 agricultural jobs in the Quad Cities. Today that figure is 17,500.

Representative OBEY. I just would note that in my district, when I came to Congress in 1969, I represented about 33,000 farmers. Today maybe 17,000 or some—there is some debate about who you call a farmer but roughly 17,000 to 18,000 farmers; 36 percent of them in the recent survey indicated that they believe they would not be in business in 5 years if something drastic didn't happen to turn things around. That is not a number which makes it easy to find many optimists in an area like that.

Mr. Luchterhand, one last question before I go to the Rules Committee. One of our problems in dealing with the farm bill, is that frankly, we are told sorry by the administration, we won't do this, we won't do that. So what we can do on the farm bill is very, very limited because of the Presidential veto.

When Mr. Stockman was before our committees, he suggested to myself and others who were in the room when he was questioned on his statements about farming, he said, look, 60 percent of the farmers voted for the administration last election. Who are you people to tell us that you know more about what we ought to be doing in farm policy than we do? Farmers knew what the administration policy was going to be and they voted for the President which means that they support what he is doing.

That is a tough statement to answer. Frankly, most farmers did vote for the President. Most everybody else voted for the President, no matter what category you are looking at.

What is my response to people like Mr. Stockman when they make that statement?

Mr. LUCHTERHAND. Well, Congressman, I can tell you that right now I don't know if a lot of the farmers really knew what the President had planned for them. I can tell you, just as a sidelight, that one of my committee surveys that I do and many farm meetings that I conduct and that I participate in, that the first thing, one of the first luxuries that a farmer disposes of when he is trying to cut costs is his weekly newspaper. That is a pretty alarming statistic for somebody that gets a lot of newspapers.

But that is what happens. No ill feelings toward the man but—unfortunately a lot of our farmers get their news out of Paul Harvey.

I can tell you that in the many meetings that I participate in today, and in the past, if you say, look, I know you guys voted for Ronald Reagan, 60 percent of you had to. If you ask for a show of hands, you darn well are hard to find one. They are hard to come by. They just can't admit it. Quite frankly, knowing the conditions of their fellow friends and neighbors and how they are deteriorating, they are afraid to admit it publicly.

Representative OBEY. I don't mean to suggest in any way that the administration is totally responsible for all the problems of the rural area, but the question is, What are people doing now to try to solve those problems and how much flexibility have they demonstrated? That is what we are going to find out as we go through the process on the farm bill.

In summary, I think what has been made clear here today, in addition to an awful lot of information about human stress, I think what has been made clear is that we really face in policy terms four significant questions. No. 1 is the simple question which Senator D'Amato was trying to get at before: Are we going to participate in the restructuring of farm debt in this country? If so, how?

We structured significantly the debt schedules of Third World countries, justifiably so, in my opinion, over the last 2 or 3 years. The question is whether we will do the same for American farmers.

Second, the question which two of the Governors addressed and which a number of you have testified about today: Are we going to allow this crunch to continue? Some people call it a natural economic adjustment, which I think is debatable. But if we are going to allow that crunch to continue and if we are going to allow government to totally withdraw, as some suggested, from agriculture, even though other governments don't, do we have and will we put in place the kinds of ameliorative programs not only to deal with the human consequences and emotional consequences of this change; but also do we have in place other programs that do more than give lipservice to the idea of actually moving people into other areas of productive employment?

I would suggest the answer is "No." I would suggest that until we do, we have a moral obligation to be mighty slow in speeding up what some people describe as a natural process.

Third, I would also say that the question we face is: If we are not willing to go down the road of totally abandoning agriculture to social and economic problems, are we then willing to establish effective policies of supply management to at least keep Government purchases and those Government costs to an acceptable minimum in budgetary terms?

And the final question is whether we as policymakers in the Congress and in the White House continue to engage in further short-term gratification as we deal with issues such as the tax bill; or will we use revenues gained from any potential base broadening that the Ways and Means Committee might produce for what a lot of us consider to be a higher priority, mainly to get down those government deficits which would in turn enable us to get down interest rates and to get down the over-valued dollar on international markets which, both of which are killing us in trade and farmers along with it.

It seems to me those are the questions we have to face. I thank you all for taking the time to help put out a record designed to getting those who are interested in those issues an opportunity to think about the questions you raised.

Thank you all very much. The committee is adjourned.

[Whereupon, at 1:10 p.m., the committee adjourned, subject to the call of the Chair.]

APPENDIX

STATEMENT OF HON. ANTHONY S. EARL, GOVERNOR, STATE OF WISCONSIN

I would like to thank Representative Obey for holding this hearing and once again demonstrating his interest in communicating with Wisconsin farmers during this critical time. I appreciate the opportunity to present this testimony and offer the perspective of one who must develop state farm policy within the parameters of federal policy.

In all honesty, it is particularly frustrating to me, and to governors of other agricultural states, that the agricultural economy is determined by forces largely outside the control of state officials. Yet I am not here merely to identify these forces and recite the well-known roster of culprits threatening rural America. We all know the chief of these is the federal deficit with its consequent choking interest rates and overvalued dollar. And we all recognize falling land values and a crumbling price support system as major co-conspirators.

Instead, I wish to take a moment or two to outline the negative consequences the national and international farm crisis is having upon Wisconsin in particular.

To understand the potential depth of the farm crisis, it is imperative to remember that a farmer does not operate in a vacuum that begins and ends with the property lines. Each farm failure adversely affects implement dealers and manufacturers, seed and fertilizer operations, lending institutions, transportation firms, markets, and many "Main Street" businesses with which farmers interact. Tell city folk that only three percent of the U.S. population lives on farms and they remain quite complacent. However, tell them that over 20 percent of the Wisconsin economy is agriculture-related and they begin to take notice. It is estimated that each farm dollar has seven dollars worth of impact on the state economy. Cash receipts, alone, for Wisconsin agricultural commodities total well over $5 billion per year.

Due to the diversity of the Wisconsin agricultural economy and the federal dairy price support system, we have so far been fortunate enough to avoid the critical situation faced by many of our neighboring midwestern states. Yet Wisconsin farmers are hurting. And when farmers hurt, the Wisconsin economy hurts with them. Agribusiness comprises one quarter of the Wisconsin manufacturing sector. Since 1979, over 1,000 jobs per year have been lost in the top five Wisconsin agribusiness industries.

Wisconsin has about 85,000 farms and about 50,000 full-time farmers. In early 1985, between 7,000 and 10,000 of them were financially stressed; that is, having debt-to-asset ratios over 40 percent. Most of these were small to medium sized farmers. Last spring a state-operated emergency farm credit program was instituted. In order to qualify for a loan from a participating lender, the lending institution had to be the farmer's "lender of last resort." Over 800 "last resort" loans were made last spring in order to allow farmers to commence spring planting and give them the opportunity to work themselves through these trying times while remaining on their farms as productive members of the rural community. Hundreds of other farmers were denied loans because they could not find participating lenders or because they were considered too high-risk, despite a 90 percent state loan guarantee. And after another year of low prices and high interest rates, things will, no doubt, be worse in the spring of 1986.

Farmers cannot obtain credit, in part, because of declining land values. In 1984, Wisconsin farmland decreased in value by nine percent, or $1.2 billion.

This loss has held the overall growth of taxable property in the state to less than one percent, the smallest yearly increase since 1941. As local units of government rely less on farmland to generate revenue for services, there becomes increased pressure on the elderly and other rural residents to provide the support for such services.

The financial difficulties of the farming community have harmful non-economic consequences on the state as well. Immeasurable are the educational opportunities that have been lost by rural students because of the pressure on local school boards to keep costs to an absolute minimum. For farmers, and rightly so, are not eager to pay property taxes on unprofitable land. Rural families have been disrupted due to the emotional weariness occasioned by financial struggle. People have become politically and socially aliented from mainstream Wisconsin life because they are unable to control their own destinies.

If administration policies continue unchecked, the pain we feel will only get worse. Based upon some mythical "free-market-concept" for agriculture, the Reagan plan is yet another example of the administration's insensitivity to those of us who are neither large corporate enterprises nor wealthy individuals. It is certainly appropriate that U.S. Secretary of Agriculture John Block is taking a lot of heat for the administration these days. His vision for the future of agriculture is unacceptable and virtually indefensible. It is inappropriate, however, that the heat Jack Block is feeling does not seem to be reaching the Oval Office wherein resides the ultimate leader of federal policy. If we are to affect meaningful changes, we must take President Reagan to task on this issue and make it stick as a permanent blemish on what has until now been a teflon presidency.

Farmers and farm leaders from around the state have contacted me regarding various federal proposals. The sentiments they have expressed have been far from unanimous. Thus, I have not yet presumed to offer my official support on behalf of Wisconsin farmers for any particular farm legislation. At present, I simply join most of rural America in staunchly opposing the administration's plan. Beyond that, I feel the eventual farm bill must boost farm income while minimizing subsidy payments, promote sound conservation practices, and target benefits to small and medium sized farmers.

Rather than devoting energy petitioning the Wisconsin congressional delegation to do a good job of representing Wisconsin farmers in Congress, which I am sure most of them will do, I have concentrated my efforts on developing state initiatives designed to help reduce the negative effects of federal policies.

I am particularly pleased with the help we were able to provide rural Wisconsin within the context of the 1985-87 budget. Foremost in my mind is the $885 million in new property tax relief afforded taxpayers, much of it channeled through the school aid formula in the form of direct credits on individual tax bills. Greater property tax relief is also being achieved through the Farmland Preservation program. Under this budget, funding for the program is bolstered by $15.4 million.

Moreover, the budget requires that state school aid be calculated according to current year data on equalized land values. School aid distribution will therefore more accurately reflect the falling land values in many rural areas.

Other budget provisions specifically designed to help the rural economy are: sales tax exemptions on farm production items such as dairy equipment, animal bedding, milkhouse equipment and animal medicine, elimination of tax code incentives to engage in tax-loss farming, more money for the Wisconsin Farmers Fund and the Soil Conservation Program, and increased state support for direct marketing efforts.

Despite these successes, our efforts to return profitability to the family farm must not wane. In the special session of the Legislature I recently convened, we introduced proposals to make farm assessments more fair and to increase staff support for the state's intensive efforts at expanding overseas markets for our agricultural products.

I certainly hope that the federal government will come to its senses and together we'll be able to breathe new life into rural Wisconsin. I know Representative Obey and the Wisconsin delegation will do what they can to prevent the administration from further eroding rural Wisconsin. And I know they will remain advocates for the needs of the Wisconsin dairy-based agricultural economy. I thank them for their efforts on behalf of the state and again thank Representative Obey for this opportunity to portray the effects on Wisconsin of current federal farm policy.

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