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CHANGING AGRICULTURE'S TRADITIONS FOR THE BETTER

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There's a story on Capitol Hill about a young Congressman, flush from his election victory, who earned a seat on the Agriculture Committee. After a couple of months, he was in a muddle. The subject was complicated, the different commodity groups fought incessantly among themselves, and it was all cloaked in an arcane language that he did not understand.

"I'm not sure what to do," he confided to a committee veteran.

The aging solon replied with his own agricultural policy, "Just vote no and say it's not enough."

While a complicated series of economic, political and even meteorological events has led to the current farm crisis, many of its roots are in a Congress too willing to say "it's not enough."

In other ways, a lack of Congressional innovation and critical thinking about farm programs has led to the current difficulties facing agriculture. Since the 1930s, the federal government has sponsored a farm program. In fact, despite enormous changes in the way American farmers produce and market their products, the Farm Bill of 1985[1] is basically the same as the program approved by Congress in 1933. Only the numbers have changed. With the 1985 Farm Bill, Congress has taken only the first, mincing steps toward a new direction for agriculture.

If we are to restore and maintain prosperity for rural America, we need to break away from these tradition-bound programs. They've made farmers too dependent on government and too convinced that the U.S. government can manipulate markets to their liking.

But the cycle cannot be broken quickly. The pain of abrupt change would be felt sharply throughout rural America and our banking system. What I propose is a gradual weaning

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* United States Senator (R-MN).

1. Food Security Act of 1985, Pub. L. No. 99-198, 99 Stat. 1354 (codified as amended in scattered sections of 5, 7, 12, 15, 16, 21, 29, 42 and 46 U.S.C.) (Supp. III 1985).

of farmers from the government, giving them a steadily increasing taste of the marketplace. It will not be cheap, especially in the first couple of years. But the alternatives are few (they're not cheap either), especially when you consider the substantial economic and political influence of American farmers.

When I first came to the Senate, I was as confused as the young Congressman in the story. Agricultural programs are enormously complicated and intertwined in such a way that efforts to help one group often have serious consequences for another. In discussing the approach I think the government should take toward agriculture, I'd like first to explain the background that led me to these conclusions. It is only when you understand who farmers are, politically and economically, how the current programs work (or don't work), what has happened in the world economy over the last 15 years to cause such distress in the rural economy, and what our alternatives are, that you see the need for a shift away from government involvement in American agriculture. I don't recommend erasing government from the picture in the short-run, although I certainly suggest reducing its role.

I. WHO ARE THE FARMERS?

The United States Department of Agriculture (USDA) reports that there are almost 2.3 million farms in the United States.[2] However, that number includes practically every doctor and lawyer, with a few acres and a horse, who calls himself a farmer. In truth, about 70 percent of those farms have gross sales (not income, but sales) of less than $40,000 a year.[3] More than half of these farms sell less than $5,000 worth of goods a year.[4] These farmers work part-time or get all of their income from off-farm sources.[5] They are hobby farmers—people who enjoy living in the country but do not depend on agriculture for their livelihood.

More than half of the remaining 30 percent of farmers have sales between $40,000 and $100,000 a year.[6] These are small operations. They may be full-or part-time farms (often

2. ECONOMIC RESEARCH SERVICE, U.S. DEPARTMENT OF AGRICULTURE, ECONOMIC INDICATORS OF THE FARM SECTOR, NATIONAL FINANCIAL SUMMARY, 1985, 42 (1986) [hereinafter ECONOMIC INDICATORS OF THE FARM SECTOR]

3. *Id.*

4. *Id.*

5. *Id.* at 48.

6. ECONOMIC INDICATORS OF THE FARM SECTOR, *supra* note 2.

one of the spouses has an in-town job) and many of them are facing economic difficulties. Of the remaining farms, one percent sell more than $500,000 of goods a year.[7] Most of these are successful family-owned operations. They will survive, almost no matter what Congress does, because they are extremely efficient and well-managed.

The remaining farms—about 12 percent of all farms—have sales between $100,000 and $500,000 a year.[8] These are full-time, commercial farms, and they are most affected by government policy. Many of them have very high debt loads, incurred as they tried to move into the "large" farm group, or incurred as an accident of birth—that is, they started farming and bought farm land in the 1970s when prices skyrocketed.

As a group, farmers are well represented in Washington, D.C. More than 180 organizations are registered with the U.S. Senate to lobby for agricultural interests. My own state of Minnesota has more than 40 statewide agricultural groups, from the Wild Rice Research and Promotion Board to the Minnesota Honey Producers. Unfortunately, what helps one group often hurts another, and so the lobbyists frequently work at cross purposes. This makes consistent agricultural policy all the more difficult to develop.

II. How do federal programs work?

How much of the average American dinner is subsidized by federal farm programs? Not much. If you had a dinner of steak, vegetable, salad, bread and milk, only the bread and milk are affected by federal programs. I should note that those farms raising commodities not involved in government programs—pork, beef, chicken, vegetables, fruit—are doing pretty well this year.

The primary crops tied to federal programs are dairy, corn (and other feed grains), wheat, cotton and rice. It is the corn and wheat producers (sometimes producers of soybeans, who have what amounts to half a federal program—but we won't go into that) that you see on television at farm protest rallies. They are the ones who depend most on the government programs and have the biggest gripe about it.

As they are currently arranged, the federal farm programs send mixed signals to farmers. I'll use corn as an ex-

7. *Id.*
8. *Id.*

ample because it is the largest crop, but the programs function similarly in all the other crops.

If you enroll in the federal program, the federal government promises you a set price for each bushel of corn you produce—\$3.03 a bushel. These so-called target prices are simply numbers pulled out of the air by Congress. They represent what Congress thinks the appropriate price of commodities would be, but they bear no relation to the real world. Frankly, \$3.03 is well-above the current market price and nearly \$2 over the variable cost of production for many corn farmers, so it provides an enormous incentive to put on more fertilizer, use better seeds and chemicals and otherwise just produce like crazy. Farmers who take great pride in their productive capacity have done just that.

In order to qualify for that target price, a farmer must agree to leave idle a certain portion of his land. Called "acreage reduction programs" or "set-asides," these restrictions are intended somehow to control the production that the high target price induces. They haven't worked. Between 1985 and 1986, the corn set-aside requirement was doubled from 10 percent of a farmer's acreage to 20 percent.[9] In 1985, U.S. farmers produced 8.9 billion bushels of corn. In 1986, despite twice the set-aside, production still amounted to 8.3 billion bushels, a decline of less than 7 percent.[10]

It's like driving a car with one foot on the accelerator and one on the brake. You can do it for awhile, but eventually the brake linings wear thin and then you've got trouble!

Farmers receive their benefits in two parts—the loan and the deficiency payment. Each fall when they harvest their crops, they face a decision. They can sell it on the market, or they can put it under loan to the government. Right now, government loan rates—the amount the government will loan a farmer while he waits to market his crop under loan—are above the world market price, prompting many farmers to put their crop under loan. Normally, the loan has to be paid back, with interest, within nine months. But farmers who cannot sell their crops at a price above the loan rate

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9. The 1985 Farm Bill gave the Secretary of Agriculture the authority to order an acreage limitation of up to twenty percent for the 1986 crop of corn and other feed grains, based upon an estimate by the Secretary that the quantity of corn on hand in the U.S. at the beginning of the marketing year (September 1986) would be more than two billion bushels. 7 U.S.C.A. § 1444e(f)(B) (Supp. 1987).

10. ECONOMIC RESEARCH SERVICE, U.S. DEPARTMENT OF AGRICULTURE, 128 AGRICULTURAL OUTLOOK 45 (March 1987).

can choose to forfeit the crop to the federal government and keep the money from the loan. Thus, the government can become the owner of huge supplies of surplus grain.

Because U.S. farmers can, in effect, sell their crop to the government at a relatively high level, loan rates have acted as a price floor in this country and an umbrella over world commodity prices. As loan rates grew—from \$1.10 a bushel in 1975 to \$2.55 in 1985—they provided a strong incentive to grain producers in other countries to plant as much as they could. This has cost us dearly in world export markets, so the loan rate needed to be lowered. This was one important accomplishment of the 1985 Farm Bill.

Any difference between the loan rate (or the market price if it is higher than the loan rate) and the target price is paid directly to the farmer as a "deficiency payment." Deficiency payments are designed to support farm income at the target price level while allowing the market price to fall when commodities are in surplus. In theory, deficiency payments are more market oriented than would be the case if the government manipulated things to keep the market price high. In practice, the high target prices have encouraged so much production that we are faced with perpetual surpluses, perpetual deficiency payments, and perpetual government expenditures.

III. The Boom and the Bust

While the system we have used for agriculture for 50 years is the source of the farmer's dependency on the federal government, agriculture's current problems took root in the 1970s. Those were fantastic years for American farmers. We went from exporting less than \$7 billion worth of agricultural commodities in 1970 to \$43.8 billion by 1981.[11] These results were due to good luck and several external factors:

1) The Soviets made a political decision to import grain in times of shortage, rather than following their traditional approach of slaughtering livestock.
2) Bad weather conditions prevailed in some parts of the world, but not in the United States.
3) World economic growth was relatively strong.
4) Real interest rates remained fairly low, which en-

11. C. Hanrahan, Why U.S. Agricultural Exports Have Declined in the 1980s 3 (Congressional Research Service 84-223 ENR, 1984).

couraged borrowing and buying by developing countries.

5) Finally, the value of the U.S. dollar was low relative to other major currencies.

In those days, the market itself—not government policy—brought prosperity to farmers and to those involved with the infrastructure of agriculture—small town merchants, truckers, food processors, and feed and seed manufacturers.

It would be hard to imagine a more complete turnaround of these external factors than occurred in the 1980s.

1) The Soviet grain embargo of 1980 shattered confidence in the reliability of the U.S. as a food supplier.
2) The world as a whole had several years of good weather.
3) The global recession crimped our traditional customers' ability to purchase.
4) Interest rates went up dramatically and are still high in real terms.
5) The value of the dollar increased enormously.
6) On top of it all, some countries used export subsidies to increase their shares of a world market that has been relatively stagnant.

U.S. agricultural policy was simply not flexible enough to adjust, and indeed the 1981 Farm Bill made it worse by pricing our products at even more noncompetitive levels. As I watched the value and tonnage of our exports fall, more or less, year after year in the 80s (in a troubling correlation with falling land values), I started also to see the effects of this decline spread across the face of rural Minnesota.

In 1984, the rural economy was solidly locked in recession. I ran for re-election that year and had quite a sense of it. 1985 got worse. It became clear to me that the high loan rates of the 1981 Farm Bill were exacerbating the decline of our agricultural economy.

IV. What are the alternatives?

When we started debates on the 1985 Farm Bill more than two years ago, most Senators had three main goals. Everyone wanted to maintain farm income at a reasonable level. Most wanted to make U.S. commodities more price-competitive so we could regain the lost volume on international markets and relieve the enormous surpluses of grain piling up here. And the whole process was governed by the need to meet often-changing budget constraints.

While the 1985 bill will cost much more than almost anyone had imagined—price and income support measures cost $26 billion in 1987 alone—the scorecard for the other goals looks a lot better. Indeed, staying the course with the 1985 bill, which was an effort to eliminate the worst aspects of the traditional federal programs without dismantling them, is the primary alternative for farm policy for the rest of the 1980s.

Despite the changes I would like to see in farm policy, the 1985 bill isn't all bad. Farm income is pretty well maintained. Pumping $26 billion into this segment of the economy is bound to do some good, and it has. Those farmers who have used some new marketing tools that were put into the bill to allow them to roll over crops they have been storing have made a tidy profit this year, albeit much of it from the government.

Secondly, the 1985 bill has done a decent job of making our commodities price-competitive on the world market. In rice and cotton we have seen amazing booms in demand because of a change in policy that allows the government to make up the difference between the world price and our relatively high loan rates. Corn and wheat sales have remained sluggish, but our low prices (achieved by lowering the loan rate for corn from $2.55 to $1.84 per bushel) are helping to bring our foreign competitors to the negotiating table. Because the U.S. was willing to change the rules in the world marketplace, agriculture has become a primary topic in the new round of talks under the General Agreement on Tariffs and Trade. There is certainly more interest in reforming world agriculture trade practices among major exporting countries than was the case a couple years ago.

While the 1985 bill did point us in the right direction, calls for a more basic change in policy continue. In this article, I would like to explore my own proposal and one from Senator Tom Harkin of Iowa which has gotten a lot of attention in the popular press and among certain farm groups.

V. The Trouble With Mandatory Production Controls

Senator Harkin believes that the federal government can manage the supply of agricultural products and thereby guarantee higher market prices to farmers. One of the attractive features of this program, at least to farmers, is that a referendum would be held on the plan before it would be put into place. If a majority of those allowed to vote in the referendum approved, a system of mandatory supply controls would be established. Every farmer in the country would be bound by those supply controls, which has led one columnist to say that the plan would need "wheat police."[12]

Under Senator Harkin's plan,[13] the loan rate would rise to $3.50 a bushel in corn and similarly high levels in other crops. To manage the huge increase in production that would be prompted by such an increase in price levels, a system of acreage reductions and marketing quotas would be established. Both domestic and export demand would be estimated by USDA, then an acreage reduction would be calculated in an effort to match output with expected demand. Each farmer would be issued marketing certificates which would have to be presented to the buyer before the farmer could market any part of his crop. The certificates would be the major control mechanism in the bill. Additional supplies could be fed to animals, but even livestock farmers would have to abide by the acreage reduction requirements. The cost of the program would be borne through higher food prices. Consumers would not be allowed to vote in the referendum.

I'm no fan of production control schemes under any circumstances, and certainly not ones which would attempt to distort economic realities as much as these. Because the referendum makes the proposal somehow seem democratic, it appeals to the populist sense of rural America. Furthermore, many farmers seem to assume they can figure a way around the program in the same way they figured ways around the current system. To do so would be fraudulent, however, and would make criminals out of farmers who simply want to plant what they wish.

The effects of the Harkin plan extend far beyond the farm gate. Indeed every American would pay for this policy in the grocery store.

A mandatory supply control program amounts to an extremely unfair food tax. A recent study by the National

12. In a column in the Washington Post, Michael Kinsley criticized the "Save the Family Farm Act," introduced in 1986 by Senator Harkin and Rep. Richard Gephardt (D-MO.), as "[a] system of inherited privilege based on land, financed by a large indirect tax on food, enforced by cadres of wheat police." Kinsley, *The Democrats' Worst New Idea*, Wash. Post, Nov. 6, 1986, at A19, col. 1. The "Save the Family Farm Act" is essentially the same as S.658, introduced in 1987, *infra* note 13.

13. S.658, 100th Cong. 1st Sess. (1987) (GPO, Fiche Y 1.4/1:100-00091-92).

Center for Food and Agricultural Policy found food prices would rise by 14 percent by 1995 under the Harkin bill, adding $65 billion to the nation's food bills.[14] Because those with lower incomes pay a greater percentage of their income for basic needs, like food, they would bear an unfair share of the cost of this program. If we are to support farm income—and I think in the short run we must—we should do it through general tax revenues which are paid in large part by those who can afford it.

Senator Harkin's plan also would be devastating for all of those whose livelihoods depend on farmers. Most of those in agricultural businesses—and that includes everyone from the small town hardware store owner to multinational grain companies—depend on volume as well as price. Agriculture, broadly defined, creates about 18 percent of our Gross National Product.[15] Two of those percents are added on the farm. That's all. Another 2 percent comes from supplies sold to the farmer, such as seed, feed and fertilizer. The remaining 11 percent is added after the crop leaves the farm. In an effort to assist the 2 percent on the farm, we would cause untold harm to the remaining 13 percent. A recent study by the Economic Research Service of USDA concludes that acreage reduction under a mandatory supply control program could reduce overall GNP by $64 billion annually.[16] That's an awful lot of "hidden cost" to impose on an already beleaguered agricultural economy.

In addition, mandatory supply control raises production costs per unit for U.S. farmers and makes our producers artificially noncompetitive with farmers in other countries. Fixed costs just don't go away when land is idled. Instead, they must be spread over fewer bushels, bales, or pounds of production. This, in turn, raises the price level that our farmers need just to break even. In effect, if the government wants to keep farmers whole after imposing an acreage reduction on them, it has to turn around and pay them larger deficiency payments to make up the difference.

Acreage reduction also sends signals to our competitors. By raising the price of homegrown products we encourage

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14. NATIONAL CENTER FOR FOOD AND AGRICULTURAL POLICY, THE 1985 FARM BILL REVISITED: MID COURSE CORRECTIONS OR STAY THE COURSE (Briefing Book) (February 1987).

15. U.S. DEPARTMENT OF AGRICULTURE, AGRICULTURE'S LINKS TO THE NATIONAL ECONOMY 3 (Income and Employment Agriculture Information Bulletin No. 504, October 1986).

16. *Id.* at 5-6.

imports. I don't want to have Canada bake our bread and make our cereals, which could well happen under this plan. We'd have to erect enormous tariff barriers to keep foreign products out of the United States.

Lastly, the Harkin plan carries a moral cost. It seems wasteful, in a world that is still overwhelmingly hungry, to shut off our production and manipulate the free market to raise the income of a small percentage of the population. We have enormous resources in this country, both natural advantages like the fertile plains, and man-made advantages such as our coast-to-coast rail system and grain elevators in seemingly every little town around the country. To purposefully idle them seems wrong.

VI. Decoupling

As an alternative to the current program and to a mandatory supply system, I have proposed that we simply break the link between government payments and the requirement that farmers produce a certain crop. I call this decoupling. In essence, we need to allow farmers to plant what makes sense economically, rather than keeping them locked into planting for the government program. Current law does a great job of inducing farmers to plant the full amount allowable regardless of the market price, in order to get income support.

Instead, I propose that income support be paid according to some historic measure of production. Take, for example, a farmer with 200 acres in corn and a certified yield of 110 bushels per acre. Although we haven't decided on a level of payment, let's assume the transition payment is $1.00 per bushel. Thus, our farmer would receive an annual payment of $22,000 (200 acres x 100 bushels x $1.00 = $22,000). Most likely, part of the transition payment would be paid in the spring and the other part paid in the fall to help with financial planning.

Over time, payments would be reduced, probably by ten percent for each of the first six years. (Thus, after six years, payments would be half the original amount.) After six years, payments could be made at the discretion of the Secretary of Agriculture.

It is important that a farmer receive a known payment regardless of what he plants in the current year. It is also important that the payment not be reduced if the market price should rise. The fear that a payment would be taken away if the price goes up would be a strong incentive for many farm ers to continue producing their program crop.

This approach to income support payments would make it straightforward and logical to phase out direct payments to farmers over some period of time. If a farmer knew that he would receive a definite series of declining payments over 5 or 10 years, he would be able to plan his farm operations accordingly. Although I believe that the government has an obligation to help farmers through several difficult transitional years, I don't believe that we should be in the business of making perpetual income transfers to the farm sector. (And, I do not think farmers want that either.) This approach would serve both farmers' and the government's interests during the transition by making the payments completely predictable. It would serve taxpayers' interests by allowing efficient food production and the best use of our agricultural resources.

The overall effect of decoupling farm income support from production in this way would be to eliminate the production incentive that currently comes from the target price and the deficiency payments.

An interesting conclusion from the decoupling concept, given the current low market prices, is that farmers might choose to leave a lot of land idle if they were free to do so. In other words, economics could balance supply and demand where government intervention cannot. This becomes clear when we realize that corn prices in much of rural Minnesota are between $1.00 and $1.20 per bushel. Yet, the variable costs of production are roughly $135 per acre. If a farmer gets a yield of 100 bushels per acre at a buck a bushel it's worth $100, so he'll have lost $35 per acre.

Our present program makes the farmer sustain that $35 loss in order to be eligible for a deficiency payment of over $100 per acre. This farmer would have a $35 increase in income per acre if he planted nothing and was still able to receive his deficiency payment. On top of that, the government may well save money because there would be less surplus to go under loan, to be stored—all costs the government picks up.

Fewer acres might be planted under my plan, but that would be because of economic forces taking land out of production, not an arbitrary government program. My plan would allow farmers to make a significant supply adjustment by their own choice and then bring land back into production when conditions improve. Such a program would allow for much more efficient resource use than is now happening.

While a good deal of lip-service is paid to the "independence" of farmers, government programs have actually made them terrifically dependent. We need to start over with a program that will allow independent decision-making.

A final point about decoupling. Such a program would make our domestic programs much more compatible with free trade in agriculture. Making these changes would complement our efforts in international trade talks. Not only would our programs be in the best interest of the U.S. domestically, but we would have fashioned a system of income subsidies which have no effect on production and, thus, cause no trade distortions. Moving our domestic policies in this direction could well increase our leverage in trade negotiations.

I recognize that payments to farmers under my plan would be substantial. Frankly, these are necessary to protect farm income and to ensure that farmers will participate. The payments would give them a cushion to fall back on while they adjust to the ups and downs of the marketplace.

Additionally, by making these payments to the agriculture sector, we may save ourselves billions of dollars otherwise spent bailing out banks which have made big investments in agriculture and will lose them if farmers begin to go under in large numbers.

Conclusion

The problems of farmers really do extend far beyond the local elevator and the farmstead. Unfortunately, Congress and the public often have failed to see these far-reaching effects. To achieve an effective farm policy, I believe we must first move farmers back toward economic realities. You can't fool them for long. If we make farmers permanently dependent on the government, we will end up hurting our entire rural economy.

By moving farmers toward the market, albeit slowly and at some cost, we will lay the foundation for a brighter future for agriculture—one in which farmers, not the government, make the decisions.