1981 farm bill is a rotten compromise

by Susan Brady, Agriculture Editor

With the ink barely dry on the new four-year farm bill signed by President Reagan just before Christmas, there are indications that Congress will soon be asked to entertain various "emergency" revisions of the bill's austere provisions. Called a "blueprint for disaster" by the National Farmers Union and other farm leaders, as well as Congressmen and Senators who voted against it, the Food and Agriculture Act of 1981 is the type of rotten compromise which is responsible for the fact that, as Sen. John Melcher (D-Mont.) put it during debate, "our farmers always seem to be hanging on by their fingernails."

No major farm organization supported the legislation. It passed the Senate on Dec. 10 by a 68-to-31 majority and barely squeaked through the House by a 205 to 203 vote a week later—three months after the 1977 legislation had expired. The lawmaking, which consumed a year of rancorous debate in both houses and more than five weeks of tumultuous conference sessions, was concluded under the threat of a presidential veto on fiscal-austerity grounds.

The core of the legislation extending the basic commodity programs through 1985 is contained in the crop-support loan programs for the major grains. The 1981 bill sets these program price levels at approximately 40 percent of parity, or less than half the break-even level in terms of the return a producer needs to continue operating. The price-support levels for the dairy program, heretofore the strongest and most effective of the farm programs, are knocked down from 80 to 60 percent of parity.

Among other provisions included in the 18-odd titles of the omnibus law are:

• Mandatory compensation for producers at 100 percent of parity in the event of a future "selective" embargo on farm exports, a kind of Pyrrhic victory since any "general" embargo would involve 80 percent agricultural products in any case.

• Establishment of an Agricultural Export Credit Revolving Fund, albeit without funding.

• One-year extension of the FmHA's Economic Emergency loan program, albeit with a $600 million cap on loans and a proviso that the actual use of the program is at the discretion of the Secretary of Agriculture.

• Creation of an 11-member board, including seven farm producers, to review USDA methods of estimating farm production costs and to make recommendations to the Secretary.

• Elimination of the Commodity Credit Corporation's Farm Storage Facility Loan Program, except at the discretion of the Secretary in areas where storage is deficient.

• Elimination of the disaster payment program, except at the discretion of the Secretary where Federal Crop Insurance is not available.

• Extension of authorization for adequate funding for research, extension, and teaching.

• One-year extension of the Food Stamp Program, with an $11.3 billion cap for 1982.

The battle over the legislation pitted farm producers against David Stockman's Office of Management and Budget, which had the USDA and White House in tow. Stockman and company operated in an open alliance with the ultra-liberal consumerists and environmentalists opposed to modern agriculture, as of the Reagan administration's first days in Washington, when they launched a demagogic "pre-emptive strike" against the dairy industry.

Under the banner of cutting the budget and "getting the government out of agriculture," USDA began immediately to chop at the fabric of farm programs that have kept the farm sector on the economic map for more than 30 years while producers labored to operate at below cost. Interest rates on the various programs were revised upward to reflect "market" conditions. "User fees" were introduced wherever possible. Steps were taken to reduce the lending activities of the FmHA, the "lender of last resort" in the farm sector and one of the few agencies that has stood between the Volcker monetary policies and rural collapse for two years.

In the name of the "free market," Secretary Block demanded elimination of the target price program entirely, and, aping grain company litany about "pricing ourselves out of the market," insisted on minimal if any increase in crop loan support price levels. Exports, Block insisted, will make good President Reagan's election promise to bring "100 percent of parity in the marketplace."

The only thing resembling a comprehensive response to this policy approach was put forth by Sen. Melcher. "We Americans have sacrificed our steel industry, our auto industry, our shoe industry, our electronics industry on the altar of the free market," Melcher stated in presenting his own four-year farm bill to the Senate. "Mr. President," he continued, "those markets are not free. And they have not been for many years." Melcher's S.480 would have extended existing law, with the key provision that the loan rates for the basic commodities be set at 75 percent of parity across-the-boards, thus

© 1982 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

assuring market stability and baseline returns to producers. With the defeat of his initiative, it was a matter of fighting for crumbs from the trenches—in the manner that has characterized farm politics since the 1950s when the 1940s parity policy was junked in favor of a "market-oriented" approach governed by the grain companies.

The administration got virtually everything it wanted. The 1981 bill sets the wheat loan rate at $3.55 per bushel and the corn loan rate at $2.55—less than 50 percent of parity. Theoretically setting a "floor" for market prices, the crop-support loan price levels in fact establish the market price "corridor" for these commodities in both domestic and international markets. But production costs for wheat and corn are estimated to be about $5.60 and $4.00 respectively—never mind the question of profit. So, contrary to Secretary Block and the Farm Bureau's wishes, the target-price program had to be continued, a merely nominal victory for producers.

But the target price for 1982 wheat, for instance, has been set at $4.05 per bushel, when the USDA's own estimate for cost of production is $5.66 and the parity price is $7.64. The administration has been successful in "decoupling" the target price program from its original purpose of guaranteeing cost of production.

A 1930s crisis

What is astonishing is the manifest bankruptcy of the administration's policy, the simultaneous pettiness and grandiose self-delusion of the pathetic "free market" slogans. American agriculture is today in the midst of the worst crisis since the 1930s, facing an unprecedented third straight year of declining net income and cash-flow squeeze. While prices for the major commodities fell consistently since the beginning of 1981, production costs—led by usurious interest rates—rose 15 to 20 percent. Under these conditions, the more you export the more money you lose—unless the government acts.

An estimated 300,000 producers were forced out of business in 1981, and USDA itself reckons that 1,100 farms per week are currently going out of business.

For the first time in this writer's memory, the USDA bureaucracy has broken with official precedent to suggest that the "consolidation"—jargon for spreading farm bankruptcies—may be getting out of hand. "I don't see any benefits in today's weeding-out process," USDA economist Neal Peterson wrote in the December *Farmline,* "because it's not just the so-called inefficient producers who are suffering."

For the moment, the fate of our food supply turns on the question of whether or not Agriculture Secretary John Block will find sufficient "discretion" to drop slogans and shibboleths, and act decisively in this emergency.

The fraud of attacks on the farm budget

Even on its own terms, David Stockman's budget-cutting assault on the federal farm programs is a fraud. Federal farm-program expenditures as a percentage of the total federal budget have in fact *declined* consistently since 1948. Farm-program expenditures have never been more than 2 percent of the total budget, on average, despite the fact that agriculture is the nation's number-one industry.

In 1978, during the most severe recent price collapse, when federal farm expenditures peaked at a high $7.7 billion, farm programs still accounted for no more than 1.71 percent of the total budget!

Agriculture provides for one out of every five jobs in the private sector. Less than 3 million farmers account for the use of 6.5 million tons of steel, which in turn accounts for 40,000 jobs in the steel industry alone. Farmers purchase $14.4 billion worth of farm equipment in an average year, which requires 140,000 employees to produce. Farmers purchase almost $14 billion in petroleum products, more than any other single industry. Moreover, agriculture is the sole positive item in the U.S. balance of trade, exporting more than $40 billion worth of farm products in 1980 for a $23 billion net trade surplus.

The core commodity price support programs are *loan* programs—they act to establish market price ranges for farm products by offering producers the option of holding their grain as collateral for a government loan—(with a term of nine months to three years)—at an established per-bushel price. The producer can either sell his grain on the private market and repay the Commodity Credit Corporation loan with the proceeds, or forfeit the grain to the government.

The only significant transfer payment program in agriculture is the target price program. Under this program, producers are given a government check for the difference between the average market price for their crop and the "target price" set by Congress, supposedly in relation to the cost of production.

Re-adoption of a parity policy that would raise crop loan rates to 90 percent of parity, assuring market prices in a range that guaranteed farmers the cost of production and profit necessary to continue producing, would eliminate the need for the target-price program immediately.