AGRICULTURE

Policymakers rush to scrap price supports

by Cynthia Parsons

"With recovery under way, agriculture will be entering a new era. . . . It's important that we take a collective look at the issues so that we are better prepared to give direction to our industry as it enters that era," Secretary John Block told the July 12 "summit" on farm policy sponsored by his U.S. Department of Agriculture.

Block was invoking the myth of recovery to persuade the 70 heads of farm organizations, agricultural bankers, agribusinessmen, and consumer and labor organization leaders gathered for the most important meeting on agriculture policy since the 1960s to forget the dirigist measures that had made American agriculture the most productive in the world and let the levels of U.S. food production be determined by Adam Smith's invisible hand of "market forces"—i.e., Paul Volcker's high interest rates and the international commodity cartels.

The path to the summit had been paved by six months of meetings led by the USDA, farm groups, universities, and think tanks. The discussions will be used to influence the 1985 farm bill.

Secretary of State George Shultz, Vice-President George Bush, and Block all reiterated to the meeting that current farm programs cost the government too much money, and that a long-term policy had to be designed to bring supply and demand into balance—without the aid of price supports. Price supports and loan programs were termed "insulting" to farmers and were called the chief cause of the current collapse of farm income and exports. Farmers must "produce for the marketplace, not for price supports," as Alan Tubbs, the American Bankers Association representative, commented at the summit.

Further high-level attacks on price supports followed the July 12 meeting. Addressing the National Corn Growers Association's annual convention July 18, Block and Sen. Robert Dole (R-Kans.)
control." Block announced that the administration hopes next year to cut costs in half if Congress can be pursuaded to enact legislation to achieve that goal. Dole added that "unless some of us in Congress from farm states . . . show responsibility and leadership in making the necessary corrections, the future of farm legislation will be extremely bleak."

End of dirigism

Joint Economic Committee hearings on agricultural policy held during May and June, titled "Toward the Next Generation of Farm Policy," focused on the necessity of determining production by "market demand"—with little or no discussion of the huge international debts and the record interest rates that have brought on world depression and destroyed agricultural markets. Should farmers be forced out of business, it would be a threat to world food supplies that no immediate "surplus" could alleviate.

Although legislated price supports alone are inadequate to ensure the continued productive capacity of U.S. agriculture, the fact that farm organizations showed themselves willing to compromise on guaranteed income, in exchange for government "supply management," demonstrates a level of demoralization equal to that of American labor unions. Farm Bureau President Robert Delano testified that farmer-owned reserve incentives must be lowered, instead of continuing provisions that suppport prices at "legislated income-support levels without regard to long-term market damage." Delano endorsed the goals of the costly Payment In Kind (PIK) program, saying "the purpose of PIK has been to allow markets to operate so that farmers and ranchers may receive adequate income from the market—rather than from government." Delano added that target prices must be frozen, instead of increasing annually.

A National Farm Coalition spokesman, although very much opposed to freezing target prices or lowering the minimum loan rate provisions, echoed the Farm Bureau. The National Farmers Union called for a supply-management program and said they would consider eliminating target prices if loan prices were raised in return.

Daniel Amstutz, the newly appointed USDA undersecretary for International Affairs and Commodity Programs and former Continental Grain Company employee, called at the hearings for a "world system of liberal agricultural trade, in which producers compete on the basis of comparative advantage"—the same dumping policies that have allowed U.S. steel and other industrial production to be undercut in international markets.

Long-range policy

While farm leaders and some politicians have to answer to a constituency, and therefore may favor the softer approach of "market management," bankers, economists, and grain companies have been forthright in blaming price supports for the farm crisis. Both groups are going in the same direction—an agriculture based on a fully feudal "free-market" system, and they are only arguing about the method to obtain that goal.

Continental Grain's vice-president for commodity research, Ted Rice, claimed at a seminar for executives in the breadstuffs industry in June that the high cost and deficiencies of the PIK program could be justified if it is used as an emergency plan while the administration and Congress work toward a marketed-oriented agriculture. But in a July 7 interview with *EIR*, Rice likened PIK to "a man shooting himself in the leg. You can put a tourniquet on it, but if he does not get to the hospital for treatment, he will lose his leg. PIK will do nothing to relieve surpluses. What we have to do is let prices find their own level."

"The problem," continued Rice, "is that congressmen know nothing about economics. . . . We must lower the loan rates to the minimum the law will allow—$3.30 for wheat and $2.40 corn. Then we must have an acreage-reduction program, taking the largest percent out of production possible. Those who want to farm will comply. Those who don't, won't. . . . As things stand now, yes, we will lose many farmers who are generally bad managers, its too bad, but that's life."

Professor Barry Flinchbaugh at Kansas State University, an agriculture economist and analyst, admitted in an interview that "PIK was cheap this year. But the [$12 billion worth] of grain the government's giving away eventually will show up in the budget as loss. And operating a farm program after the grain's gone would cost the Treasury billions." This could make future programs less desirable for farmers. In other words, this year PIK will show up as "the best program farmers ever had," he said. But "next year, it will be a cost to the Treasury."

Farmers should lobby for a free market, he said: "It can work. Farmers soon learn to allocate their resources on the basis of demand for their products." It would mean farmers selling directly to foreign governments, which control and subsidize their domestic markets. If too many American farmers competed for these foreign sales, that could make prices unacceptably low. "If our grain production droppped too far, forcing prices up, those prices might reach the point where other countries' production would suddenly seem economical."

Flinchbaugh called for a government program controlled by delegated farmers, which, like the Federal Reserve System, would not be controlled by Congress. "If the system were isolated from the political process, farmers could determine their own production and stocks policies."

John Urbanchuk of Wharton Econometric Forecasting Associates, Inc. summed up the political situation in the following way. "Program management has become a critical issue. It is not clear that the administration has the necessary leverage to run the current farm program in a political environment of tight budget constraints. Without sufficient funds to restrain acreage expansion, we may find ourselves faced with the necessity of 'bailout' programs similar to PIK on a fairly regular basis."

In the Heritage Foundation's yearly policy guide, *Agenda '83,* author Bruce Gardner called for an immediate end to price supports. Such a move towards a free market is fully endorsed by the grain companies.

The filibuster led by Sen. John Melcher at the end of the last congressional session against the target price freeze, is, indeed, all that stands between the free market and the shards of the current system.

Building for the summit

The University of Missouri at Columbia, along with the Agribusiness Council of the Kansas City Chamber of Commerce, held a National-Agricultural Policy Symposium in March, marking the 50th anniversary of the writing of the 1933 Agricultural Amendment Act. The theme of every speech was that it's time to change the commodity price support programs of the Agricultural Amendment Act. Jimmy Carter's pioneer free marketeer, former Agriculture Secretary Bob Bergland, now of Farmland World Trade, said that while Congress holds the ultimate power in the formation of farm policy, Bergland said it is not well suited to that task.

Dawson Ahalt, acting deputy undersecretary for International Affairs and Commodity Programs, told the Eastern Federation of Feed Merchants in June, "Frankly, we at USDA realize we are among the worst violators of budget-balancing objectives of the U.S. government."

Policies under consideration, he said, are to continue current programs since inflation is down, although support levels may be too high; to insulate U.S. agriculture in a manner similar to the European Community, including a guarantee of minimum farm prices, export subsidies, and the possibility of strict acreage controls; and to adopt a more market-oriented approach which might freeze target prices and lower price supports. PIK added $2-$3 billion to farm income, he said, which will be used to show the success of the program.

Ahalt, talking to Farmland Industries, said that American farmers face three options: produce for world markets or insulate themselves from those markets; take price signals from world markets or have the government heavily involved; choose between "flexible" or "rigid" farm price support programs. "These would not be easy choices to make or accept." The department, he said, has asked Congress to give Block the flexibility to freeze target prices for wheat, corn, rice, and cotton. Those prices mandated in the 1981 farm bill were too high and are encouraging production.

"The market is signaling we have too much and we are continuing to add to the supply. The fundamental underlying program is sending the wrong signals. . . . It is clear, given the situation today, we have too many resources in agriculture."

C. W. McMillan, assistant secretary for Marketing and Inspection Services, gave the same three alternatives as Ahalt, with much more market worship. He claimed that more market-orientation will make it more expensive for U.S. competitors to insulate their farmers from the marketplace.