Low farm income is good?

Yes, if you believe the Dallas Federal Reserve study of the impact of free trade on food and farming.

The Dallas Federal Reserve Bank, in its journal *Economic Review* (Second Quarter, 1992), carries an 11-page article on the "Regional Effects of Liberalized Agricultural Trade," which purports to show how free trade will result in lower prices to many farmers, but it will be all to the good.

Written in a sort of "bankspeak," the Federal Reserve states that "free trade would have little or no effect on income in six states and that gross agricultural income would rise in six other states. Agriculture income would decline by 7% or more in 14 states, and by at least 2% in the remaining 24 states." A map, with all 50 states shaded in four tones from "little" to "great" effect, positive or negative, shows the results of free trade.

Recently, some of the specific conclusions of the so-called study have been quoted a great deal in congressional hearings and in other debates on free trade, by those questioning the desirability of the North American Free Trade Agreement (NAFTA). For example, the piece projects dramatic drops in producer prices, including 80% for sugar, 43% for cotton, 63% for rice, and 34% for corn, with resulting devastation to the various state economies affected.

These dramatic income losses were cited during the Sept. 30 Senate Finance Committee hearings, by senators from the relevant states. Their queries gave witness Ann Veneman, deputy secretary of agriculture, an opportunity to ridicule the study, saying that it was based on 1986-87 figures and other cavils. She had a point.

However, there is a deeper level to the Dallas study, besides its incompetent methodology and dramatic figures. The report's author, Fiona D. Sigalla, associate economist of the Federal Reserve Bank of Dallas, is recommending free trade for some very specific reasons, with deadly implications.

She argues that lower producer prices are mostly "positive," once we get beyond the "temporary" negatives of the adjustment period. Positive for whom? "One of the benefits of freer trade—be it in agriculture, manufacturing, or services—is . . . resources are reallocated to the most productive firms." This is a veiled reference to the select few cartel trading companies, such as Cargill Inc.

This is a neo-colonial looting policy of demanding raw materials at the cheapest price in order for the select processors to make more of a profit. The Dallas Federal Reserve study is written from this point of view.

The study states that consumers will pay more for food. "Reducing or removing a subsidy [or a tariff or quota], would reduce the price producers receive . . . [while] the price consumers pay would increase, and the quantity demanded would fall." It cites even the USDA as having determined that "worldwide elimination of . . . subsidies and barriers would increase consumer prices for most agricultural products."

If these higher consumer prices result in increased income for the agricultural sector, the Dallas Federal Reserve study makes clear that the income would go to the value-added processors, not the producers of the raw materials.

This explains what the USDA means when it sends out press releases that free trade will result in increased farm income. They fail to disclose that the projected increased income would only amount to a partial recovery of the income lost due to the drop in producer prices during the "adjustment" period.

In fact, the study goes on to say that while gross income would decline for many producers, farm policy liberalization would also lower some types of production costs, thereby slightly offsetting the lost income. "Profitable businesses may experience a reduction in income but would remain in operation. Marginally profitable farms may choose not to remain in operation." This is saying that there is going to be another round of mass farm foreclosures, and bankrupting of any independent feedlots, processors, and others still left.

The assertion of the study is that those producers who have sufficiently large livestock operations (a value-added business) should survive, but on a slimmer profit margin. The report goes into great detail as to which states would benefit by free trade and which ones would lose. The results are premised, of course, on how dependent the various state agricultural economies are on the production of the to-be-cheapened raw materials and their suppliers, and to what extent the economies are dependent on value-added products which will be using the cheap raw materials.

The real purpose of a free trade agreement is to pay debt service. The Dallas Federal Reserve report addresses this, but downplays it: "World farm trade liberalization would improve the U.S. agricultural balance of trade by $3 billion, or nearly 25%."