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AGRICULTURAL POLICY IN THE YEARS AHEAD

The whole basis for U.S. agricultural policy is changing.

Agricultural policy in the years just behind us has been dominated by the technological revolution in agriculture. Beginning with the late 1920's, new technology that had a tremendous impact on productivity and employment began to enter farming. The gasoline tractor and hybrid corn were just a couple of the new developments that helped move farming out of the horsepowered era and into the nuclear age.

One of the most startling effects of this new technology was a drastic cut in manpower needed on farms. In the 1920's, for example, it took about 270 man-hours to produce a bale of cotton. Today, it takes about 25 man-hours. In corn, man-hours per 100 bushels of production have been cut from 115 to 6. Thus, new technology has displaced a great deal of human labor. While it increased our economic efficiency, and in the long run is playing a key role in increasing our total national output and our standard of living, it was a very painful adjustment for many people and many farming regions.

Peanut production has registered impressive gains of its own in productivity in recent years. As recently as 1953, it took 84 man-hours of labor to produce 100 bushels of peanuts. Today, with dramatically higher yields per acre, the labor requirement has been cut to 19 man-hours.

Speech by Assistant Secretary of Agriculture Clayton K. Yeutter, before the Southeastern Peanut ~~Producers~~ Association, Atlanta, Georgia, June 11, 1974.

Our whole agricultural policy thrust, from the 1930's to the 1970's has been aimed primarily at helping the agricultural industry to adjust to the effects and the impact of new technology. Price supports, acreage allotments, cropland adjustment programs, the Soil Bank and the Ever-Normal Granary were just a few of the programs conceived to cushion the impact of technological change on farmers. They helped some ... time has helped more ... and now most of the major adjustments have been made.

The years just ahead are likely to see a different farm policy focus. Agricultural policy in the 1970's and 80's seems likely to be dominated by increasing world demand for farm products. This demand is already being generated -- and has already had important farm policy effects. It is being generated partly by population growth -- by the fact that each year we are adding some 75 million people to the world's total, and these additional people must eat. But it is being generated primarily by the world's growing affluence. Despite serious economic problems (inflation, shortages, etc.), real incomes have been rising in the world at an unprecedented rate ... 3 to 4 percent per year in constant dollars, year after year.

With their increased purchasing power, people focus first on eating more, then on eating better. They display a built-in hunger for high-quality protein of the kind found in meat, milk and eggs -- and in peanuts. Around the world, experience has shown that a one-percent increase in real incomes will normally produce a one-percent increase in demand for red meat.

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That is the protein appetite that seems to be inherent in people whether they live in Asia, in Europe, in South America, or in the U.S. High-quality protein is expensive, but it is what consumers all over the world have been and are demanding.

I should add a word of caution here. The protein demand does seem to be very closely tied to increased real income. During 1972, despite fast-rising meat prices, stores couldn't keep their meat cases filled. Consumer real incomes in this country increased 4.6 percent in 1972. This year, with consumer real incomes down slightly because of inflation, protein demand has slackened noticeably.

I believe people still have their protein appetites, however. I also believe that real incomes will pick up again later in the year as we begin to cope more effectively with sharply-rising energy prices and other inflationary impacts. When consumers begin to feel more comfortable with their income situation, they will be back buying high-quality protein in increasing amounts.

This is extremely important for American farmers, whether they grow peanuts in Georgia, grain sorghum in Texas, or flaxseed in North Dakota. The demand for protein foods is really a demand for acres on which to produce farm products and for farmers to produce them.

It takes three pounds of grain to produce a pound of poultry meat. It takes 2 to 3 times that much grain to produce a pound of dressed beef -- yet these high-quality protein foods are in increasing demand around the world, and will continue to be. The world's feed grain consumption

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has been increasing by nearly 20 million tons per year largely because of this protein demand. The United States is producing farm products at full capacity this year because of the world-wide demand for protein. And the world's agricultural resources are going to be used more fully in the years ahead than they have been in years past, mainly because of the world's growing ability to pay for better diets.

This has vital implications for the peanut industry. You know this, and you have already begun to plan for it. Your industry has already recognized that the rigid peanut program of the past has had its price tag; that locked-in allotments and ^alocked-in parity price formula have locked peanut growers out of the opportunity to expand their markets. Peanuts have not gotten their share of prosperity from the growing protein boom. U.S. peanuts have almost no export market. Yet exports have provided the road to prosperity for other U.S. crops ranging from corn and soybeans to rice and cotton. We export almost no peanuts -- but soybean exports have risen by 100 million bushels just in the last 2 years.

The key word for producers during the technological revolution was "protection."

The key word today is "opportunity."

Opportunity fits the new South. Opportunity is being found all over this region with its dynamic new growth and its driving spirit. Opportunity means looking forward with relish to where we are going, instead of focusing on the nostalgia of what has gone before.

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I think farmers in this country today are looking forward, toward opportunity, instead of backward toward protection.

The plain fact is that the protective system we set up for American agriculture in past decades has not worked. It could not work, because over time too many things change. Programs that are beneficial in the short run sometimes turn out to be detrimental in the long run. This is precisely what occurred with most of our farm legislation.

We found that the nation did not gain from trying to lock in the patterns of the past. It froze our land, our people and our capital into systems that were no longer efficient; ever increasing production costs continually squeezed profits -- and drove hundreds of thousands of farmers out of business. Where there have been benefits from our farm subsidies, they usually have been captured in land values. Thus they became windfall gains only for the first owner. Any peanut grower today who did not inherit his peanut allotment is either a very old man or he had to pay a hefty price for the right to grow peanuts. The allotment is currently worth about \$100 per acre per year -- and that is a production cost, not a protection.

The peanut program, of course, is not the only program facing major changes today. We have already shifted our major programs for cotton, wheat and feed grains back to a market orientation. The sugar industry is currently facing major changes, irrespective of the sugar legislation that may be adopted in the current Congress. Sugar is facing competition from a new liquid corn sweetener that apparently has the potential to replace up to 2 million tons of liquid bulk sugar in the beverage market.

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The tobacco industry is struggling because labor costs have gone so high that tobacco growers can no longer make a living on the small allotments that are typical in the industry.

The peanut industry cannot afford to depend on the current program to carry it through the 1970's. Peanut production costs are too high, because allotments raise the cost of production and keep some of our peanut producers from realizing some of the efficiencies that might otherwise be theirs. Government costs have risen rapidly until this past year, and are likely to increase still more in the future ... drawing heavy fire from non-farm voters and urban Congressmen. The current programs shut U.S. peanuts out of the export markets where the growth is -- and shut our peanut growers away from larger income opportunities. As other farmers take advantage of export markets to increase their incomes, the public will see less and less reason to subsidize the growers of any crop through the Treasury. And since the number of peanut growers is shrinking, the industry's political clout may wane rapidly.

I am glad to see that the peanut industry is now facing up to these problems and is beginning to deal with them.

For the future, the peanut program must be more flexible. Perhaps the most important modification would be permitting growers to produce peanuts outside their allotments for export and crushing. This would give efficient peanut growers the opportunity to compete for market growth. With strong protein demand, with lower production costs because of efficient use of land and machinery (and not having to cover an allotment cost), the world market opportunity may prove to be very attractive.

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A sound and well-funded export promotion program for U.S. peanuts would improve the export outlook even more. Our peanut industry has the world's lowest-cost high-quality protein food in peanut butter -- and virtually no one outside North America knows about it. No serious promotion effort has ever been made in overseas markets. Most foreign food stores do not even stock it, and when they do the quality is likely to be poor. No one has taught them to keep stocks fresh. No one has educated consumers to peanut butter's nutritional advantages and its good taste. No one has educated the food marketing systems and the government officials in these foreign countries to the fact that the U.S. peanut industry can guarantee a sound, healthful product despite the aflatoxin problem.

This is a marvelous marketing opportunity in a protein-hungry world.

Only the barest of beginnings has been made on market development. We have one very small program started in Japan now with the U.S. Peanut Council, to offer peanut butter in a few of the school lunches there. The program is going well, but it is only in its second year, and it is woefully underfunded.

Japan, as you know, has been the happy hunting ground for market developers. American foods ranging from deviled eggs to prunes have found millions of receptive consumers with cash to buy. For the peanut industry to be only in its second year of a pilot market development effort --

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in a market (Japan) that buys \$3 billion a year in farm products from the United States -- indicates peanuts are getting a very late start indeed.

I suspect the Department of Agriculture's attitude toward peanut market development has been affected by the fact that under the current program we lose money on every pound of peanuts we export.

I know the peanut industry's attitude toward export markets has been affected by the fact that the program guaranteed you a price for all of your production whether you had a market for it or not.

At any rate, a more flexible production program and a solid export development effort could soon make peanut product exports an important factor to your industry. Our Foreign Agricultural Service has many years of experience in market development around the world, and they stand ready to help you.

A U.S. export push would not flood the world market with peanuts and bring prices crashing down. The United States produces only about 8 percent of the world's peanuts -- and a ten percent production increase here would be a drop in the world bucket. That would be particularly true if you were pioneering new markets for new products at the same time.

We are not trying to strip the peanut industry of its livelihood when we speak of these new directions. Far from it. We foresee genuine hazards in the road the industry has been following, and we are simply urging you to prepare for those hazards while there is still time.

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Proposed changes in the peanut program would retain the industry's protection on the 1.6 million acres of peanuts now grown under allotments. Opening the program would simply permit efficient growers to test the waters of the world market and see if they can improve their earnings in the process.

If it works, it would benefit peanut growers, the peanut industry, and the entire nation.

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