3-13-1975

THE DANGEROUS TIME

Clayton K. Yeutter
Assistant Secretary of Agriculture

U.S. Department of Agriculture
Office of the Secretary

THE DANGEROUS TIME

This is the most dangerous legislative period for American farming in at least ten years. Not since 1965, when low farm incomes and massive crop surpluses forced the beginning of a radical shift in our farm policy approach, has there existed as much potential for backward steps in our farm program.

The nation made the right choice ten years ago. Our farm programs have gradually become more market-oriented and more export-oriented since that time. Acreage allotments and bases have been relaxed. Farmers have been given more management freedom, which they have used to increase their productive efficiency. Massive surpluses have been eliminated, allowing market prices for farm commodities to improve dramatically. Even after the dramatic declines of recent months, they are far higher today than they were 4 years ago--or 14 years ago. Net farm incomes have increased substantially. 1973 and 1974 have been the best income years U.S. agriculture has ever had. The nation is now using all of its farming assets, and gaining substantial returns in the world marketplace. Farm export earnings have more than tripled, from about $6 billion a year in the 1960's to more than $20 billion in each of the 1974 and 1975 fiscal years.

Speech by Assistant Secretary of Agriculture Clayton K. Yeutter, before the Professional Farmers of America meeting in Indianapolis, Indiana March 13, 1975.

Present agricultural policy--a bipartisan policy developed under both Democratic and Republican administrations in the Farm Acts of 1965, 1970 and 1973--is providing benefits for farmers, consumers, taxpayers, and the nation. Agriculture's contribution to our economy--measured by gross output, full use of assets, balance of trade or farmer income--is far greater than it ever was under the fruitless and futile policies of "supply management".

But these gains are now being threatened. This year we run a serious risk of being thrown back into the Dark Ages of farm policy by an unusual combination of events.

In the first place, we are coming off a period of strong farm prices. World farm output has fallen short of demand in two out of the last three years, due primarily to weather problems. Farm product prices have been relatively high, to ration the available supply. Now, with the prospect of more adequate supplies of farm commodities in the 1975 crop year, prices have eased. Understandably, many farmers are disturbed and concerned. They want someone to arrest the price decline, and with their costs going up, they'd like prices to go back up too. This is particularly true of those farmers who have not yet sold their 1974 crop, and who have not yet hedged any part of their 1975 crop. They are angry with themselves, for having missed the the market's peak, and with anybody else who happens to be in range. They want somebody to help them recoup their lost opportunities.

In the second place, the entire world has been in a severe economic slump, induced partly by price increases of the oil cartel and partly by a business cycle downturn in a number of industrialized countries.

The slump in consumer demand produced by a widespread recession is having a major impact on the markets for farm products.

Farmers are also very much afraid of rising production costs. The prices they pay for fertilizer, fuel, machinery, and other production items have risen sharply in the past two years. Farmers fear that further cost inflation will combine with a falling price trend to put them in a loss position.

Finally, there are still many people, in and out of agriculture, who do not believe in our economic system. They do not trust the market. They have an almost mystic belief that the government can do a better job of running this vast and intricate economic machine than the market can despite all the evidence and experience to the contrary. These people are still selling the theory that farmers can be insulated from the marketplace. They offer the same set of gimmicks--price supports, direct payments, storage programs, etc.--that have been used in vain for the last 40 years.

These economic gimmicks have never succeeded in raising farm income to satisfactory levels, and they never will. For farmers to again put their faith in such tomfoolery would be tragic. No, these old supply management programs didn't help farmers. But they did succeed in costing taxpayers billions of extra dollars for farm programs and commodity storage. When the inevitable production constraints came along, they did succeed in costing consumers billions of dollars in higher food prices. And, they did succeed in pricing U.S. farm products out of the world market. Quite a list of "achievements" wasn't it?

Yet government management of agriculture is now being put forward again as the way to solve what proponents call a "farm emergency." Proposals have been submitted in the Congress to sharply increase price support loans, to boost target prices, to insure farmers from abnormalities in weather, and to build huge grain reserves. The price tags on these proposals range as high as $50 billion over the next 5 years.

Direction is Crucial

I do not propose to discuss specific target prices or loan levels. I want to make a more fundamental point about the direction of our farm policy. We cannot insulate farmers from the market without smothering them. We have not been able to insulate them in the past, and we are even less able to insulate them in today's interdependent world economy.

The only farm policy that has effectively improved real farm income has been market orientation. That is also the policy which has provided maximum benefit for the nation.

Attempting to set farmers apart through price guarantees and payments will inevitably lead farmers down the same rocky road to nowhere that they have traveled in past decades. There is nothing new in any of the current proposals. Each of the techniques being proposed has been used in the past, without achieving any of the gains that are being predicted for them now. The record of failure has already been written into the pages of history on many an occasion. Are we not intelligent enough to learn from our past mistakes? Do we really need to repeat them again in 1975?

The Cycle of Failure

The cycle of failure will be inevitable:

First, target prices that are too high will bring on additional production that the market does not want--not immediately, because we have stocks to rebuild, but very soon.

~~The~~ Surpluses will begin to pile up. Farm prices will begin to weaken, in this country and around the world. This will cause deficiency payments to rise, and U.S. farmers will again get larger and larger shares of their income from the federal trough. The U.S. taxpayer will, of course, bear this burden.

So long as taxpayers do not rebel at the size of deficiency payments, the incentive to overproduce will continue. Eventually, world market prices will drop below U.S. loan levels. And if those loan levels are set relatively high--as in the legislation now pending before the Congress--"eventually" will come to pass in a big hurry. (It is already here for cotton at 40¢ per pound.) When this occurs, we have the worst of all worlds. We have priced ourselves right out of the world market.

Competing exporters--Canada, Australia, Argentina, and others--will be able to offer their farm products at a price a fraction below our loan levels, and sell all the market will bear. What share of the market will U.S. farmers get? Only what's left after their competitors have sold all they have. This is what is meant by our becoming a "residual supplier." If there is no "residual" after our competitors have sold what they have available, we won't sell anything. Once we've lost these markets, it may be years before we get them back, if ever.

At that point, we have an alternative but not a very good one. The alternative is to use export subsidies. In other words, the taxpayer has to be willing to pick up the tab for the difference between our loan levels and the world market price. The government did that some years ago, but the memories are not fond ones. Witness the experience with export subsidies during the Soviet grain transactions of 1972.

As deficiency payments, export subsidies, or both begin to cost more and more, the taxpayer eventually rebels and says "Isn't there a better way to run this store?" From the government's standpoint, of course there is--production controls. Why? Because it is less costly to the Federal government to take land out of production than it is to pay deficiency payments, storage costs, and export subsidies. So we begin once again to pay farmers not to farm.

There are, of course, some hidden costs to this system too. For farmers, it is the harassment of governmental involvement in their business. They are told what to grow, where to grow it, and how to market it. Not a very attractive prospect in a free enterprise society, particularly for people who pride themselves on their independence. For consumers, it is higher food costs. As farm land is taken out of production, the U.S. agricultural plant becomes less efficient. Fixed costs--taxes, depreciation, etc.--have to be spread over fewer acres. And who pays for that reduced efficiency? The farmer--certainly. But the consumer too, in the price of food items.

Besides, consumers are taxpayers too, and must absorb the cost of set-aside payments, and any storage costs, export subsidies, and deficiency payments that still remain.

Who wins with this kind of program? Only competing export nations, to whom we hand world markets on a silver platter. Importing nations may benefit temporarily from lowered world price levels, but they lose in the long run too as we begin to restrict production. Our own consumers benefit temporarily for the very same reason. But in the long run--and "long" isn't very long--everybody in the U.S. loses.

We have gone through this cycle of failure before. Why, oh why, would we want to do it again?!

A Farm Emergency?

One of the mysteries of the current farm policy proposals is that they are all aimed at helping crop producers. And yet most crop producers have just had the two best years of their lives.

Much of the crisis atmosphere seems to be based on inflated farm cost estimates. For example, one group of corn growers in Central Iowa claimed an estimated production cost of $2.40 a bushel. USDA's Economic Research Service estimated production costs in northern Indiana--a competitive area--at$1.79 per bushel. Much of the difference is explained by the fact that the Iowa estimate included labor charges at $9.52 an hour, and land valued at $1350 an acre--$450 above Iowa State University's estimate.

The same situation applies in wheat and soybeans; many production cost estimates have been inflated with unspecified "marketing charges," or "management charges."

The ballooning of land values is probably the most widely practiced sin of all, when figuring production costs. Even the ERS estimate of $1.79 per bushel for corn production included 67 cents for return to land.

Economists question whether land values should be included at all, because land values are the result of farm profits or losses rather than the cause. When farm profits are good, farm land values go up. When farmers do less well, farm land values do not go up. Overall, farm land values in the U.S. have jumped 42 percent in the past two years--indicating that farmers have been doing very well indeed! But what percentage of these land values is the U.S. public obliged to protect?

The Real Problem is Not Farming At All

Actually, the debate over target prices and supports misses the point entirely. We do not have a farm emergency. We have an economic emergency. It was brought on by public spending deficits, by the oil crisis and by cyclical business factors. There is no farm policy that can or should guarantee an artificial farm prosperity in the midst of an international recession. From the farmers' standpoint, it would be far better to attack the overall economic problem promptly and effectively--as President Ford has urged repeatedly--than to resurrect the worn-out farm policy mistakes of the past.

Government intervention will be no more effective for farmers in the 1970's than it was in the 1930's, 40's, 50's, or 60's. In fact it would be even more harmful, because the nation and its farmers depend so much more heavily today on international farm markets. And billions of additional government farm program dollars would aggravate the inflation problem that still plagues us.

There are plenty of good reasons for everyone to oppose this big step backward into a government-managed agriculture. It has been a big loser in the past, and it is still a big loser--for all of us.