

## Enhancing Competitiveness: U.S. Agricultural Policy

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*Richard E. Lyng*

When this symposium was being planned six or seven months ago, I was invited to prepare this paper, to be entitled "U.S. Agricultural Policy." I was asked to consider particularly the effect of U.S. policy on agricultural export competitiveness. Six months ago, this seemed a challenging but not impossible assignment. Now, because as I prepare the paper U.S. farm policy is still to be decided, the task is more nearly impossible than challenging.

The House of Representatives has suffered through many days of vigorous debate and has finally approved the Food Security Act of 1985. The House bill differs sharply in many areas from the bill passed by the Senate Committee on Agriculture, Nutrition, and Forestry. They call their bill the Agriculture, Food, Trade, and Conservation Act of 1985. Earlier, the administration's farm bill proposals had been almost totally ignored and its spokesmen were terming much of what had passed the committee as unacceptable—so unacceptable, in fact, that there may be a veto.

Well, by the time I speak at the symposium, we will know how it all turned out. If it did turn out, that is. I am submitting this paper on October 10, as requested. It would have been easier to have waited until Congress, in its wisdom, had completed action. But, unable to wait, I will make assumptions that will prove how little I was able to predict the outcome.

It is a little like forecasting the outcome of the Civil War, knowing that the battles of Antietam and Gettysburg are coming up soon but not knowing which army will prevail. Actually, though, there's nothing new in this. Those of us talking about agricultural policy do so most of the time without accurate knowledge of what is going to happen. It has

always been that way.

### **A golden age for farm exports**

As this nation moved from steadily expanding agricultural exports during the 13 years prior to 1982, we paid relatively little attention to our domestic farm policy. There was no strong reason to spend much time on farm policy legislation because so much was moving so fast that our farm programs played an almost insignificant role. A weakening dollar made for a period in which, it is now clear, we had a truly golden age for U.S. farm exports. Steady, accelerating inflation during the 1970s made commodity target prices and loan levels play very minor roles in a happy drama in which there was a sense of everlasting farm prosperity.

In this cheerful milieu, the need seemed slight to worry about a farm policy that would have a long-term beneficial effect on U.S. farm exports. Policymakers and politicians gave lip service to it, but the vast majority assumed a trend line that would assure the U.S. a place in world farm trade of long-term, steady, profitable growth. Three successive administrations interrupted our exports with embargoes. They did this without apparent concern about long-term consequences. Expansion seemed our birthright. Land would grow ever more scarce in relation to demand. Almost no price was too high to pay for good farmland. Lenders considered farmland superb collateral and some urged farmers to borrow up to 80 percent of market value.

In late November 1980, at the U.S. Department of **Agriculture's** 57th Annual Outlook Conference, the general conclusion was that the world demand for food was growing so fast that the United States could no longer be the breadbasket of the world. The *Wall Street Journal* reported that 'officials' and guest experts described the farm and food situation in such bleak terms as 'precarious: 'dangerous: and 'worse than before.'

Experts on the program said that food in the 1980s would be what oil became in the 1970s—scarce and expensive. One well known economist said, "What it gets down to is we've only got so much grain. Are consumers willing to pay more for their food to keep the grain at home than importing countries are to ship the grain there?"

The chief economist at USDA predicted that demand for U.S. grain exports would increase 8 percent a year for the first half of the 1980s. Some of those present thought his estimate too conservative.

In 1981, it was in this environment, in a nation and a world where

“food security” had become a buzz phrase, that the new Reagan administration and Congress went to work to draw up the Farm Act of 1981.

### **Domestic farm policy stimulated increased production worldwide**

With the clear sharp vision of hindsight, it is quite evident that the errors of the 1981 legislation were numerous and significant. Not only did Congress erroneously anticipate continued inflation, but too many of us almost totally ignored the incentive that our commodity loan levels give other nations throughout the world to produce more corn, more wheat, more cotton, more rice, more honey, and on and on, wherever we had loan levels that were too high.

The result, of course, has been steadily expanding production all over the globe. We actually have, through our farm policy, established loan levels that are so high they have forced the United States to become the residual supplier in export markets. Our competitors simply price their commodity just a little under our loan level. When their stocks are sold, the buyer turns to the United States. And every year our sales slip a little more.

The strength of the dollar made the production of wheat, corn, other feed grains, cotton, and rice at U.S. loan rates look like good business in Argentina, Brazil, China, Thailand, the European Community, India, and dozens of other areas. U.S. exports, which went up to **\$43 billion** in 1981, will be down by a fourth this crop year. USDA forecasts farm exports as the lowest in the past eight years. This bad news comes at a time of large crops and already heavy stocks.

U.S. farm export volume in 1985 is expected to be down 20 percent from 1981, while farm exports in the rest of the world are up 14 percent. At the same time, U.S. agricultural imports have increased 29 percent since the early 1980s.

### **Lower loan rates will increase our ability to compete**

All this is well known now. The folly of keeping loans levels too high is more clearly understood than it was in 1981. Both Houses of Congress are supporting lower loan rates, sharply lower loan rates, with authority for the Secretary of Agriculture to drop them further if the market requires. This action in 1985 will make the farm exports of the United States far more competitive as we move into the 1986 crop year.

No longer will the loan levels be the support price. There is, in fact, no such thing for wheat, corn, rice, cotton, or feed grains under the

1985 legislation. In the 1981 Act, our loan level became the support price for our competitors. We are going to stop that. This will mean, for example, that if the European Community wishes to continue to expand its exports and take our wheat and wheat flour customers away from us, they will need to reach much farther down in their pockets to pay a much larger export subsidy.

If the dollar should weaken in an important amount, that will help make U.S. farm products more competitive throughout the world. But the action on the loan levels will begin to help, regardless of the value of the dollar.

If this is such a good idea—this lowering of the loan level—why didn't we do it before? Well, it costs a lot of money, for one thing, if you offset the decline in the loan level with a larger deficiency payment or a marketing loan adjustment or "forgiveness" amount. At a time when farm incomes are far too low, it has been impossible to lower loan levels without increasing the government contribution to farm income. The problem is, of course, that the exposure will be great for mammoth federal outlays, even larger than during 1983 and 1985. At a time of record deficits, the cost of our farm program is not pleasant for the administration or Congress to accept.

But it has been clearly evident in 1985 that it is impossible for Congress, faced with economic disaster in farm areas everywhere, to adopt a farm policy that does not include at least some actions to bolster farm income.

The Farm Bill of 1985, or whatever it is called, will be historic in establishing a new approach to crop loans and in eliminating a major impediment to export sales. The United States will definitely be more competitive on the commodities for which the Farm Bill provides loans and target prices.

Is this, then, good legislation? Does it solve the problems of agriculture? In my view, it most emphatically does not. As we move into the five-year period 1986-1990, we will begin to see improvements in exports. But we will see some other developments that will have negative impacts on long-term agricultural growth.

### **The problem of acreage reduction programs**

However necessary it is to freeze target prices to ensure enough farm income at this depressed time, the incentive for farmers to produce more than we can use or sell will be strong. We will almost certainly continue to produce too much. And that means a continuation of

larger and larger acreage reduction programs—probably more and more acreage taken out and increasing production at the same time.

In 1985, even with heavy reductions—10 percent in corn, 30 percent in wheat, 30 percent in cotton, and 35 percent in rice—we are actually adding to our inventories in all of these commodities. The budget busting costs of the commodity programs will cause further reductions next year, perhaps to as much as 20 percent in corn, 30 percent in wheat, 40 percent in cotton, and 50 percent in rice. With this dimension of massive acreage reduction, we will have a seriously flawed farm program. So while we may applaud the reduction of loan levels for making our exports more competitive, the failure to reduce the target prices that stimulate overproduction—forcing cutbacks—leaves a far from satisfactory farm policy.

The question is sometimes asked, particularly in recent years, "Can the U.S. farmer compete with farmers elsewhere in the world?" The answer is, yes, he can, in most of our major crops, but only if we allow farmers to reduce their costs. To remain competitive, farmers must be given every opportunity to reduce their per unit costs to the barest minimum possible.

Acreage reduction programs take away a big part of the farmer's opportunity to reach peak efficiency. When a farmer is equipped to grow a crop of rice on 300 acres—when he has the capital invested in tractors, planters, a harvester, trucks, a dryer, and storage facilities—and he is told, "You can't participate in the target price program unless you reduce your acreage to 150 acres," he knows his cost per ton must go up. His fixed costs will have to be spread over fewer units of output. It sounds fair to let everyone share in producing the rice we need, but the sad fact is that a great deal of our efficiency is lost.

Now I realize that if one talks about agricultural efficiencies in anything approaching industrial terms, the door flies wide open to criticism that you are ignoring the human equation, that the small family farm is the target of your policy proposal, that you have no heart for the rural areas of America, and that you threaten basic values that are vital and essential in our society, our culture.

When one compares our acreage production cutbacks with cutbacks in industry, the difference is apparent. Example: Company A manufacturing widgets in two factories becomes faced with a global widget surplus and a 50 percent cut in demand. What do they do? If they used the acreage reduction program of our farm programs they would reduce each plant's production by half. But if they did that the

cost per widget would go up. It would be far higher than if they closed down one plant, the least efficient one, and operated the remaining plant at full capacity.

Let's further assume that the company's management, with great concern over the employees and the communities involved, decides to operate each plant at 50 percent, thereby spreading the suffering. Suddenly, they find that even though their costs are higher, the market price for widgets goes down because a competitor, Company B, is running its most efficient plants at full tilt, seeking to be the world's most efficient. Company A cuts from 50 percent to 60 percent and so on and on. Company A may eventually have to shut down both plants or additional inefficiencies are forced.

I agree with the critics. One must not try to develop a farm policy that would emphasize efficiency of production and improved competitiveness without recognizing where the U.S. agricultural community has been, where it is today, and where we would like it to be. In adopting policies that are even partially clear as to where we would like to be, those who would be disadvantaged in the farm factory that is closed must be considered. But it must also be recognized that the most efficient farm may not be the largest and the most inefficient farm may not be the smallest. There is some evidence to suggest that the small family farm may be the one that has been and still is being disadvantaged by the farm policies we have followed.

With stocks as large as they are, and target prices as high as they are, we are, sadly, going to need to continue to have these inefficient acreage reduction programs. But we should, I would hope, begin to see that there is a better way. We should phase out acreage reduction programs and allow those that can produce more efficiently to do so. This in combination with the new loan policy could, in a few years, pay big dividends in restoring our exports and give the economies of rural America a big boost. We must make these changes soon, before our competition further increases its market share and makes U.S. agriculture less efficient.

The 1985 farm bill is once again an omnibus bill with close to two dozen titles. It touches sugar, dairy, wool, wheat, feed grains, cotton, rice, peanuts, soybeans, trade, conservation, farm credit, research, extension, food stamps, nutrition programs, and it even establishes a National Agricultural Policy Commission.

A number of these titles continue programs very much as they have been in the past. Some changes that should have been made were not

made. And some changes that were made should not have been made. But it was ever thus.

Because this symposium is focused on the world marketplace, I have not attempted to talk about those parts of the omnibus farm legislation that involve the commodities we produce largely for domestic production. Some of these, like our dairy and sugar programs, are highly protectionist. Others, like honey, open the door to imports and discourage domestic consumption (though not domestic production) of the U.S. product. What I have tried to address are policies for our major export crops—wheat, corn, cotton, and rice—crops that have, to one extent or another, lost their competitive edge, partly through our farm policies.

There are, of course, a number of other factors that importantly affect farm trade. Other speakers here will address such things as the impact of macroeconomic policies and international trade policies, including tariff and non-tariff barriers. If one or more of these policies are wrongheaded from the U.S. farm export point of view, it will, to one extent or another, affect the competitiveness of U.S. farm products.

### **Reliability: an essential factor**

Even if all of these major or minor factors were shaped as favorably for exports as we could wish, we would still have a less than perfect competitiveness if we neglect one factor important to our buyer. That is reliability. Foreign buyers of our farm commodities must be absolutely assured that the deliveries of what they need will be invariably and reliably made.

President Reagan came to an early understanding of this in his first term. He not only ended the Soviet grain embargo but, on March 22, 1982, he proclaimed a new U.S. policy on agricultural exports. Let me remind you of his statement that, "In the past eight years, our stop-and-go export actions have weakened our reputation as a reliable supplier. If we are to take full advantage of our agricultural resources, we must establish a clear policy for the benefit of our farmers, those who market our crops, and those who buy our commodities at home and abroad."

The President went on to say, "For this reason, I am presenting today the U.S.'s long-term policy on farm exports. The agriculture export policy of the United States will ensure three essential priorities:

First, no restrictions will be imposed on the exportation of farm

products because of rising domestic prices. Farm prices go up and farm prices go down. High prices signal market-oriented farmers to produce more, and they will, if we allow them to compete freely in export markets. This is best for everyone, from farmer to consumer.

Second, farm exports, as I have already indicated, will not be used as an instrument of foreign policy, except in extreme situations and as part of a broader embargo. Agricultural commodities are fungible; that is, they are easily interchanged for the same commodity from other nations. For this reason, the embargo of 1980 was almost totally ineffective. Yet it caused great economic hardship to U.S. agriculture. We will not repeat such action.

Third, world markets must be freed of trade barriers and unfair trade practices. We must continue to pursue this objective aggressively. World economic health will be improved and strengthened by freer agricultural trade. Our great agricultural system must be turned loose to benefit not only Americans but people throughout the entire world."

This statement of policy has been widely heard. I can tell you that it has been translated into dozens of languages and read carefully all over the globe. But there is an aged expression that people remember, "Handsome is as handsome does." To be known as reliable, we must actually be reliable and keep it up for a long time. After all, no national leader can risk depending on imported foods or fibers if the reliability of supply is not absolutely certain. It is vital that everyone involved in our U.S. policy formation have a clear understanding of the importance of reliability.

### **Do we neglect quality?**

Another factor of growing importance is export quality. More and more frequently we hear foreign buyers charge that U.S. products are inferior to those of a competitor. Some of these claims are invalid, as is always true in trade. But I suspect some are fully valid and reflect a lack of effort on our part to be as vigorous as possible in learning what quality our foreign buyer wants and then providing it for him. It may be in the raw product itself. Perhaps the farmer is still growing a quality that is not quite good enough. But has anyone told him what is wanted or paid him to improve his quality?

