Farm Prosperity: Policies for the Future

By Marvin Duncan, Mark Drabenstott, and Kim Norris

The performance of U.S. agriculture has continued to worsen throughout the current strong business expansion. Agricultural export sales have slumped, whether measured in current dollars or tonnage, asset values have declined, and farm income has stagnated at levels unacceptably low for many farmers. As a result, farm business failures have increased dramatically from the very low levels of the previous two decades. And problems on the farm have spilled over into the rural communities. Most businesses serving agricultural producers, regardless of the region of the country, have experienced reduced sales and downward pressure on profits. Farm financial stress problems have been particularly evident among agricultural lenders.

Much of the adjustment has been the inevitable result of changes in three market fundamentals—a return to a less inflationary environment, structural changes in financial markets, and U.S. integration into a world market for food and fiber. It is, nevertheless, increasingly apparent that agriculture may decline well beyond the adjustment required by these changes in market fundamentals. Unless changes are made in public policy, the bleak outlook for the sector could worsen. The overriding policy question, therefore, is how to turn around the sector's sagging fortunes.

This article considers a set of policies that are likely to be needed to restore long-lasting farm prosperity. The article begins by cataloging the basic problems now facing the agricultural sector. This is followed by a discussion of policy changes that appear to be needed for agriculture to overcome current difficulties. Three policy changes are identified: reducing federal budget deficits, crafting a market-oriented farm policy, and easing the transition to a market-oriented policy. The article then examines three additional policy changes that likely will be needed to strengthen and prolong agricultural growth: greater attention to trade issues, increased emphasis on value-

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added products, and policy changes to encourage demand growth in developing countries.

Farm problems to address

U.S. agriculture has rediscovered a number of basic problems in the 1980s. While the 1970s was a decade of general farm prosperity—with some notable exceptions, such as the cattle industry—nagging problems from earlier decades have reappeared in the 1980s along with striking new problems.

Excess capacity

For decades, the United States has been able to produce more food than it can consume. This problem gave rise to the farm legislation of the 1930s that generally remains in effect today. A boom in farm exports in the early 1970s emptied U.S. grain bins and led many to think excess capacity had become a problem of the past. To capture growing export markets and high commodity prices in the 1970s, U.S. farmers increased planted acreage and adopted more intensive production practices. Harvested acreage of coarse and food grains swelled to 171 million acres in 1981, compared with about 130 million in 1970. But with the onset of a world recession in 1981, the export boom—already waning—ended abruptly. Almost overnight U.S. agriculture rediscovered the excess capacity problem.

With current world food demand, the United States has substantially more acres in production than the market would dictate, although harvested acreage of coarse and food grains declined to 158 million acres in 1984. As a result, crop prices remain low under the burden of large carryover stocks. Moreover, because much of the acreage that came into production over the previous 15 years is marginal land, soil erosion has become a more significant problem in many regions of the country. Thus, farm policy must allow the market to bring supply in line with demand or devise a program for taking land out of production. Some analysts estimate that 25 to 30 million acres, or about one-twelfth of the nation's cropland, may need to be idled.[1]

Compounding the excess capacity problem are continued advances in the productivity of U.S. agriculture. Historically, U.S. agriculture has increased productivity about 1.5 percent a year. While many analysts in the 1970s believed that agricultural productivity growth might slow, recent developments in biotechnology point toward higher, rather than lower, future rates of productivity growth. Thus, the United States will be able to meet its domestic food needs with a steadily declining amount of productive capacity.

Slow demand growth

Closely associated with the excess capacity problem is a slowdown in the growth of U.S. and world food demand. The United States is an increasingly mature food market, with a slowly growing population. Many Americans are more concerned about reducing rather than increasing the number of calories in their diet. Per capita consumption of meat-based protein has been virtually unchanged in the United States since 1970. Per capita consumption of dairy products has declined. The major change has been in the composition of the nation's protein diet, with red meat consumption down and poultry and fish consumption up. Moreover, total U.S. grain consumption on a per

[1] S. R. Johnson, Abner Womack, William H. Meyers, Robert E. Young, II, and Jon Brandt, "Options for the 1985 Farm Bill. An Analysis and Evaluation," testimony before the House Budget Committee field hearing in Atchison, Kansas, February 15, 1985.

capita basis is closely tied to meat production. Thus, U.S. farmers cannot look to the domestic food market to solve their oversupply problem.

Great expectations emerged in the 1970s for rapid growth in the developing world's food demand. These expectations were fostered by relatively rapid economic growth in developing countries. For the decade, the real gross domestic product of all developing countries grew at an average annual rate of 5.2 percent, compared with only 3.0 percent in industrialized countries. The result was expanded U.S. farm exports, particularly in middle-income countries where strong economic growth combined with rapid population growth to spur food demand. Food exports to the developing world also were boosted by substantial loans to these countries in the 1970s.

Expectations for continued growth in food demand in developing countries have not been met in the 1980s. The worldwide recession in 1981 and 1982 left many developing countries in a financial and economic crunch that most have not overcome. Until more rapid economic growth returns, food demand will be sluggish and the United States will face large crop stocks.

Increased export competition

Another factor related to the problems of excess capacity and slow growth in demand is the increased competition the United States faces in the world food market. Since 1970, many countries have made large investments in their own food production capacity. The four main export competitors to the United States—Argentina, Australia, Canada, and the European Community—increased their crop production 65 percent in the past 15 years. Moreover, some countries, such as China, Thailand, and India, have moved from net food importers to net food exporters because of intensified production. Overall, world coarse and food grain production increased 50 percent from 1970 to 1985, while world harvested area rose 6 percent (Chart 1).

The net result is that the United States is forced to be extremely price competitive. As the world's largest exporter of food, the United States becomes a residual supplier and ends up carrying large stocks when world demand is sluggish.

High debt-carrying costs

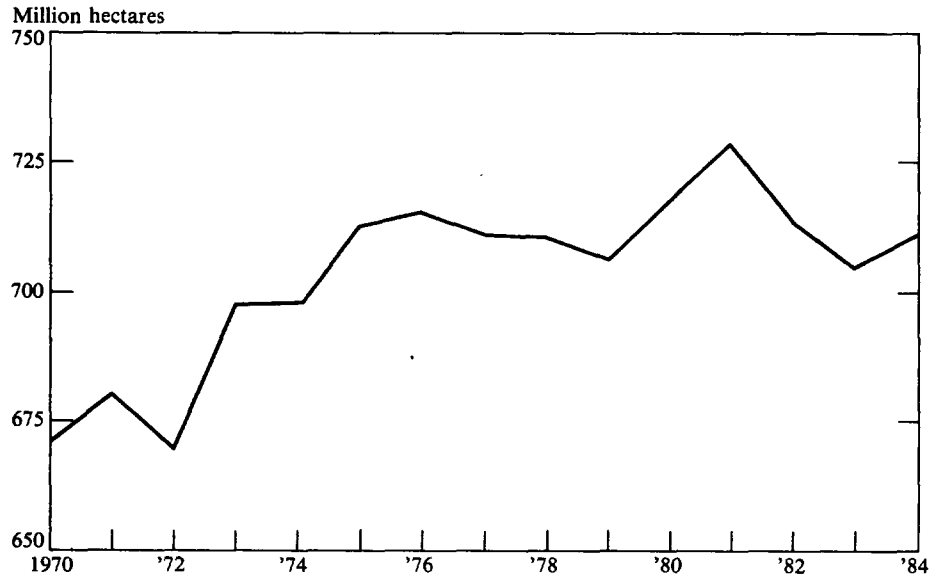
High inflation-adjusted interest rates are a major problem for U.S. agriculture in the 1980s. Historically, interest rates have been stable and low to farm borrowers. But deregulation of financial markets and deficit spending by the United States have dramatically raised farm loan interest rates. Between 1976 and 1980, interest rates for Tenth Federal Reserve District farm operating loans averaged 9.7 percent—2.9 percent in inflation-adjusted terms. From 1981 through 1984, the average rate jumped to 15.4 percent—8.9 percent after adjusting for inflation (Chart 2).

Because agriculture has become much more capital intensive through the use of more purchased inputs, interest rate increases have been particularly painful to the sector. They have increased production costs, both directly and indirectly, through the price of purchased inputs. The higher production costs have impaired U.S. competitiveness in world food markets. But most important, high interest rates have intensified debt-service burdens, especially for farmers that borrowed heavily when rates were lower. Debt-service problems have sharply increased farm liquidations. For the six months ended April 1, 1985, bankers in the Tenth District estimated that farm business liquidations were running nearly four

CHART 1

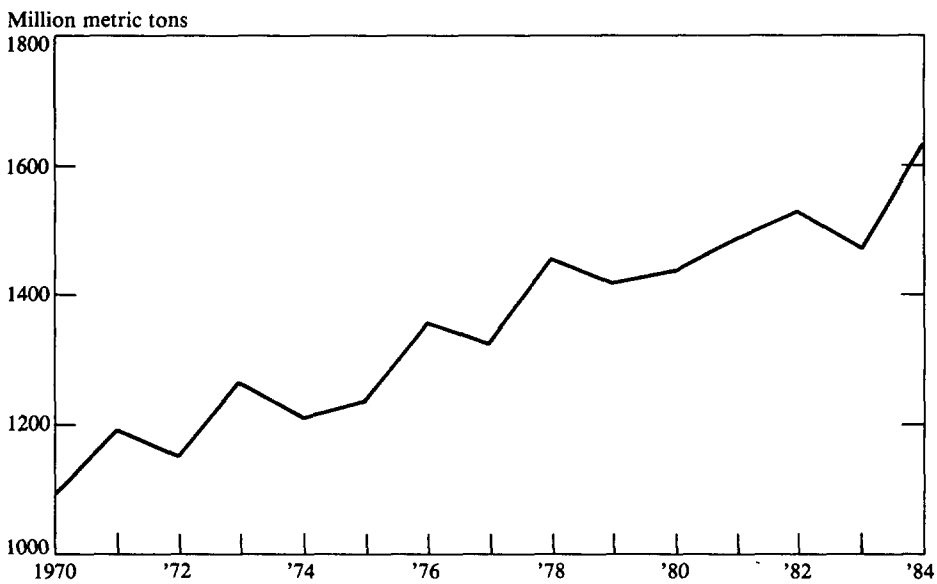
World area harvested

Coarse and food grains



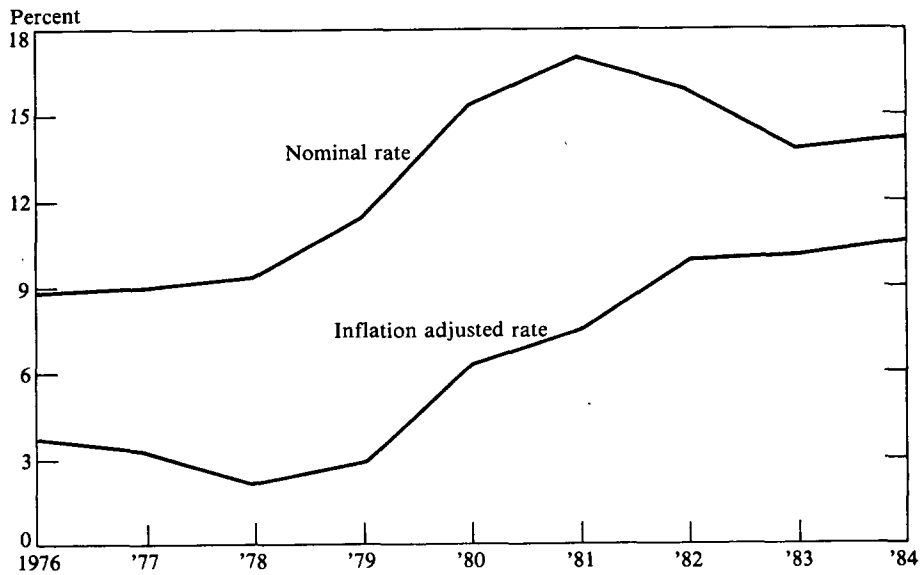
World production

Coarse and food grains



Source: U.S. Department of Agriculture

CHART 2
Farm loan interest rates
Tenth District



Source: Federal Reserve Bank of Kansas City, Survey of Agricultural Credit Conditions

times what the bankers considered normal. Partial liquidations were running more than five times what they considered normal.

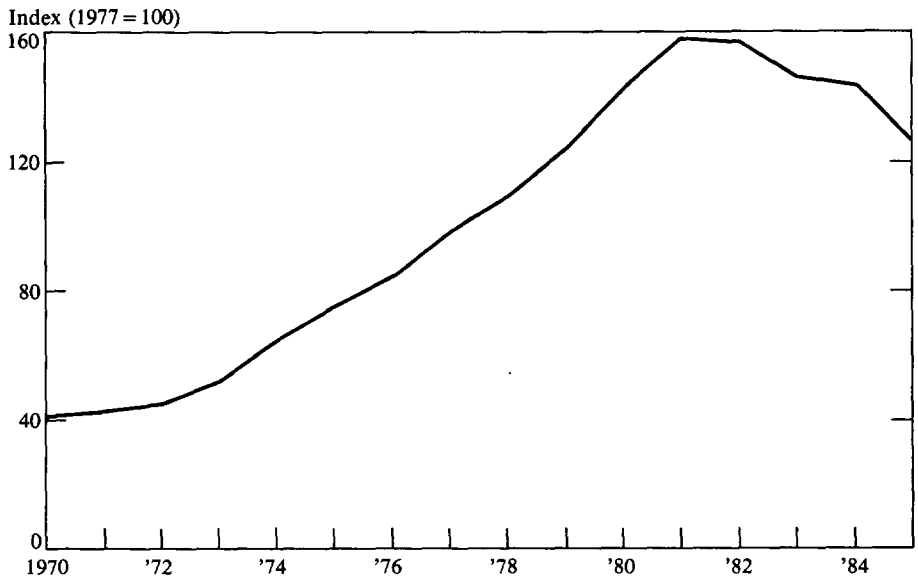
Declining farm asset values

Farm asset values have declined more in the 1980s than at any time since the Great Depression. For the nation, farmland values peaked in 1982 and have declined 18 percent since then (Chart 3). Declines have been even steeper in many parts of the country. Land values in some areas have fallen as much as 60 percent. In the Tenth District, land values are 40 percent below their 1981 peak.[2] And the pace of asset value decline has quickened over the past year and a half. Tenth District land values fell 22 percent between June 1984 and June 1985.

The decline in land values has added to the financial strain of farmers by eroding their equity base and credit reserves. As land values have continued to decline, more and more borrowers find themselves unable to service existing obligations without restructuring their debts or selling their assets. Either approach is increasingly difficult in a declining market. For lenders, the deterioration in the credit quality of farm borrowers pushes more loans into troubled categories. This in turn forces lenders into more actions to settle problem loans. But in a declining land market, property acquired through foreclosure or forfeiture can be sold only at substantial loss. Thus, with the debt-service problems borrowers face—and the prospects of loss if property is sold—it is not surprising that loan losses have risen dramatically for nearly all farm lenders.

[2] Tenth District figures are from the Survey of Agricultural Credit Conditions conducted quarterly by the Federal Reserve Bank of Kansas City.

CHART 3
United States farm land values



Source: U S. Department of Agriculture

Based on current cash returns to farmland, it appears that values could decline considerably more. And if crop prices decline further from current levels due to generally weak commodity markets, land values could come under further downward pressure. Prices received by U.S. farmers for crops in July 1985 were down 15 percent from a year earlier. Livestock prices were down 9 percent. Additional declines will further complicate farm credit problems for both borrowers and lenders.

The policy agenda

A number of public policy changes are likely needed to ensure agriculture's return to health. These changes involve national economic policies, as well as agricultural policies. But unless national policies are corrected, it is not likely that agricultural policy initiatives alone will reverse the sector's decline.

National economic policies

Policy changes aimed at reducing the enormous federal budget deficits would be very helpful to U.S. agriculture. Reduced credit demands by the federal government would lead to an easing of market interest rates, other market factors being equal. Realistically, however, farm loan interest rates might decline more slowly than market interest rates. Thus far in 1985, farm loan rates have declined much less than market rates. High farm loan losses appear to be an important explanation for the divergence.

The direct effects of lower interest rates would be reduced agricultural production costs and an early halt to declines in farm asset values. Some assets could even prove underval-

ued. With lower debt-carrying costs and higher commodity prices, these assets might appreciate in value somewhat. But the indirect effects would be even more beneficial. Lower U.S. credit demand and interest rates would tend to bring further declines in the U.S. dollar, improving the competitiveness of U.S. products in export markets. Also, lower U.S. interest rates would help lower interest rates worldwide. Other countries could adopt more expansionary macroeconomic policies without triggering a flight of capital to the United States. World economic growth rates would increase and, as a result, so would world demand for food and fiber products.

Tax policy has provided an array of income sheltering advantages to investors in agriculture. These advantages have included the use of cash rather than accrual accounting, which facilitates shifting income and operating expenses from one tax year to another. Also, investment tax credits have been widely used by farmers—and more recently by nonfarmers—to shelter income from taxation. The ability to write off development expenses as they occur rather than to amortize them over the productive life of the improvements has been a very attractive tax shelter. The ability to shelter unlimited amounts of off-farm income in agricultural investments has attracted substantial investment into agricultural production.

These tax laws have encouraged investment in agricultural production beyond what commodity price signals would call for. Rapid increases in production of affected commodities have, in turn, put downward pressure on commodity prices for all producers, whether they take advantage of tax incentives or not. With major crops in excess supply, prices for farm commodities weak, and financial problems widely shared across the sector, questions can be raised about the appropriateness of current tax incentives.

Agricultural policy

U.S. agricultural policy changes also seem necessary to regain price competitiveness in world markets. In particular, policies are needed that improve the flow of correct market information to domestic and foreign producers. Current policies tend to place a price umbrella over world markets, calling forth more production of protected commodities than can be marketed at government-supported prices. U.S. farmers must now market abroad the production from one out of every three acres. And with slowing U.S. demand growth and productivity improvements in agriculture, that proportion will increase. Farm policy fashioned 50 years ago for a domestically oriented farm sector no longer serves the sector well.

A move toward more market-oriented pricing in agricultural policy seems both inevitable and essential for U.S. farmers to compete successfully in world markets. Market orientation entails a phased linking of U.S. commodity program support prices to world market clearing prices. It probably also entails a gradual opening of currently protected U.S. markets to foreign competition. Producers in the United States should bargain for better access to foreign markets in exchange for greater foreign access to U.S. markets. Negotiation for better access to some food and fiber markets, such as Japan, may need to be be linked with their access to U.S. markets for nonagricultural products.

While the farm bills that have been proposed offer a range of policy choices, a move toward market pricing receives general agreement (Table 1). Moreover, there appears to be wide agreement that transitional policies are needed.

TABLE 1
Highlights of major 1985 farm bill proposals

Provision	Administration Bill	Helms Bill	Farm Bureau Bill
Loans	75% of three-year moving average farm price, no minimum	75-85% of five-year moving average farm price	75% of five-year moving average farm price, maximum change 10% from previous year
Target Price	100% of three-year moving average farm price for first year, declining 5% annually thereafter until 75% is reached	110-125% of loan rate	1986 prices frozen at 1985; 1987 prices equal to 110% of the average price used to set loan rate
Payment Limits	Per person maximums of $20,000 for 1986, $15,000 for 1987, $10,000 thereafter	Previous year's median family income; $100,000 for disaster	$50,000 per person
Loan Limits	$200,000 maximum on non-recourse loans; no interest repayments on defaults	No limit on commodity loans	No provision
Credit	No FmHA disaster relief loans where crop insurance is available; phase out direct operating loans; FmHA guaranteed loans at 75% of loan amount	Disaster loans only where crop insurance is not available; FmHA ownership loans phased out over six years; interest rate raised to commercial level	No provision

Transition policy

Changes in U.S. fiscal policy and agricultural policy are both necessary to improve U.S. agricultural performance, and neither will provide the desired results without the other. But current and prospective levels of agricultural financial stress suggest that some interim policy initiatives may also be needed to ease the transitory period of adjustment. Three such initiatives seem relevant.

One is the current effort to return as much as 20 million marginal acres to grass or forest for a decade or more. The substantial excess productive capacity of U.S. agriculture results from the expansion of crop production onto fragile or marginal land during the export boom of the 1970s. During that time, U.S. cropland increased 62 million acres. Some of the most severe problems of financial stress are on such farms, often along with serious soil erosion problems.

Landowners could offer marginal acreage to the government on a whole-farm bid basis, with the government selecting the low bids to hold down the cost of the retirement program. Consideration might be given to establishing a maximum amount of land in a county or state that would be allowed into the program. A prohibition against forage or timber production on such land during the life of the program is appropriate, given that a reduction in crop

production is the objective of the program. To facilitate long-term cropland adjustments, acreage allotments for government price-support programs on land entering the conservation reserve should probably revert to the federal government. Alternatively, the government could purchase easements from participants in the conservation reserve program and prohibit the production of certain soil eroding crops—or maybe all crops.

Such a program would reduce soil erosion from fragile lands and marginally reduce crop production. Just as important, it would also provide a long-term cash flow to the holders of the property and dampen the decline in land values.

Related to this might be a transition policy to stabilize farm land values. However, the appropriate role for public policy in such stabilization will not be determined easily. Policies to cushion the decline in farm land values will be constrained by the need for the United States to compete in a world food market. And while a painful adjustment for farmers and their lenders, declining land values will lower production costs and make U.S. farm exports more competitive.

Another initiative would be to provide some direct government payments to farmers. Market-oriented farm legislation, in the current world supply/demand environment, will almost certainly entail some reduction in commodity prices and cash receipts for farmers. Thus, it might be appropriate in the early years of the new program to replace a substantial part of lost cash receipts with direct government payments. These payments could be weighted toward the front end of a five to ten-year transition period. At the end of that time, U.S. farmers could be fully integrated into the world market.

Finally, relocation and retraining benefits might be made available to farmers and other rural people forced from their businesses or jobs as a result of the change. Large numbers of financially troubled farmers and rural businessmen may be forced to liquidate their businesses over the next few years. Indeed, prospective technology changes, productivity gains, and farm structure shifts point toward sharply higher rates of structural change in rural America over the next two decades. These changes, on balance, will be beneficial to U.S. society, but they will exact some heavy costs on individuals and on many rural towns. Relocation and retraining benefits would make the needed change easier and avoid much of the long-term misallocation of resources accompanying current federal credit assistance programs.

Increasing agricultural exports

The policy initiatives discussed so far merit a high priority, but these initiatives by themselves are not likely to return agriculture to long-term prosperity. Efforts to increase exports are increasingly important to U.S. agriculture.

As outlined earlier, a mature domestic food and fiber market, with only slow growth likely, and rapid growth in the productivity of U.S. agriculture present a problem impossible to solve within the United States. If the sector used its current capacity to produce principally for a domestic market, foregoing its future export opportunities, the increases in supply would hold agricultural commodity prices so low that they would bring financial hardship to many in the sector. Alternatively, reducing production enough to maintain acceptable farm commodity prices would require very large production cuts.

The problem could also worsen in the future. Production from about two-thirds of the U.S. harvested farm acreage is currently

consumed domestically. But the cumulative effect of current rates of increase in agricultural productivity implies that by the end of the century only about half of the U.S. harvested farm acreage will be needed to meet domestic needs.

Three policy initiatives seem part of a balanced program to increase agricultural trade. These include more attention to trade issues in national policymaking, more emphasis on value-added exports, and efforts to encourage demand growth in developing countries.

Trade policy initiatives

Trade policy seems destined to play a more important role in overall national policymaking. The proportion of the nation's GNP accounted for by trade has doubled over the past two decades. Recent declines in U.S. export competitiveness and increased protectionist sentiment in the United States—and in trading partner countries—will almost certainly spur increased U.S. participation in both bilateral and multilateral trade negotiations.

In the past, trade negotiations have primarily focused on reduction of tariff barriers affecting the flow of goods across international boundaries. These tariff barriers have largely been reduced among major trading partners and are no longer the central focus of trade negotiations for agriculture or for the rest of the economy.

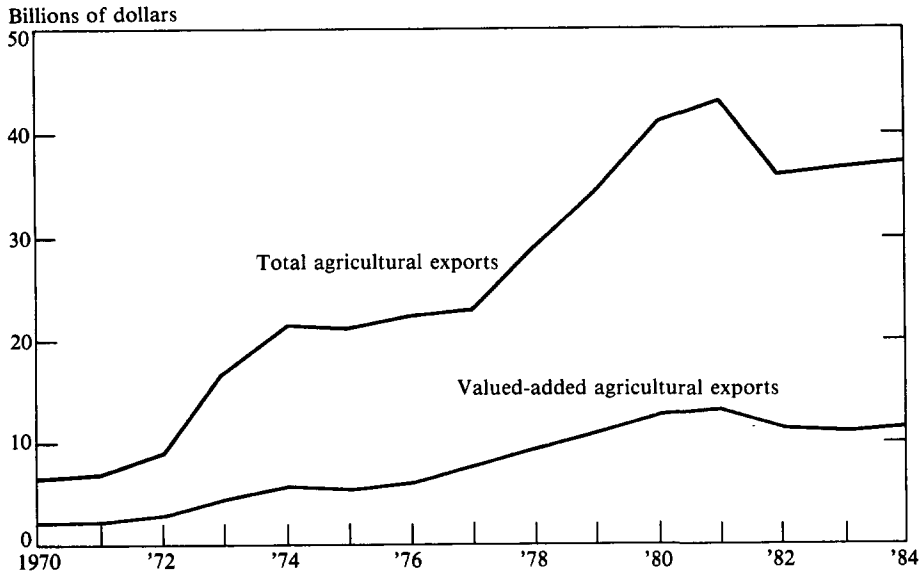
Far more critical for agriculture now are such nontariff barriers as health and labeling restraints. Subsidization of a country's production to augment its export competitiveness, along with indirect and direct subsidization of exports, have also become major issues for U.S. agricultural interests. The United States has already chosen to vigorously address on a bilateral basis perceived unfair trading practices by two of its best customers, Japan and the European Economic Community (EEC). These efforts have included targeted export subsidization in retaliation for general subsidization by the EEC and encouraging Japanese trade officials to increase citrus and beef imports into Japan.

As trade policy assumes a larger role in U.S. policy development and execution, old trade programs should be improved on and perhaps new ones developed. Programs now in place include increased export credits and credit guarantees to purchasing countries, and the administration's bonus incentive commodity export program (BICEP), which subsidizes agricultural exports to targeted countries in response to EEC agricultural export subsidies. Agricultural producers are particularly interested in increasing intermediate-term credit guarantees of three to ten years to round out an effective program including short-term credit assistance and long-term food aid assistance. Also in place are cooperator programs in which federal funds are added to those of commodity groups in operating market development programs. Such programs, directed primarily at countries targeted for their market growth potential, have long been used as part of the U.S. post-World War II trade strategy. Some observers credit these programs with substantial success in developing commercial markets for agricultural exports in such countries as Japan, Korea, the Phillipines, and the Middle East.

Value-added product export initiatives

U.S. agricultural exports historically have been mainly raw agricultural products, such as grain and cotton (Chart 4). Comparatively little value has been added to products before shipment, other than transportation and handling. But increasingly mature markets in the

CHART 4
Composition of U.S. agricultural exports



Source: U.S Department of Agriculture

United States and other industrial countries may mean very slow growth for traditional agricultural product sales in such markets as Canada, western Europe, and Japan.

To continue growth in trade with industrial countries, more attention will need to be given to marketing processed agricultural products and food items abroad. This may be a way not only of increasing total export value but also of increasing domestic job formation in food processing. Also, increased value-added exports would help provide a more stable level of demand. But because most, if not all, of the value is added beyond the farm gate, an increase in processed exports is not likely to add much to farm product prices.

While it would be difficult to predict the processed products that might be most marketable, it is safe to assume that many products would require technologically advanced processing. Examples might include prepackaged and prepared food portions or diet meals. Food chains and product franchises might become more important, examples being fast food restaurants and branded products.

Yet optimism over processed exports must be tempered with realism. Several impediments are likely. Country-specific food preferences are one. Also, the United States has imported many new processed food lines in recent years, raising the question of whether U.S. products can match foreign competition. Finally, many countries with excess capacity in processing agricultural products prefer to buy the raw materials and add the processed value themselves.

Demand growth initiatives

Future prosperity for U.S. agriculture seems irretrievably linked to growth in world trade. And the prospects for growth in world food

demand seem pinned on the economic performance in middle-income and developing countries. Professor Alex F. McCalla of the University of California, Davis, has projected population, income, and other food demand factors for four major groups of countries (Table 2).[3] On the basis of his analysis, several observations can be made.

Developed countries offer only limited opportunities for growth in agricultural exports. The United States and Canada are very mature markets for food and fiber, and the same is increasingly true for western Europe. Population growth rates in developed countries are low and stable. Income levels are high and will grow only slowly. Their populations are, on balance, well fed. Income elasticities of demand for food are, therefore, low. An increase of 1 percent in income could be expected to result in only about a tenth to a third percentage increase in expenditures for food. What opportunities there are for market growth are linked to slow population growth and development of new value-added agricultural products.

Centrally planned countries share many of the population and income characteristics of developed countries. On balance, these countries represent only moderate export growth opportunities for U.S. agriculture. While export growth to these countries will likely be confined to feedstuffs, their enormous population does represent significant export opportunities. The political systems of centrally planned economies, however, may not be receptive to most U.S. development initiatives. China could be an exception. In many ways, its food consumption and income levels are more closely representative of a developing country. Its population of over a billion adds substantially to prospective market demand.

The world's developing countries—both middle and low income—will contain a projected 2.5 billion people by 1990 and will represent a very large reservoir of potential food and fiber demand. Population growth will be moderate to high, and income elasticities of demand for food will be large. An increase of 1 percent in income could be associated with up to a 1 percent increase in demand for food.

While most third-world countries seek self-sufficiency in staple food crops, their agricultural production gains will not be great enough to meet the demand increases, especially if these countries can achieve satisfactory economic growth. Moreover, the commodities many of these countries produce, being largely tropical, may complement U.S. products, both within those countries and in the world marketplace. For example, the agricultural output of low and middle-income countries increased 40 percent between 1970 and 1983. But by 1983, 47 percent of U.S. agricultural export sales were to those countries, compared with only 30 percent in 1970.

Thus, demographic patterns in the developing countries, when coupled with continued rapid growth in U.S. agricultural productivity, provide an opportunity for growth in U.S. agricultural trade with these countries. However, while these countries have rapid population growth and a high propensity to spend income gains on food, an equally vital factor is often missing, that of income growth sufficient to turn human need into effective market demand. Improved economic performance is essential to growth in food demand in less developed countries. And improvements in

[3] See Alex F. McCalla, "Demand for U.S. Agricultural Products and Future Adjustments," in *Proceedings for the National Agricultural Policy Symposium*, March 27-29, 1983, sponsored by the University of Missouri-Columbia Department of Agricultural Economics in cooperation with the Agribusiness Council of the Kansas City Chamber of Commerce.

TABLE 2

Characteristics of U.S. export customers by four country groups

	Country Grouping			
	Developed Countries	**Centrally Planned Economics**	**Middle Income Countries**	**Less Developed Countries**
Current importance to U.S. exports in early 1980s				
Food grains	small (less than 15%)	moderate, less since embargo (about 35%)	moderate (20%)	large (60%)
Feedstuffs	large (over 50%)	important (20-30%)	growing (20%)	small
Other agriculture	important	moderate	growing	small
Demand influences				
Population				
Current level	500 million	1.5 billion	600 million	1.9 billion
Growth rates	low, stable	low — USSR, Eastern Europe moderate — China	moderate but declining	high
Income				
Level	high	middle	low to middle	low
Growth rate	slow to moderate	moderate	rapid	slow to moderate
Income elasticity	slow and declining	high but declining	high	very high
Supply growth rate	generally high, high yields	moderate but erratic	slow	slow or static
Policies				
Producer prices	high	moderate	moderate but rising	generally low
Consumer prices	high	low	low	very low and nominally fixed
Trade	very protective	state trading	relatively free	managed
Foreign exchange constraint	not a real constraint	a relative constraint	not a real constraint	severe constraint
Changes in importance by 1990				
Food grains	decline (EC an exporter)	some growth	some growth	rapid growth constrained by foreign exchange
Feedstuffs	relative decline	rapid growth	rapid growth	slow growth
Other agriculture	steady	some growth	rapid growth	some growth

Source: Alex F. McCalla, "Demand for U.S. Agricultural Products and Future Adjustments," in Proceedings for the *National Agricultural Policy Symposium*, March 27-29, 1983, University of Missouri-Columbia.

their economic performance may be the only way of significantly expanding U.S. agricultural commodity exports.

The United States has traditionally played a humanitarian role in providing food aid in cases of famine, war, and natural disaster. But such relief meets only short-term needs. The developing countries would benefit greatly from a much longer term effort to improve their economic performance. Such an effort would give the United States an opportunity to achieve two objectives: to assist in long-lasting improvement in the economic circumstances of developing countries and to improve the market demand for U.S. products, importantly including agricultural products. Therein lies the rationale for emphasizing economic assistance to developing countries.

Two characteristics of economic assistance programs appear critical. First, the programs must be targeted to countries where economic assistance can materially improve economic performance and where income gains would be translated quickly into market demand. That suggests selecting countries just below the middle-income category or in its lower strata. These countries are in the process of developing economic infrastructures, and additional development funds would stimulate economic activity with a multiplier effect. Moreover, these countries often show population growth and dietary characteristics that would result in a substantial increase in food demand as incomes improved.

Second, the programs must be long term. Economic development is slow and often uneven. For the desired results, assistance to developing countries must be provided consistently over an extended period. Assistance will likely embody private sector involvement, institution building in recipient countries, technology transfers, and coordination among donor countries. The development experience of the past two decades suggests that assistance programs often failed because they were too short in focus and not country specific.

Conclusion

Agriculture's problems are increasingly well understood, as are a number of policy initiatives required to correct the problems. Most of these initiatives are broader than agriculture. The most straightforward initiative would be to redirect the nation's fiscal policy to bring federal budget deficits under control. A reduction in the federal deficit would be enormously helpful to agriculture. Tax policies could be changed to encourage business decisions for economic rather than tax reasons. And more market-oriented agricultural policies seem important to making U.S. producers more competitive. Furthermore, as these policy changes will bring improvements to agriculture only slowly, some continued adjustment assistance for the sector seems likely to be needed for the next several years.

The foregoing policy initiatives, however, are not likely to be sufficient to turn around the fortunes of U.S. agriculture. Additional policy initiatives may be necessary. National policy may need to reflect more fully the growing importance of international trade to the U.S. economy. A stronger program of value-added export development may be needed to maintain the level of agricultural product sales to traditional U.S. food and fiber markets. And a long-range program of development assistance to developing countries may be needed to spur overall growth in world food demand. These initiatives could improve the austere outlook many now suggest for both U.S. agriculture and developing countries.

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