THE STATUS OF AGRICULTURE IN 1993

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It is becoming increasingly clear that agriculture and rural America are separating, that at least in the minds of many policy analysts and public officials, whither agriculture no longer determines whither rural America. It has almost become fashionable to observe sophistically that "agriculture-dependent counties" represent a small minority of rural America.

The point is usually made politically. Agriculture has dominated rural politics—really, has denied rural policy a place at the table. The advocates for rural America want liberation from the good ol' boys and agrarian fundamentalists who run the farm programs and drown out any talk of the rural poor or rural business or the rural community.

I understand this resentment toward agriculture. And because I understand it, I want to do something about it. To do something about it, however, you cannot ignore it. You have to critique it and respond to its flaws. American agriculture in the latter stages of the twentieth century has serious problems. I want to address those in the limited space available here, leaving other important rural topics to others.

Major Problem Areas

I summarize five major problem areas quickly, then turn to some policy issues that relate to them:

Export Dependence

The chimera of salvation by export still haunts U.S. agriculture. From Shays' Rebellion and the Whiskey Rebellion until this day, American farmers have been persuaded to believe in the export market as the solution to their financial problems. In fact, it has been primarily growth in domestic food expenditures that has given U.S. agriculture most of its good times. Export markets have proven fickle, volatile, low priced and highly elastic. Commodity programs have encouraged specialization in many of the crops most vulnerable to export disruptions. And from the time we have shipped maple sugar on back hauling slave trade boats, the export market has never been as moral as we have told ourselves. It is not to feed the

world, it is to make a buck, no matter the consequences for people in the developing world.

Diminished Opportunity

The decline in the number of farmers in the 1980s was more the product of reduced entry than it was of accelerated exit from farming by those forced out or retiring. The victims of the farm crisis were not only those whose farms were lost, but those whose dreams were lost; it was not only family farmers who were diminished, but family farm*ing* as an institution. As a result, American agriculture is aging. Today, there are twice as many farmers over age 65 as there are under age 35. In Nebraska, the number of farmers under age 25 fell by 43 percent between 1978 and 1987, while the number over age 65 *increased* by 16 percent. The latter group increased their land holdings by more than 40 percent as well, as land they sold on contract to younger farmers was returned under duress, and as those older farmers with substantial equity picked up bargains at the bottom of the land market beginning in 1986. Today, active farmers over age 65 farm one-fifth of Nebraska. National figures are similar.

Industrial Structure

The quest for convenience, portion control and reduced dietary fat has pushed the meat industry toward a regimented, quality-controlled consumer product. The revolution that took place in poultry production in the 1960s and 1970s is well underway in pork and will soon follow in beef. The changes in pork production are based on new genetics and systems technology in pork production facilities. These changes are encouraging large-scale production and vertical arrangements (primarily contracts) that resemble franchising, in which producers provide labor and facilities in return for pigs, feed, medication and a prescribed management system. A University of Missouri survey concludes that about 16 percent of hogs marketed in 1991 were sold by contractors. Until recently, most of these contracts were between large, independent contractors and smaller grower-producers. Recently, large packers, especially those locating in new pork-producing regions, like Seaboard Corp. in Oklahoma and Smithfield Foods in North Carolina, have established major contract arrangements in order to assure supplies for large new packing plants and some of the large independent contractors like Tyson's Foods and Premium Standard Farms have entered the packing industry. The principal structural changes that follow are 1) loss of open markets for independent producers, 2) greatly increased concentration in production and processing, and 3) diminished access to new technology.

Privatization of Science

If much of the new genetic and management technology is produced in the private sector, it is also kept there either for use by the

innovator or for exclusive licensing to large agribusinesses that share it only with their subordinates. This is true, not only in the livestock sector, but in all areas touched by biotechnology. The legal and institutional changes making it possible to patent life forms have provided a profit motive to agricultural science that has rarely existed. The principal threat to the public interest rests not so much in the possible diminution of public agricultural science (such as less funding), but in the potential corruption of public agricultural science as scientists seek both the security of life in public institutions and the reward of profit in service to industry.

Resource Conservation and Sustainable Agriculture

One of the refreshing trends has been the awakened concern about resource conservation and environmental protection. True, some of it is forced by society onto reluctant farmers, but there is a growing segment of American agriculture that recognizes farmers are on the front line of exposure to environmental health risks associated with some modern farming practices and that realizes farmers have used some purchased inputs excessively. In Iowa, farmers have reduced per-acre application of nitrogen fertilizer on corn by 19 percent in five years without any loss of yield. The result: an estimated $40 million per year improvement in net farm income. In short, many farmers are finding out that efficiency can be improved by reducing inputs rather than increasing them. Sustainable agriculture thus builds on both environmental and economic foundations, and interest in it is growing.

Policy Issues

These trends provoke many policy issues, some of which are briefly summarized here.

The Rehabilitation of Farm Programs

Farm programs do not accomplish many of their stated objectives and they are increasingly an embarrassment of special privilege legislation. A handful of large, well-off farms specializing in some of the most resource-intensive crops reap a disproportionate share of the benefits, while smaller farms and especially those with resource-conserving crop rotations are comparatively disadvantaged by the structure of the farm payments.

Worse, because the larger farms have so much political clout, they weigh in heavily to protect their privileges at the expense of other farmers when budget cuts are imminent. This spectacle of a privileged few bellying up to the federal trough in hard times in order to receive subsidies for doing a disproportionate share of the environmental damage cannot continue.

At minimum, program benefits have to be targeted to the family-sized farmers whom the public continues to believe should receive federal assistance, and more of the benefits have to be tied to environmental performance.

Best targeting options:

1) Eliminate the "three-entity rule" that allows large farms to artificially subdivide in order to receive multiple payments and effectively double the maximum payment they are allowed.

2) Establish a "graduated flex acre" program. Flex acres are the portion of a farm's crop base on which any crop can be planted and harvested, but on which no payment is received. Under the "graduated" approach, the portion of base allocated to flex acres would be lower on a farm's first portion of production (say, 40,000 bushels of corn), then higher on subsequent portions.

On the environmental front, an environmental reserve should be established through which farmers receive diversion payments in return for reducing production through "green" practices, such as restoring wetlands, planting grass strips on contours and along waterways, reducing yield goals by reduced fertilizer and chemical application, and establishing crop rotations that include resource conserving and soil building crops. The reserve could be partially funded with money saved by the stricter targeting suggestions above.

Also, it is crucial that conservation and production goals, currently in tension with the commodity programs, be harmonized. A great opportunity exists on this front in the expiration of the Conservation Reserve Program. More than 36 million acres of highly-erodible land have been removed in whole-field (and sometimes whole-farm) blocks at an average cost to the government of $50 per acre. The benefits of this program might be extended to more acreage at much less cost if some land could be re-enrolled on longer-term contracts (twenty-five years or more) under *partial-field* enrollments. This way, grass waterways, field windbreaks, grass buffers and filter strips would provide conservation benefits, not only to enrolled acres, but to adjacent cropped land as well. Cost per acre benefitted would be much less.

Finally, it is vital that the Integrated Farm Management Program Option (IFMPO) established in the 1990 farm bill be strengthened and effectively implemented. Under IFMPO, farmers can plant and harvest resource-conserving crops on base acres without losing deficiency payments on those acres and without losing base in future years. It was adopted in order to remove some of the program penalties now faced by farmers who use crop rotations, but it has

been thwarted by administrative indifference and sometimes insubordination.

Role of Public Credit

Congress went a long way in 1992 toward restoring the integrity and historic mission of the Farmers Home Administration (FmHA). That mission was to serve as lender of last resort providing modest levels of credit to capable farmers who could not get credit elsewhere but who, with supervised credit assistance, could graduate into commercial credit within a few years. Over the decades, FmHA became the lender of least resistance to rapidly expanding farms and, especially in times of financial stress, was called on to be every farmer's distress lender. Overwhelmingly, the much-publicized delinquency in FmHA's portfolio has been among the larger farms that were not part of the agency's historic mission, but who were forced on the agency by a Congress and several administrations eager to quiet concerns in the financial community about farm failures.

In 1992, Congress passed legislation providing a priority for beginning farmers in the sale of inventory farmland acquired by FmHA in the debt settlement process with other farmers, and enacted the Agricultural Credit Improvement Act establishing the first credit program aimed at leveraging private capital to help beginning farmers. With most commercial lenders requiring 40 percent or more down payment, beginning farmers have not been able to compete for farmland even in the relatively low market prices of the late 1980s and early 1990s.

Under FmHA's new program, beginning farmers who can muster a 10 percent down payment can receive a low-interest loan for ten years for another 30 percent of the purchase price—enough to establish commercial credit. At the reduced interest rate, the level of assistance actually provided the farmer under this approach is greater than the assistance traditionally provided when FmHA makes loans on 100 percent of the purchase price on a thirty-year note at interest rates equal to the cost of money to the government. The new approach spreads the money among more farmers, costs less per farmer assisted, provides more financial help and leverages the private market.

The program only lacks vigorous implementation, but with the Clinton administration preoccupied at this time with plans to reorganize the U.S. Department of Agriculture (USDA), it seems unlikely to get it soon.

Market Access

The blessings of a market system are only realized if there are markets available to all competitors. The gravest threat to the future

of the family farming system is the loss of markets, especially livestock markets long vital to the entry of new producers. The new market structures and institutional arrangements emerging in the pork industry call for a new generation of anti-trust policy designed to maintain competition.

First, Justice Department guidelines need to be updated to give full effect to the intent of the Clayton Act, intended to prevent concentration by horizontal mergers before they are accomplished—to "nip the weed in the seed" as the framers of that act put it. Current guidelines call for little or no action unless the Herfindahl Index (the sum of the squares of the market shares of all firms in an industry) exceeds 1,800, and even these guidelines have been liberally ignored on the excuse that alleged increases in economies of scale justify concentration. But the logical extension of that argument is that the industry ought to be nationalized, a fate no one wants to see.

Second, we need new policy toward vertical arrangements as they relate to competition. It is clear that some of these arrangements threaten access to markets for independent producers.

An important precedent may be a case involving a contract dispute between Allied Grape Growers, a producer cooperative, and Heublein, a wine and liquor manufacturer. The two entered into a complex joint venture in which Allied agreed to supply grapes to Heublein. When the deal soured, Allied sued and Heublein answered that the contract was no good because it violated anti-trust laws.

The court agreed. Under the contract, which only Allied could break, Allied supplied an average of 24.2 percent of the grapes in five California regional markets. This foreclosed a substantial share of the market to other producers and placed Allied in a position to control market prices. The arrangement violated both Section 3 of the Clayton Act (prohibiting exclusive dealing and tying contracts) and Section 1 of the Sherman Act (outlawing contracts in restraint of trade (Mueller, undated).

Third, the relevant market for enforcing anti-trust laws in the livestock sector is the local or regional market, since most cattle and hogs are slaughtered within 200 miles of where they are produced. Until now, most Justice Department actions have been premised on national market concentration levels, hardly relevant to a pork producer or cattleman who, on a good day, can only get two local bids for his product.

And, finally, if packers are offering different prices to different producers for products of like quality, they may be guilty of price discrimination unless they can show that the price differences are due to real differences in procurement costs, or are offered only to compete with other packers, or do not adversely affect competition.

There has not been much anti-trust action in the area of price discrimination lately and it needs to be revisited as a policy issue.

New Public Agricultural Science Mission

In the 1970s, a series of extension publications mused quietly over whether there would be a need for public research and extension if agriculture became highly concentrated. There is no need to muse anymore. The answer is plain to see for all but the innately naive: "No."

In the age of private agricultural science, there is a need to redefine the mission of the land grant university system. At least partly, that mission has been redefined by Congress to include sustainable agriculture.

The 1990 farm bill set out six national purposes for federally-funded agricultural research which includes: "enhance the environment and the natural resource base upon which a sustainable agricultural economy depends."

Of course, the Sustainable Agriculture Research and Education (SARE) program carries the banner of this purpose, but, importantly, the National Research Initiative (NRI), with its far heftier budget, is mandated to emphasize sustainable agriculture as well, and to direct at least 20 percent of its funds into "mission-linked systems research."

Extension has been included in the sustainable agriculture mission but, unfortunately, not in the budget.

More funding is needed for sustainable agriculture in both research and extension. It could be that a more people-centered agriculture is the only real hope for public agricultural science in an era of increasing privatization of science.

Role of U.S. Farmer in World Food System

There is less than meets the eye to free trade. In the past ten years, the developed nations have waxed eloquent about the theoretical virtues of free markets, especially in agriculture. When oil-exporting developing nations from Nigeria to Mexico suffered financial hardships in the oil glut of the 1980s, they built up unmanageable debts. Multinational banking institutions responded by forcing them to devalue their currency as part of an austerity campaign, making food imports more expensive and exports cheaper, hence improving their balance of trade and, with it, their ability to repay loans to the developed world. Sure it was hard on the poor, but it paid the note.

Meantime, the developed world was fast apace engaging in its own dirty little agricultural trade wars, lifting border prices, extend-

ing export subsidies, increasing quotas, building walls against imports and greasing the export chutes. All the time we lectured pietistically about free trade and used our financial might to impose it on debt-ridden nations, we raised barriers on our own markets and dumped our surpluses on other markets. Free trade is theoretically pure, but practically speaking, it has always been something the rich force on the poor.

The General Agreement on Tariffs and Trade (GATT) may be culminated in the next few months and it will include an agricultural agreement, but it will accomplish relatively little in breaking down the trade hypocrisy of the developed nations of Japan, Europe and the United States.

The North American Free Trade Agreement (NAFTA), on the other hand, simply furthers policies already underway in both Mexico and the United States to integrate the two economies, especially agriculturally. Mexico has steadily opened its markets to America, going so far as to amend its constitution to allow land acquisition by foreigners and to permit holders of communal plots (called "ejidos") to alienate their holdings, which date to the Mexican Revolution. As a result, ejidos are rapidly privatizing and consolidating, many under the auspices of joint ventures with U.S. investors. Some who oppose NAFTA on the grounds that it will devastate the peasantry of Mexico have not looked lately. They are being devastated anyway. NAFTA merely institutionalizes and accelerates a process well underway.

But NAFTA also holds some promise for a more responsible kind of free trade. The side accords negotiated to appease labor and environmental movements primarily in the United States contain some unprecedented provisions to mitigate the potential damage done to communities as a result of trade liberalization. Most careful observers agree the agreements do not go far enough to give teeth to the regulatory dog or freedom to the politically oppressed in Mexico (the right to sue for minimum wages is an empty right if they can throw you in jail and throw away the key). Whether they go far enough to persuade a majority of the United States Senate to ratify the treaty is another matter.

But there clearly could have been more here, especially in the form of a North American Development Bank funded by border taxes and authorized to engage in broad development efforts on both sides of the border to help displaced people and battered communities. From the beginning of its own economic integration, Europe recognized the need to balance the equities between the rich and poor regions it was trying to integrate. And Europe has been moderately successful at it, but with a top-to-bottom income gap only about one-third the size of the gap between per capita incomes in the United States and Mexico.

Absent development efforts to balance growth and mitigate damages to communities, it is clear that apologies from economists notwithstanding, capital and jobs will move south to the border areas and the cities, while commodities and products move north. It will not be much different for agriculture. Under USDA's most optimistic projection, U.S. feed grain exports under NAFTA are likely to increase by an amount equal to no more than one percent of our annual production (U.S. Department of Agriculture, 1992). But, according to the International Trade Commission, as many as 2,000,000 peasants may be displaced from agriculture. It is better than maple sugar for slaves, but not a lot.

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