

World Trade and The Small Farmer: Can They Co-Exist?

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Many's the speech that begins with the speaker telling his audience how delighted and honored he is to be speaking before them: At the risk of sounding trite, however, I would like to repeat that opening today. As many of you know, I am a city boy from South St. Louis, and for most of my life my knowledge of agriculture has been little more extensive than knowing which end of the cow makes the moo and which ends makes the milk. A little more than a year ago, however, I had the opportunity to assume the chairmanship of the Senate Agriculture Appropriations Subcommittee. Since that time, I assure you that I have learned a great deal about American agriculture above and beyond my extensive knowledge of cows. However, my year of study notwithstanding, I still consider myself quite a novice in this field, and so it is a great honor for me to appear before such a prestigious group of experts on world agricultural trade.

The development of America's foreign agricultural trade in this century is, as you know, a ringing tribute to the productivity and skill of the American farmer. Just 40 years ago — in 1938 — grain yields in this country were no higher than yields in the so-called "underdeveloped" nations. We all were producing about 1.15 metric tons per hectare. The United States, at that time, was a minimal force in the world food market. Our grain exports totaled only 500,000 metric tons per year, compared to 9 million tons being exported by the Latin American countries.

How dramatically that situation changed in 1970, however! By the 1969-70 crop year, American farmers were wringing 86 per cent more grain from each hectare, with an average yield of 2.14 metric tons. Our growth in exports was even more spectacular — up 80-fold, to 39.8 million metric tons a year. In the same period, the developing nations of the world had increased yields by only 22 per cent. Exports from Latin America, which had been 18 times the U.S. product in 1938, had dropped to 3.2 million metric tons — less than 10 per cent of our overseas sales.

By 1977, the American farmer truly had arrived in the arena of world commerce. Almost one of every three acres of U.S. production was going into the

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world marketplace. Two-thirds of our rice, more than one-half of our wheat and soybeans, one-third of our cotton, and one-fourth of our feed grains were sold overseas. We supplied **64** per cent of the world's feed grain, one-half of the **oil-seed**, **40** per cent of the wheat, and one quarter of the world's rice. The sale of agricultural goods grossed our country **\$23.7** billion in **1977**. The world depended on us for a reliable source of food, and we depended on the world for a reliable market for our agricultural production.

The American farmer's new-found prominence as master of world agricultural trade had not been won without some hard economic lessons, however. His schooling began in earnest in **1972**, when worldwide crop failures threatened to bring on a global famine. As the law of supply and demand came thundering into play, export prices for American grain shot up and reserves dwindled. In **1973**, the Russians engineered their now famous grain deal, buying up far more wheat than should have been allowed at prices subsidized by our Government. Stockpiles dwindled further, and by **1974** the domestic price of wheat was up from a previous low of **\$1.57** per bushel to a heady high of **\$4.48** per bushel.

The response among farmers and Federal agriculture officials was euphoric. "Low prices are a thing of the past," Secretary Butz told the farmers. "Plant **fencerow** to fencerow," he urged. The farmers, hearing exactly what they wanted to hear, took Mr. Butz up on his disastrous advice, thereby sealing their own hard fate for the years ahead.

For as we all remember, the boom was short lived. The Ford Administration, in a dizzying about-face, **responded** to consumer pressures by slapping an export embargo on all of that new wheat the farmers had grown for Mr. Butz. Weather conditions around the world took a turn for the better, crops improved in other nations, and the unusual demand for American wheat disappeared. And, to top it all off, the Arabs came up with an embargo of their own, driving the cost of petroleum forever upward and contributing heavily to a **50** per cent increase in agricultural production costs.

The predictable result — predictable, it seemed, to almost everyone except Mr. Ford and Mr. Butz — was that prices plummeted almost as swiftly as they had risen a couple of years before. **\$6** per bushel wheat suddenly was selling for as little as **\$1.80**. Grain reserves nearly doubled. The farmer who had been paying **\$2.50** per bushel to grow \$5 wheat now was paying **\$3.50** a bushel to grow **\$2.50** wheat. Farmers who had so enjoyed learning about the demand side of the economic curve a little earlier now were finding the supply side catastrophic. Especially hard-hit were the young and small farmers who had gone heavily into debt to buy land and equipment at inflated prices in hopes of cashing in on the boom, only to see their dreams vanish in a sea of red ink.

How can congress-react to this predicament? What are we to say to the thousands of farmers who have come pounding on our doors demanding relief?

This was the situation that brought thousands and thousands of farmers **trac-**

torcading into Washington this past winter. They came to besiege their Government, and to demand relief from low prices. It was a rare sight in the nation's capital, but not an unprecedented one. Once before, in 1930, America's farmers had moved en masse on Washington seeking price relief. The Government responded to their pleas in 1930 with the passage of the Smoot-Hawley Act, imposing heavy tariffs on a wide range of industrial and agricultural imports.

Like the wheat price boom of the early '70's, the Smoot-Hawley Act brought temporary joy to American farmers. Soon, however, the price of protectionism had to be paid. By 1933, foreign industrial sales of U.S. goods had dropped 73 per cent from their previous four-year average, while agricultural exports dropped 67 per cent. The promise of recovery had faded into more years of depression.

I mention this bit of history because of what I sense as a disturbing trend in world trade today, and that is a trend toward a return to protectionism. A recent article published in *Dun's Review* illustrates how this applies to agriculture. The article describes the new vigor with which the French are mounting an assault against American soybean imports. They have proposed that the Common Market impose minimum prices and tariffs on all imported protein. In addition the French propose to offer new financial incentives to European farmers to boost home production of soybeans, linseed, and other protein crops. As all of you know, 'a substantial reduction in soybean exports to the EEC would impact heavily on the U.S. soybean market and U.S. soybean producers.

We also recently have witnessed the struggle Ambassador Strauss encountered with the Japanese in attempting to open that market to increased exports of U.S. beef and citrus products. The limited success he has had is evidence of the continuing zeal **with** which the Japanese government will protect its agricultural producers even to the detriment of its consuming public.

We all are likewise painfully familiar with the ability of the Australians and Canadians to enter the world wheat market at a price just lower than that attainable through the U.S. free markets assuring our farmers the position of residual supplier.

Of course, the other nations of the world do not have the market on protectionism cornered. As anyone who has been around Washington during the past year can tell you, we are seeing in our own country a rising demand for protectionist tariffs and quotas on everything from nuts and bolts to color televisions.

If we are to stay true to our commitment to a free market system, we cannot allow restrictive trade practices such as these to occur on a broad scale. It is the nature of our trading system that actions in the world marketplace reflect immediately on our domestic market. Major protectionist initiatives abroad soon will be felt **at home**, **both** by farmers and by consumers.

On the other hand, we have seen that we neither can allow our farmers to remain completely at the mercy of the unstable world market with its boom and bust prices. To do so would result in a further constriction of our base of farm **produc-**

tion, which already is drastically shrunken. In 1960, for example, only 15 per cent of our farms accounted for 60 per cent of **farm** production. Today, that dangerously lopsided **ratio** is even more perilously out of kilter, with only 6 per cent of our farms providing 60 per cent of production. If this shrinkage of the production base continues, if we continue to allow gyrations in world prices to drive small farmers out of business, it could spell the end of what remains of our free-market farm economy.

The eventual middle ground, I think, is likely to be found in a greater Government effort to promote market stability. Already, we have taken action to develop a farmer-held grain reserve. We have legislation pending to create an international wheat reserve. We are continuing our search for the balance of Government participation which will best protect both producers and consumers.

This task will become even more difficult as we expand further into the world market, which is something we must do to assure continued prosperity for the farm economy. The more we rely on foreign trade, however, the more closely our own domestic food market will become tied to demand and price fluctuations worldwide. If, in the meantime, we have not acted effectively to stabilize the marketplace, we could again see the kind of clamor for massive Government involvement demonstrated by the American Agriculture Movement this past year.

Farming by its very nature is a cyclical business. Some years are good, some years are bad, some are in between. The American farmer never will have a guaranteed profit, and I really don't think that he wants one. What he does want, and what he deserves, is simply a measure of stability in prices and stability in markets. It is within our power as policymakers and as traders to give him that stability, and the sooner we achieve this goal the better off we all will be.