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Farm Policy

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ADMINISTRATION FARM POLICY TALKING POINTS

- The 1985 farm bill successfully addressed the problems created by inflexible support policies of the early 1980s, when U.S. farmers lost markets and incomes as competitors undercut U.S. floor prices.

- The Federal government had accumulated large surpluses in the 1980s that overhung grain markets and depressed prices.

- The 1985 farm bill restored competitiveness by reducing support price levels over time and, where necessary, instituting market loans to ensure U.S. commodities are not priced out of world markets.

- Export markets previously lost were regained through the creation of export promotion programs (most notably the Export Enhancement Program (EEP) that has subsidized the sale of a sizable portion of U.S. wheat exports.)

- Subsequently, there have been major improvements in the farm economy, due both to more flexible policies and to improvements in economic conditions. Far income has reached record levels and exports have rebounded.

- In the Uruguay Round of GATT, the U.S. is committed to a substantial, progressive reduction in agricultural support and protection to correct and prevent distortions in world agricultural markets.

- The health of the U.S. agricultural economy depends on a liberalized trading environment.

- In the farm bill, the Administration seeks to continue the polices set forth in 1985. Its proposals seek market-oriented legislation that allows producers to decide what crops to grow, while also achieving the budget savings needed in the commodity programs.

- This will be done in a way that maintains a safety net for farmers to protect them from conditions beyond their control.

- Continued reductions in loan rates (the price floor) and target prices will improve U.S. competitiveness while mitigating Federal budget exposure. (NOTE: a "deficiency payment" is made to farmers that is equal to the difference between the loan rate and the market or target price, whichever is higher. This payment per bushel is made on a specified amount of "program" production, determined by historical experience.)

- The amount of production eligible for support could also be reduced, a move that would have the beneficial effect of eliminating the advantage of supported crops over nonsupported crops in farmers' planting decisions.

- The President's Budget also proposed savings that could be achieved by eliminating support payments to wealthy farmers, payments that cannot be justified in the current budget situation. (NOTE: The Secretary of Agriculture has been, at best, lukewarm in support of these payment restrictions, but some in OMB are committed to pursuing this.)

- The President is committed to a goal of no net loss of wetlands. He also believes that sound environmental stewardship can coexist with economic growth and prosperity. A balance must be struck, to ensure jobs are protected.

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THE WHITE HOUSE

Office of the Press Secretary
(Omaha, Nebraska)

For Immediate Release   June 8, 1990

REMARKS BY THE PRESIDENT
AT FUNDRAISING LUNCHEON FOR
HAL DAUB FOR SENATE

Ballroom
Peony Park
Omaha, Nebraska

12:57 P.M. CDT

THE PRESIDENT: Thank you all. Hal, thank you. Thank you very, very much. Nice to see all of you. Thank you so very much. Thank you all. Hal, thank you so very much for that warm and most generous welcome, and to all of you for that warm welcome back to Nebraska. To Governor Orr, let me say how important I think your reelection is. You've done a good job. And I want to see you back for another term here. (Applause.) I'm sorry that Virginia's not here, but I see Congressman Bereuter. And he -- we've got a good delegation -- a strong Nebraska delegation in Washington. We need more. And so when I salute Doug Bereuter, I wouldn't speak for him, but I know that he would welcome more Republican support in the House. And thus, I want to single out Ally Milder, who's running as a candidate in the Second District and urge strong support for her. We got a good candidate. (Applause.)

I'm delighted -- I heard P.J. Morgan's remarks out there and his enthusiastic support for Hal. And I might say one of the things I take pride in is just before his election, he found time to come back to the Oval Office so we could publicly give the abrasso, and I was right. He's doing a superb job, I'll tell you, for this city. And the voters were certainly right on that one. (Applause.)

And I want to salute our chairman, Chairman Riffel. I want to say how pleased I am to see Bob Kasten, and outstanding Senator from Wisconsin who was one of the leaders in the Senate. And he's out here to join me in showing our unified and strong support for our candidate here. To Father Val Peter, who's so well-known, so well respected by both Barbara and me and so many around the country. My greetings to you, sir. And to Rabbi Nadoff, I guess -- as I understand the situation here, he's one of the great leaders of the Jewish community all across this state.

And I'll just mention, sir, in a minute how pleased I was at the recent summit to have a very frank discussion with President Gorbachev -- about the need to keep this high level of Soviet Jews emigrating from the Soviet Union going forward. I am convinced we're on the right track. And we're going to not let up until we get even more of those people able to go home and able to join their families. (Applause.)

And I want to salute Cindy Daub, a member of my team in a sense and long-time friend. If Hal has about half as much energy as Cindy, I expect he's got it made already. (Laughter.) But, anyway, ladies and gentlemen and friends, it's a pleasure to be back in one of America's greatest and most Republican states -- two things that go together as naturally as the Cornhuskers and winning football.

And today, I am here to support a candidate who -- like those Cornhuskers -- has made a difference in Nebraska. And he's been one of you. And he's never failed to speak for you. My friend. Your next United States Senator -- Hal Daub. He has my enthusiastic

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endorsement. (Applause.)

We've known each other since the early '70s. And I wanted to come here and personally endorse him. And one reason is his great family. Another -- we heard some of it today -- his Main Street values and his career of dedication. And Hal isn't going to get to the Senate on PAC money, incidentally. He'll get there on shoe leather and hard work. (Applause.) And then, there's the reason you may not know. As a kid, Hal wanted to be a musical conductor.

Peony Park, of course, is where Lawrence Welk made his debut. And Cindy tells me that Hal still wakes up chanting, "A one and a two," and you know how it is out there. (Laughter.) But Lawrence Welk, he played champagne music. And this November, Republicans will be playing a victory march because the people of Nebraska know Hal Daub has made a difference -- as a lawyer, businessman, four-term Congressman.

And starting in January, he'll mean even more to a state whose compass, as one writer said, is the sun, the distant hilltops, and its own resolution.

Now, people say, it doesn't matter anymore. There is a frustration, I'm afraid. Some say it doesn't matter who's elected to the Senate -- or which party controls it. And that's like saying it doesn't matter if Nebraska beats OU. (Laughter.) But, so in a moment, I'd like to talk about the Hal Daub difference -- and how it can benefit Nebraskans from the bluffs of the Missouri to the Wyoming line.

And first, though, Hal referred to it -- let me just speak about the summit that President Gorbachev and I held last week in Washington which can make a difference by benefiting Nebraska and the world.

Every summit between America and the Soviet Union is shaped by history. And I believe that last week's summit will alter history. In four days of talks, we discussed the power of freedom to dismantle walls between nations. And because the greatest peace dividend is a safer, more democratic world, we signed agreements concerning areas of interest to both our countries, and recorded bilateral understandings in several joint statements.

First, we signed a bilateral agreement that will, for the first time, eliminate the great majority of chemical weapons that have been stockpiled over the years. (Applause.) And our common goal is nothing less than a global ban on these devastating chemical weapons. And second, I joined President Gorbachev in signing protocols on limiting nuclear testing. And they will create unprecedented improvements for on-site verification on the Threshold Test Ban Treaty and PNET, the Peaceful Nuclear Explosions Treaty.

And the third agreement updates and expands our 1973 pact on the peaceful uses of atomic energy. Increasing our cooperation in atomic energy research and civilian nuclear safety. You know, that tragic Chernobyl accident shows that the fate of our planet eclipses ideology and nation. And the agreements we signed can help create a better future for the Community of Nations.

You know, there is an old Russian story that reflects the spirit of last week's summit. A spirit of friendship growing as knowledge grows. It concerns a traveler walking to another village. And who, coming upon a woodsman, asked how much further he had to go.

The woodsman said he didn't know. Whereupon the traveler, angered, continued down the road. And at that point the woodsman called out to him, "Stop. It will take you 15 minutes." And the traveler then asked why he didn't tell him that in the first place. Because, the woodsman said, "I didn't know your stride."

Last week President Gorbachev and I learned more about each other's stride. And so, in addition to our agreements, we also signed understandings. We released a joint statement on strategic arms limitations, recording our agreement on major outstanding issues governing a START treaty. We pledged to continue future negotiations on nuclear and space arms. And we also issued a statement on Conventional Armed Forces in Europe, the CFE area. A CFE agreement is crucial to a Europe that is whole and free.

In particular, let me talk about the trade agreement that Hal referred to, and an agreement that we negotiated that will relax barriers between East and West, creating new markets for American products and, in the process, new jobs for American workers. As he reminded me, President Gorbachev used to be the Party Secretary for Agriculture. And he knows that an improved trade relationship between our two countries means a greater demand for American goods and services.

In our talks, we also agreed that selling our grain to the Soviet Union will benefit both our nations. So the new U.S.-Soviet grain agreement we signed at the summit calls for at least 40 million metric tons of grain to be purchased by the Soviets over the next five years. Incidentally, I have not changed my views on using food as a political weapon. I still remember that disastrous grain embargo put into effect by President Carter. And to that I say never again! We are not going to use food for that purpose. (Applause.)

Now, look, let me be candid. Serious differences still remain. Of course they still remain between us and the Soviets. We must heed the desire of self-determination in the Baltic republics and elsewhere -- while protecting the rights of minority populations. I can identify with those Lithuanian Americans outside this building, proudly holding that flag. And I want to see that they have the self-determination that other nations are achieving all across this world. We must see that German reunification adheres to the wishes of the German people -- while respecting the views of other nations. And when I leave here, I'm heading back to Washington to have yet another meeting with Chancellor Kohl at the White House to discuss post-unification Europe and what it means after Germany is unified. And moreover, while I am pleased that the emigration of Soviet Jews is at an all-time high, I want to see unfettered emigration. And I believe Gorbachev is a leader willing, as Lincoln said, "to think anew." And I believe that because look at the changes that have taken place in Eastern Europe with his encouragement as well as his acquiescence. And he is committed inside to reform; and he faces these enormous economic problems. And as I told him, though, I will not send our new agreement on trade to Congress until the Soviet legislature passes key emigration laws.

I've often said we want perestroika to succeed. And I believe that. I believe it's in the interest of the United States that those internal reforms keep going forward, as they move towards economic reform and more human rights. And I believe that the steps I've outlined can help it triumph. But America can't do it alone, and we need the support of our allies. And our administration needs the support of senators who will actively support these historic new directions in foreign policy.

At the summit we talked of many issues that will confront your great state, the state of Nebraska, and, indeed, America. But this country also faces a lot of important domestic challenges. So let me shift now because we need the support of senators who can make a difference for America at home as well as abroad.

And one of those challenges, of course, is agriculture. As you know, in the late '80s, farm income hit near record levels. Our job is to make good news even better. Our grain agreement will help, and so will passing our administration's capital gains tax cut proposal. (Applause.) I wish that Senate would get on and do something about it. (Applause.)

What's more, we need a new farm bill that emphasizes

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market-oriented farm policies giving producers more flexibility to decide what crops to grow. And our new farm bill, of course, it's got to be evenhanded and levelheaded. Leading, in turn, to a lower federal deficit, lower interest rates, and increased choice for farmers and consumers. And so I need Hal Daub to make these objectives a reality. We agree on this philosophy. And I want to see him in the United States Senate. (Applause.)

Another issue that's absolutely critical to the America of the '90s is education. And last week President Gorbachev and I signed an agreement to expand undergraduate exchanges by 1,000 students on both sides. You see, I believe that as these students interact -- those Soviet students here -- that that further enhances the changes that are taking place. And I think when our students go there, the Soviets can learn -- the people in Russia can learn a great deal about the American ethic, the American commitment to family and freedom and democracy, just from the interchange with the students.

On the domestic front, I wish Hal Daub were in the Senate now to help our kids by urging his colleagues, as Bob Kasten is doing, to pass our Educational Excellence Act of 1989. Because this legislation would promote excellence, and choice, and flexibility in our education system.

For one year, some members of Congress have stalled for a whole year -- stalled on this bill. And again, it is time for action now. (Applause.) In addition, Hal supports something that happened this past Monday that I feel strongly about, the Supreme Court ruling that affirms student religious groups' equal access to public high schools. (Applause.) I'm pleased by this ruling. To Omaha's own Bridget Mayhew, my congratulations -- in the forefront of all of this.

And finally, we must act on another issue that we discussed at the summit -- and that Hal alluded to here, and that I've talked to your Governor about many times. And I'm talking about the environment -- cleaning up our air. We need to keep America what a child once called, "the nearest thing to Heaven. And lots of sunshine, places to swim, and peanut butter sandwiches." (Laughter.) So I call on the House-Senate Conference Committee, which will begin work soon, to send me clean air legislation that I can sign.

Issues like world peace, agriculture, the environment, and education are not merely American questions. They affect every part of the world from the Midwest to the Ukraine. And we must do our part, and we will. To questions that confront America, Hal Daub really will help provide answers. Answers that make a difference. And mirror what an author said of Nebraska's plains, "Men began to dream." Today, like the pioneers before them, Nebraskans still dream impossible dreams and make them a reality. Relying on Nebraska values to build the Main Street of America -- an American example to the world.

Hal Daub understands those values. He'll support those values in the United States Senate. I'm delighted to have been here. I wish that Barbara were here on her big birthday -- the hero of Wellesley. I'm very, very proud of her. (Applause.) And she asked me to tell you that she, too, supports the Daubs, all out, in this important race. So let's all go out and help Hal make a difference for Nebraska and the nation.

Thank you for this wonderful occasion. It's a great pleasure to be back in the state of Nebraska. Thank you all, and God bless you.

END 1:16 P.M. CDT

The two sides express their confidence that establishment of the international park will serve the development of U.S.-Soviet cooperation in the protection of nature, and the activities of local populations in preserving the unique natural and cultural heritage of the Bering region.

Note: The joint statement was made available by the Office of the Press Secretary but was not issued as a White House press release. A fact sheet on the joint statement was released by the Office of the Press Secretary on June 1. In addition to covering the material found in the joint statement, the fact sheet also contained the following information:

The U.S.-U.S.S.R. joint report "International Park Program, Beringian Heritage Cooperation" was endorsed as the framework for establishing an international park by the end of 1991.

The Bering Land Bridge National Reserve will be the initial companion site to be linked with a Soviet protected area on the Chukotskiy Peninsula.

Excerpts of White House Fact Sheets on Soviet-United States Bilateral Agreements
June 1, 1990

Trade Agreement

At Malta, President Bush proposed targeting the June summit for completion of a MFN (most-favored-nation trade status) commercial agreement, provided that the Soviets approve and implement new emigration legislation. New emigration legislation passed the first reading in the Supreme Soviet in November. The Second Supreme Soviet reading, which would codify the law, was set for May 31. No serious opposition has appeared, but the press of other business could delay final passage. We have emphasized to the Soviets at all levels the importance of expeditious passage.

This agreement breaks much new ground in commercial agreements with the Soviets. Specifically, it:

- provides improved market access, for example, by prohibiting adoption of standards which are discriminatory or designed to protect domestic production;
- facilitates business by establishing expedited accreditation procedure for commercial offices, allowing offices to hire directly local and third-country employees on mutually agreed terms, permitting access to all advertising media, and allowing companies to engage and serve as agents and to conduct market studies; and
- offers strong intellectual property rights protections by reaffirming commitments to the Paris Convention and the Universal Copyright Convention, obligating adherence to the Bern Convention for the Protection of Literary and Artistic Works, providing copyright protection for computer programs and data bases and protection for sound recordings; providing product and process patent protection for virtually all areas of technology; and providing comprehensive coverage of trade secrets.

The Soviets have reaffirmed their commitment, once they receive MFN and USG lending restrictions (Stevenson and Byrd amendments) are lifted, to resume lend-lease repayments.

Long-Term Grains Agreement

- The new agreement is to take effect January 1, 1991.
- The Soviets are required to buy a minimum of 10 million metric tons of grain from the United States annually (up from 9 million metric tons), including at least 4 million metric tons of wheat; 4 million metric tons of feed grains (corn, barley, or sorghum); and 2 million additional metric tons of either wheat, feed grains, or soybeans/soymeal, with soy measures counted double for purposes of quantity.
- The Soviets may buy up to 14 million metric tons annually (up from 12 million metric tons) without prior consultation with the Department of Agriculture.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release January 8, 1990

PRESIDENT BUSH AND RURAL AMERICA

This paper outlines the views of President Bush on the future of American farming and rural America.

Strength of the farm economy

While America's farmers have been through the worst droughts and natural disasters of the 1980s, American farming is on the rebound.

- o Net farm income will reach record levels. Net farm income will hit a record $48 billion in 1989, eclipsing the previous record in 1987.

- o Crop surpluses have declined dramatically. Wheat and corn stocks are roughly a third of their levels four years ago.

- o Farm exports are on the rebound. Prospects are good that farm exports will increase in 1990 for the fourth year in a row.

- o Federal spending on farm subsidy payments has declined. Improved market conditions will help reduce spending from a peak of $26 billion in 1986 to about $11 billion in 1990.

- o Farm balance sheets continue to improve. The debt-to-asset ratio will fall to an estimated 17% in 1989, continuing a decline that began in 1985. Total outstanding debt has fallen 28% since 1983, reflecting a financially stronger farm sector.

Administration farm policies

The President is pursuing farm policies that will strengthen American agriculture and rural America in the 1990s.

Macroeconomic policy

Our most important economic priority is to keep the economy growing. By pursuing sound fiscal and monetary policies, the federal government can help provide a stable business environment in which farmers can borrow at affordable interest rates.

1990 Farm Bill

We must develop a 1990 Farm Bill that enhances the competitiveness of American farmers and ranchers and maintains a safety net. To be competitive in world markets, our farm policies must continue to be market-oriented and provide farmers more flexibility to decide what crops to grow based on market signals, rather than government incentives. At the same time, we must maintain the safety net to protect farmers against production conditions beyond their control.

Farming and the environment

We must recognize that productive agriculture and a sound environment can be compatible. The President believes that American farmers understand the importance of a clean environment. The President recognizes the role of farmers as stewards of the land.

- In 1989, the Congress endorsed the President's proposal to establish a concentrated five-year effort to protect the nation's surface and groundwater resources from contamination by agricultural fertilizers and chemicals.

- Led by the Department of Agriculture, the federal government will spend close to one-third of a billion dollars in 1990 on research and technical support for farmers that will meet both the immediate need to halt contamination of our land and water and the future need to make farming practices consistent with protection of the environment.

Food safety

We must ensure that all Americans are confident in the safety of our food supply. The President has proposed a comprehensive program to enhance food safety for all Americans. His plan is designed to eliminate unacceptable risks to the public health and provide for more orderly regulation of pesticides and their use.

- The proposal would streamline the ability of the Environmental Protection Agency to remove potentially hazardous pesticides from the market and enhance the EPA's enforcement program to ensure the safe use of chemical pesticides.

- The proposal would eliminate a long-standing inconsistency in federal law governing pesticide residues in foods and establish a uniform "negligible risk" standard.

o The proposal would improve regulatory certainty for the agricultural sector. The plan would simplify and make more workable the regulation of pesticide use in agriculture, thereby helping farmers follow food safety laws.

Capital gains

We must cut the capital gains tax rate. Passage of the President's capital gains proposal -- which would apply to the sale of farmland -- will be one of his top priorities in this legislative year. Reducing the capital gains tax rate can keep American agriculture dynamic and prosperous.

Alternative uses of farm products

We must encourage alternative uses of farm products like ethanol and other new fuels. Developing such uses for farm products can both help farmers through expanding demand for crops such as corn, wheat, and potatoes and help protect our environment.

o The President has proposed in the Clean Air Act reauthorization to require increased use of cleaner burning fuels. The President has long encouraged an expanded role for farming as a supplier of feedstocks for cleaner fuels.

o The Administration has proposed providing an income tax credit for fuel suppliers who use ETBE and thus provide a further incentive to use alcohol fuels that can be produced from agricultural crops.

Open markets

We must work vigorously to open markets abroad and provide the American farmer a level playing field in international trade. The President has emphasized that the best way to bring down trade barriers is through tough negotiations, not retaliation and protectionism.

o The Administration submitted in October a comprehensive proposal for reforming world agricultural trade in the Uruguay Round negotiations of the General Agreement on Tariffs and Trade (GATT). The proposal would phase out export subsidies in five years and other trade-distorting subsidies in ten years.

o The Administration is expanding its ties with Eastern Europe to open even more markets. In December, the President directed Secretary Yeutter to lead a Presidential Delegation to Poland to forge new partnerships between our agricultural industries and their emerging market economies.

AGRICULTURE BACKGROUND

- o The U.S. farm sector is gradually recovering from a mid-1980s recession.
- o Net cash income reached a record high of more than $57 billion nationally in 1988.
- o Overseas sales have been encouraged by more favorable macroeconomic conditions and the last Farm Bill (the Food Security Act of 1985) including expanded export subsidies.
- o The long-term prognosis for the farm sector is uncertain. Direct Government payments accounted for an average of about 25% of net cash income in 1987-89, indicating that many farmers still rely heavily on Federal subsidies (although the proportion was declining).
- o Net cash income declined in 1989, to about $53 billion, and is expected to be $52-57 billion in 1990. Export values, while climbing, are themselves partly dependent on Federal assistance programs, and remain vulnerable to international trade tensions.

THE FARM BILL

- o The Bush Administration on February 6 unveiled its farm bill recommendations but did not propose an actual bill.
- o Frequently cited problems with current programs include: high budgetary costs, production imbalances among the various supported commodities, inequities in the distribution of benefits, undesirable farm size impacts, and adverse impacts on trade and the environment.
- o However, many in the farm community are generally satisfied with the current agricultural policies and cite their success in increasing exports while supporting farm income.
- o Commodity price support provisions have typically been the most controversial, complex, and partisan elements in Farm Bill discussions.
- o An agreement to overhaul polices that distort agricultural trade is being pursued by the United States in the current round of the General Agreement on Tariffs and Trade (GATT) negotiations.

THE BUDGET

- o The Administration's FY 1991 budget proposal called for reduction in numerous programs, including a $1.5 billion savings (below current services estimates) in commodity price support outlays and elimination of the crop insurance program.

- Agriculture has been a visible target for budget reductions due to its relatively high cost during the 1980s.

- Budget summit negotiations are currently ongoing and there is a dispute as to whether the Senate bill should be completed before or after the summit agreement.

- The current Senate bill increases spending, especially for agriculture subsidies, which can hurt our trade prospects.

- U.S. negotiators in the current GATT discussions have taken the position that subsidies throughout the world should be reduced to increase trade. U.S. farmers can only benefit from increasing exports.

- Price support outlays -- the bulk of U.S. spending for agriculture -- have declined from the record $25.8 billion they reached in FY 1986 to $12.5 billion in FY 1988, $10.5 billion in FY 1989, and a projected $8.2 billion in FY 1990.

DISASTER ASSISTANCE AND CROP INSURANCE

- Two current Federal programs protect agricultural producers from the financial consequences of natural disasters: crop insurance and disaster payments.

- The crop insurance program has suffered from low participation rates and large financial losses.

- The Administration and Congress are addressing the issue of the proper Federal role in farm risk management, in the context of the Farm Bill.

- The Administration has proposed the replacement of Federal crop insurance with a permanent disaster payment program beginning in FY 1991.

- Payments would be triggered when a county experiences a 35% loss of a specific crop due to a natural disaster and an individual farms's yield drops below 40% of normal.

- Congressional action appears to be directed toward modifying rather than eliminating the current crop insurance program.

AGRICULTURAL TRADE

- Production of from three to four out of every ten U.S. acres goes for export each year.

- The 1985 farm bill attempted to make U.S products more price-competitive overseas by lowering price support rates and expanding export subsidy programs.

- Agriculture is a priority for the President in the ongoing GATT multilateral trade negotiations.

- GATT nations have agreed in principle to "a substantial, progressive reduction in support and protection to correct and prevent distortions in world agricultural markets."

- In October 1989, the Administration unveiled its proposal, which would convert all countries' nontariff agricultural trade barriers (e.g., quotas, etc.) to tariffs, which presumably could more easily be reduced through subsequent negotiations; eliminate export subsidies; phase out trade distorting domestic income and price supports t farmers; and harmonize health and sanitary standards applied to agricultural products.

RURAL DEVELOPMENT

- On January 22, 1990 the Administration announced implementation of a report on from the White House Economic Policy Council on rural development, a very modest proposal designed to improve the coordination of rural development programs and serve as a catalyst for future initiatives.

- The Senate on August 2, 1989, passed legislation (S.1036) that would authorize as much as $300 million in FY 1990 and $1.5 billion over 5 years for new rural development activities, including Federal money for State and local revolving funds to lend money to new rural business, and funds for rural infrastructure, including water and sewer projects.

- The House on March 22, 1990, passed a different bill (H.R. 3581) that would among other things consolidate USDA rural development activities under a new Rural Development Administration, and require each State to establish a review panel to evaluate and prioritize local applications for use of existing USDA rural development funds. The measure may be folded into the omnibus farm bill.

FARM CREDIT

- The Agricultural Credit Act of 1987 authorized a financial assistance package for the Farm Credit System (FCS), a major commercial farm lender that experienced severe loan losses in the agricultural recession of the early and mid-1980s. The Act also proved certain rights to FCS and Farmers Home Administration (FmHA) borrowers, FmHA is the Government lender of last resort for farmers unable to secure commercial credit.

- The credit debate centers around whether FmHA should continue its transition from direct lending to loan guarantees as a means of reducing Federal outlays and graduating borrowers to commercial courses of credit.

- The Administration supports this transition and proposed a 10-year limit to borrower eligibility for all FmHA loan programs.

- Farmer groups are concerned that the unavailability of Government credit may have serious consequences for family-sized farm operators.

FOOD SAFETY

- Food safety is a broad term that refers to assurance that food products will not adversely affect human health.

- Food safety issues have captured the attention of the media, public, and the farm and food industries.

- Congress has been reviewing a range of proposals.

- Some food safety provision might be integrated into the 1990 farm bill.

I. Price and Income Supports in Brief

The 1990 Farm Bill will reauthorize the price and income support programs for the major commodities that are already covered by legislation. The Administration proposes to increase flexibility in farmer decisionmaking. Under current law, program requirements tie the farmer's program benefits directly to historical planting. These requirements should be relaxed so that the maintenance of planting history does not drive current-year decisions farmers make concerning production.

The current system of target prices, crop acreage bases, and acreage reduction programs is aimed at supporting farm income through direct payments and artificially tightened supplies. This idling of productive resources brings about inefficiencies. To the extent that farmers are freed from the need to plant certain specific crops in order to maintain their eligibility for program benefits, overall economic efficiency should improve. Farmers will begin to produce at lower cost and will become more competitive in world trade. They will be able to respond more rapidly to market signals and make more productive use of their resources.

Loan rates for cotton and rice should be made more reflective of actual market conditions and should be brought into line with loan rates for grains. Along with this reform, the Farmer-Owned Reserve (FOR) Program should be changed so that it does not continue to attract and tie up commodities to the detriment of effective marketing strategies. The proposals will increase the competitiveness of U.S. farm products by facilitating their movement to market.

In the Food Security Act of 1985 and earlier laws, acreage reductions were tied to levels of stock accumulation without regard to levels of usage. The Administration proposes, instead, that levels of acreage reduction be triggered by stock levels as they relate to total utilization of a commodity.

The Administration supports a dairy price support program that responds more rapidly and precisely to changes in surplus stock levels as indicated by the volume of dairy products sold to the government. A more flexible process for adjusting dairy support levels is needed and is part of the Administration's proposal.

The Administration proposes to change the peanut program so that the support level is no longer a function of the cost of production.

Reliance on the cost of production is an out-moded means of setting farm price supports and is inconsistent with other price support programs.

The Administration also proposes to change the honey program so that prices will be more competitive with imported honey and the program operates more efficiently. Income support would be provided through direct payments as is the case with other commodities.

For wool and mohair, the current program based on parity prices should be reformed. Target prices at levels lower than the support rates under current law but consistent with other commodities are proposed by the Administration.

Agricultural Economy

Trade Lib: The Bottom Line

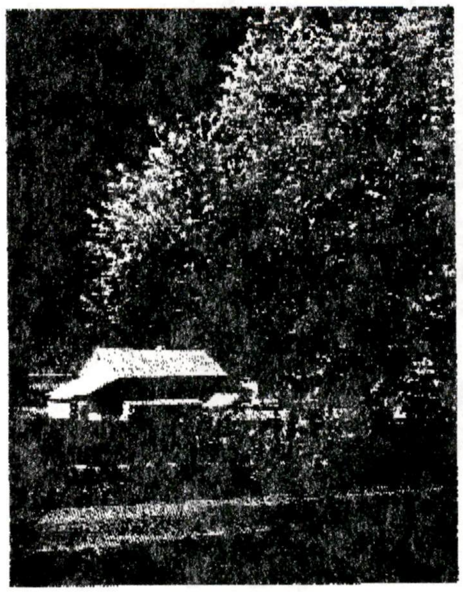
For the past two decades, many countries' domestic agricultural policies have contributed to wide swings in world commodity stocks and trading prices, while also hindering world economic growth. Agricultural trade reform on a global scale would allow producer and consumer decisions to be based on market signals, and thus allocate resources in line with consumers' demands.

The primary support for freer trade relies on the concept of comparative advantage. That is, national and global economies would produce the most output with the fewest resources and would have higher incomes if countries produced and exported those goods they can make relatively cheaply, and imported those goods they can produce only at relatively high costs.

In contrast, some government farm programs distort markets by providing incentives that differ from world prices. Resources (such as land, capital, and management) that could be used to meet consumer needs in other sectors (agricultural or nonagricultural) are often attracted instead to commodity production that receives government support. This distortion lowers both national and global incomes and consumers' well-being.

Among the developed countries, current agricultural policies that lead to trade distortions foster higher consumer prices, greater taxpayer burdens, incentives for overproduction, subsidized surplus-disposal schemes, and import barriers that misallocate resources.

There are other, less visible problems created by some agricultural policies and programs. These include excessive use



of chemical fertilizers and pesticides in certain countries, which in turn raises concerns about groundwater quality and food safety. Moreover, the overproduction that occurs often leads to soil erosion and deforestation.

And agricultural policies can be expensive. In the mid-1980's, the U.S. budget outlays for agricultural support averaged almost $20 billion annually, topped only by the EC's farm spending. In Japan, agricultural support cost the average nonfarm family over $900 in 1986.

Budget outlays for agricultural support in the developed countries amounted to about $60 billion in 1986, excluding higher consumer prices. Since then, uneven weather and stronger demand have pushed up prices, so government support has dropped. Nonetheless, the $60-billion figure shows how large the direct taxpayer burden can become for interventionist policies.

While the producer-subsidy pattern is by far the most common in industrial market economies, some developing countries tax producers to subsidize consumers, lowering direct taxpayer burdens. Farmers in these countries tend to use less inputs and produce less than they could.

Under Free Trade

Much research has been done on the question of what would happen under totally free trade. Because no country is now proposing that all agricultural support be eliminated, the magnitudes of changes found in the research are too high as predictions of what is likely to happen. But the direction of change forecast by the studies will hold if the GATT talks succeed in moving toward free trade (see the special article on GATT proposals in this issue).

If all trade-distorting policies of the industrial market economies were phased out over 5 to 7 years, world agricultural prices likely would rise by 10-20 percent. With free trade globally, prices would climb even higher. The wide range in the estimates reflects the fact that government support varies inversely with market prices. So, in years of tighter markets, the immediate effects of liberalization would be smaller.

Most research suggests that the rise in world prices would be greatest for sugar and dairy products. World prices for wheat, rice, coarse grains, beef, and sheep also probably would increase.

By contrast, world prices for oilseeds and oilseed products would change little, because developed countries generally provide few direct subsidies for these commodities.

Agricultural trade in most commodities would expand with the removal of trade-distorting policies by industrial market economies. Using market prices and government support in 1986/87 as a base and allowing market participants 5 years to adjust to a free trade environment, USDA researchers found that U.S. agricultural exports could increase by $3 billion a year. This largely reflects higher wheat and feed grain prices, combined with more livestock and meat exports.

The effect of free trade on price stability is unclear. World market prices for agricultural commodities could become more stable as more producers and consumers were active in world markets. Now, because the agricultural policies of many countries insulate producers from world market conditions, international price responses to weather-related shocks are magnified for many commodities.