
FISCAL POLICY

A starvation budget for American farms

by Susan Brady, Agriculture Editor

If accepted, the proposed 1983 budget for the U.S. Department of Agriculture (USDA), based on the "free-market" austerity established by David Stockman's Office of Management and Budget at the outset of the Reagan administration will hurl the American farm sector closer to the collapse with which it is already being threatened by the worst cash-flow crisis since 1932.

As proposed by Agriculture Secretary John Block and his department, the budget outlines a 20 percent reduction in USDA outlays featuring the following:

- A \$3.5 billion reduction in Farmers Home Administration (FmHA) lending including total elimination of the Business and Industry loan program, slashing of the Rural Housing loan program by three-quarters, and severe cuts in the Community Development, Emergency Disaster, and Farm ownership programs.

- A \$1 billion reduction in FY 1982 loan guarantee authority for the Rural Electric Administration (REA), by rescission, and a further \$500 million reduction for FY 1983, in addition to a \$400 million reduction in insured loan programs for rural-electric and telephone-service development.

- A 75 percent reduction, from \$220 million to \$56 million, in funding authority for the Agricultural Conservation Program and a \$92 million cutback in Soil Conservation Service programs including elimination of new construction starts for watershed projects, termination of the Resources Conservation and Development program, and a reduction of new contracts under the Great Plains Conservation program.

- A \$50 million reduction in the Animal and Plant Health Inspection Service programs including elimination of the grasshopper-control program and virtual elimination of the gypsy moth, imported fire ant and other pest-control programs, as well as transfer of the brucellosis-eradication program to the private sector.

- A \$1.7 billion reduction in the Food Stamp Program resulting from changes in eligibility-benefit levels and management streamlining and an additional \$1 bil-

lion budget saving in the transfer of two special programs and the Elderly Feeding Program to the Department of Health and Human Services. In addition, both the Special Milk Program and the Summer Feeding Program will be terminated altogether, for a saving of \$88 million.

- The levy of "users' fees" will raise USDA revenues of approximately \$12 million in the Food Safety and Inspection Service.

There are only two areas of the budget which enjoy a net increase in funding: agricultural research and export-market development. But one must hasten to add here that in the case of agricultural research the 4 percent increase in funding is rendered a net reduction by inflation. Furthermore, the funds are concentrated in the basic research programs to the detriment of the Extension Service, the conveyor belt for new techniques to the producers, which suffers a \$2 million budget reduction.

Like the research budget, the \$39 million increase in Foreign Agriculture Service and PL-480 food aid funding must be seen as a gesture consistent with Secretary Block's often-stated commitment to accelerated research and technological breakthroughs for high-technology agriculture and to increased agricultural profitability through expanded farm exports.

President Reagan, it might be recalled, won widespread farmer support with the improbable promise of "100 percent of parity in the marketplace." In the real world, \$39 million will not help FAS or PL-480 make even a dent in the greatest potential markets the American producer has, namely, the vast developing-sector market now strangled by International Monetary Fund and World Bank zero-growth dogma.

Two ironies

Overall, the USDA budget outline is guided by the "free-market" fraud which is the pretext for the worst horrors of "Reaganomics." The extent of fantasy involved in promoting this fraud is highlighted in one of the biggest single budget-savings claimed by USDA—a projected drop in Commodity Credit Corporation loan outlays from \$6.3 billion in fiscal 1982 to \$1.8 billion in 1983. The CCC extends "price-support" loans to producers with their crop as collateral, to allow farmers to delay marketing their crop when markets are depressed.

The irony is this. Markets have collapsed over the past year under the burden of super-bumper crops and world trade slowed by general economic stagnation. Since the beginning of 1981 corn prices have dropped 25 percent, and in the past several months the demand for price support loans from the CCC has skyrocketed beyond the agency's lending ceiling. An emergency measure rushed through the Congress last week has funneled \$5 billion to CCC to tide them over until FY 1983. Furthermore, another bumper winter wheat harvest is in sight. What all this points to is greater-than-

ever pressure on the CCC's loan programs—exactly the opposite of the USDA budget projections! To give USDA the benefit of the doubt, we shall not here assume that elimination of many of the pest-control programs is a calculated move to facilitate the destruction of more than half of next year's food production.

There is a further irony here, which colors the USDA budget writers with a kind of black humor unbefitting the department. The projected CCC program savings are not even "outlays" in the first place—they are crop loans, extended at interest rates that now reflect the cost of Treasury borrowing, and are paid back in full, with interest, at term!

But this kind of foolishness is dangerous. The effect of the budget proposals for FmHA and REA demonstrate this clearly. The federal repudiation of responsibility for soil and water conservation, under the ruse of prioritizing "target areas" for program areas and a transfer of these activities to the states belies Secretary Block's stated commitments in this critical area of building soil fertility.

FmHA and REA are two crucial institutions on which the existence of rural America depends. Not only the "lender of last resort" to American farm producers, FmHA has taken prime federal responsibility for the development of the kind of housing, water supply, and other rural infrastructure, and community business construction and land development which is the base that supports American agriculture. FmHA's Community Development Programs, slated for elimination, included loan programs for water and waste-disposal development, community facilities, rural fire protection, as well as business and industrial programs. FmHA's rural-development programs, moreover, are not duplicated in any other agency, such as, for instance, the Small Business Administration.

Necessary programs

The FmHA housing and community-development programs can in no way be considered "extraneous" to American agriculture's concerns, as the USDA pretends. The \$135 million increase in FmHA's Farm Operating Loan program, moreover, is hardly convincing evidence of USDA's claims to be restoring farmers to first priority. Farm-ownership loans will be chopped by \$100 million—at a time when one of the most serious problems is the financial impossibility for young farmers to buy their own operations.

Along the same lines, the Economic Emergency Loan program operated by the FmHA since 1978 and extended, albeit "at the discretion of the Secretary," in the 1981 Farm Bill under terrific pressure from producers, has not been budgeted at all! The program has an expenditure authority for \$600 million, and it is virtually certain that the Secretary will be forced to open it up in

the face of threatened mass farm bankruptcies.

The Rural Electric Administration is the essential counterpart to the FmHA helping to provide light and power to rural America. The REA acts as a "broker" to provide loan financing to more than 1,000 cooperatives in 46 states formed to purchase and distribute electric power to the sparsely settled areas of the country deemed "uneconomical" to service by the large, investor-owned utilities. REA "brokers" loans through the Federal Financing Bank, the U.S. Treasury office created in 1973 to coordinate federal borrowings, and pays FFB a premium of one-eighth of 1 percent for the service. FFB obtains the funds from the money market at preferred rates, and it is advanced to the particular co-op on a work-order basis only. As the USDA budget itself shows, the entire \$6 billion REA loan program entails a total net outlay of a mere \$90- to-\$100 million in interest subsidies.

Overlaid on the administration's Heritage Foundation-scripted antipathy to the REA co-operatives is the delusion fostered by Federal Reserve Chairman Paul Volcker that federal government borrowing causes high interest rates and inflation.

Undersecretary of Agriculture for Rural Development Frank Naylor, responsible for both FmHA and REA, obsessively repeats to anyone who will listen the lie that the REA lending programs are being slashed to take pressure off the credit markets. Surely Mr. Naylor is aware that if the Rural Electric Co-ops don't raise money through the Federal Financing Bank that they will have to go into the market themselves for the same amount to keep up with the natural 2-3 percent a year growth in rural power demand. Unless, of course, Mr. Naylor has foreseen that the co-ops could only do this at a potentially prohibitive cost, and therefore anticipates that they will simply roll over and die—along with rural America and American agriculture.

The immediate overall effect of the budget proposals is to undermine the foundations of American agriculture at a time when the farm economy itself is in the worst financial crisis since the 1930s, after two years in a row of declining net income and the prospect of a third. Production costs, lead by usurious interest rates, have continued to soar. Land values, whose steady increase has provided the nominal asset base for new farm credit, have begun to stagnate and decline in some areas. More than a third of American farmers have mortgaged every last bit of equity they have.

All along, as farm policies, dictated increasingly by the grain trading companies, forced producers to operate below the cost of production, it is precisely the farm programs defined by agencies like the FmHA and REA, among others, that have kept the fabric of rural America intact and guaranteed the continued "miracle" of American agriculture.