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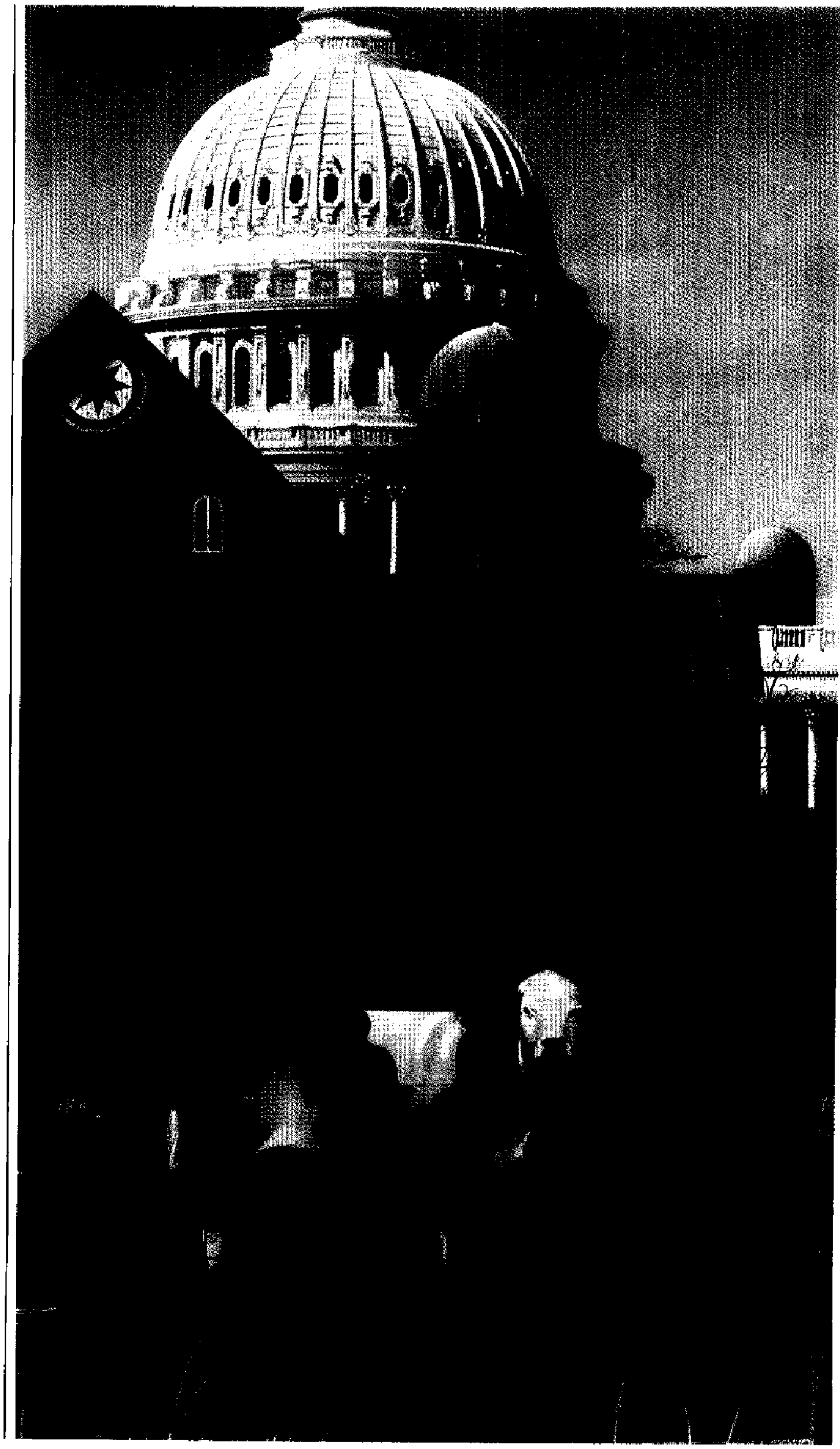

WASHINGTON AND THE FARMER
Appraising U.S. agriculture

SPEAKING FOR CHILDREN
An interview with Marian Wright Edelman

HOW MANY AND HOW SOON
Reducing American forces in Europe

NUMBER 10 FALL 1990

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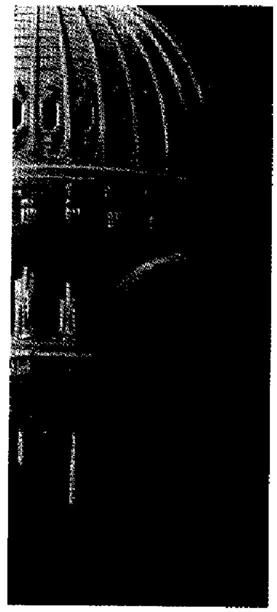

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From the Comptroller General

This issue of the *GAO Journal* features a package of articles on American agriculture policy—a timely subject for discussion as the Congress considers the 1990 farm bill. The legislation that eventually emerges—both houses have passed differing, as yet unreconciled versions as we go to press—will determine how much of our current farm policy will be retained, and at what spending level, for the next five years.

Considering that it *is* five years between farm bills, most of our readers may not be familiar with the major elements of farm policy—even though that policy has profound effects not just in agriculture but in such other areas as international trade, the environment, rural development, and the price and variety of the food we eat. For this reason, we asked Jeffrey Itell of GAO's Resources, Community, and Economic Development Division to summarize the federal government's major agriculture programs and some of the areas in which GAO has found opportunities for reform. After all, modern American agriculture policy originated in the New Deal. Modern American agriculture, on the other hand, has been evolving ever since. As Mr. Itell points out, "even within the context of the current approach to agriculture, policymakers could implement a number of changes that would make a lot of sense."

As part of the *GAO Journal*'s coverage of farm policy, we asked 10 people who have considerable knowledge of agriculture—either by having made their living through farming or by having studied agriculture issues—to consider a question: "This year, American taxpayers will spend $25 billion on food and agriculture programs. Are they getting their money's worth?" We called upon small farmers and agribusinessmen, consumer and agriculture advocates, conservationists, a banker—and their responses certainly demonstrate that farm policy has implications that extend far beyond farming.

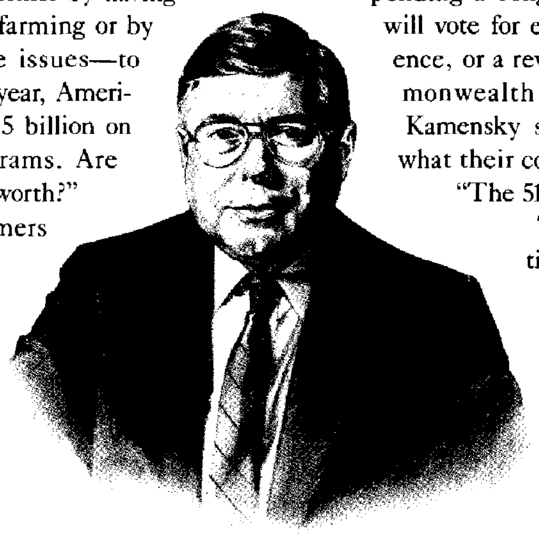
Professor Ray A. Goldberg of the Harvard Business School, one of the foremost experts on agribusiness, writes for us about agribusiness's increasing significance to the world economy. He calls agribusiness "the most important sector of the world economy and the key to global economic development."

We were also fortunate, this past April, to talk at length with Marian Wright Edelman, noted children's advocate and President of the Children's Defense Fund here in Washington. "What happens to [our children] and to our families," she told us, "will determine how well we compete economically, what kind of standard of living we're going to have, what the whole fabric of our society is going to be like in the next century."

John R. Schultz and Charles F. Smith of GAO's European Office write on another major issue: the drawdown of American forces in Europe. Everyone agrees that a reduction in our forces will soon take place, but how? And by how much? Messrs. Schultz and Smith convey a sense of just how careful policymakers are going to have to be, and just how vast will be the task that faces them.

Facing the people of Puerto Rico next summer is another question. The island became part of the United States some 92 years ago. Now, the Congress may give Puerto Ricans the opportunity to decide their own political status. Next summer—pending a congressional go-ahead—they will vote for either statehood, independence, or a revised version of their commonwealth status. GAO's John M. Kamensky spells out the options—and what their consequences might be—in "The 51st State?"

These are fast-changing times. The future, it seems, keeps arriving earlier than we had expected. It's our hope that the articles in the *GAO Journal* help prepare you a little better for it.



Charles A. Bowsher

"We Really Must Reach Out"

An Interview with Marian Wright Edelman

America's children and families have no better-known advocate than Marian Wright Edelman. A lawyer by training, Ms. Edelman is President of the Children's Defense Fund, a national advocacy organization she founded in 1973. It is headquartered in Washington, D.C.

The status of children, families, and the nation's public policy regarding both was the subject of an interview with Ms. Edelman conducted in April 1990 by Comptroller General Charles A. Bowsher. Ms. Edelman and Mr. Bowsher were joined by three members of GAO's Human Resources Division: Franklin Frazier, Director of Education and Employment Issues; Linda Morra, Director of Intergovernmental and Management Issues; and Kathryn Allen, Children's Issues Coordinator.

BOWSHER—*You've said that children's issues and family issues are the nation's number one security and economic problem. Why do you think this is so?*

EDELMAN—Because we're in trouble. At a time when this nation is facing a more competitive world, one in which we're going to need to make the most of every child's potential, we are watching the disintegration of families and the waste of children. I happen to believe that our children are the future. What happens to them and to our families will determine how well we compete economically, what kind of standard of living we're going to have, what the whole fabric of our society is going to be like in the next century.

American demographics are changing. By 2000, there will be about 4 million fewer young adults aged 18 to 24 than there were in the mid-1980s. Those who are children today are lagging behind Japanese and German children in key areas of academic achievement.

I think we need to recognize that high school graduation begins before birth, not when the child walks through the school door. If we don't invest in children before they are born, we'll find more of the American future lying in places like the D.C. General Hospital neonatal intensive care unit. It's much more frugal to spend $600 per child on prenatal care than to spend thousands and thousands to keep those little three-pound babies alive, and then pay again and again for the physical, mental, and emotional problems that come later. We're going to have to invest in our kids if we're going to be prepared for the future, and if we're to avoid paying the price of neglect: more crime, more institutionalization.

But quite apart from economics and social costs, I think we also need to confront who we are and what we want to be as a nation. You can cite any hard-nosed rationale, if you need one, for acting on behalf of America's children. But what it really comes down to is doing what we all know is right.

ALLEN—*This society has always stressed individual responsibility. Aren't there some basic values at work here against going in and helping people when it may appear that they could be doing more to help themselves?*

EDELMAN—You see this sort of thinking at work in several ways. One is when we blame children for what their parents are doing. We judge the parents and the children pay.

A second notion many of us have had for a long time is that families ought to be independent—as if all families weren't dependent in some way on support systems outside themselves. This shows up in government policy toward the poor. I don't know why, for instance, it's okay to offer tax credits for day care expenses incurred by middle-class families such as mine, but less okay to directly subsidize the day care expenses incurred by poor families.

Thirdly, we are a very diverse country with a distrust of government and of government interference in family life. We're quick to recall the failures that may have taken place in social programs. But by now, I think we have the capability to analyze programs and figure out which ones will strengthen and enable families rather than weaken or destroy them, as many of our foster care policies and many of our welfare policies have done. I think we can figure out how to enhance the self-sufficiency of families. Most parents really do want to be good parents; the question is how to build on that, how to make it more possible for them to do so.

Another thing we've done wrong is to make judgments about how we wish families were, instead of coming to grips with the realities of family life. We're all pining for a model family out of some hazy past. We've ignored, at least in the public policy arena, the realities of changing family demographics—such things as single-parent families and teenage families and two-working-parent families—many of which have been brought about by changes in the economy. We've always had teenage parents, for instance, but now a teenage mother can't just drop out of school and get into the economic mainstream. The economy demands more skills and more knowledge than she has to offer.

Bowsher—*When you talk about investing at the federal level, what sort of investments are you talking about?*

Edelman—In the near term: meaningful child care legislation, an expansion of Head Start to reach every eligible child, immunizations for all children, expansions of Medicaid and WIC [the Special Supplemental Food Program for Women, Infants, and Children] funding. Beyond that: investments in education and youth employment, employment training, housing, health, family support, and income support.

Morra—*Some would argue that there are limits to how much the federal government can accomplish, or should even try to accomplish, in affecting lives at this level. Shouldn't a lot of the responsibility fall to states and communities?*

Edelman—It depends on the kinds of problems you're trying to solve. Education, for instance, has traditionally been a state or local function. But it's very clear that there will be significant *national* consequences if we don't produce a well-educated, well-motivated work force. To me, the fact that this is a truly national interest means that the federal government has a legitimate—indeed, a necessary—role to play. Certainly this is true from an investment standpoint.

I also think that the federal government has a responsibility to ensure what I call a floor of decency under our children—in seeing, for example, that they are all born healthy—simply because they are Americans. I don't think a child's opportunity for prenatal care ought to depend on whether he happens to be born in Mississippi or New York. The child is an American first.

The federal government can also help establish the goals this nation wants to reach. I've been pleased to see more and more goal-setting by the Surgeon General on such things as infant mortality and prenatal care—even if we haven't yet taken much action to meet them. I'm glad to see people debating national goals for education and teenage pregnancy. I think that setting the goals and direction, using the White House and other forums of national leadership to set expectations, is critically important.

Frazier—*Do you think that has been lacking?*

Edelman—It certainly has been lacking over the past decade. We've seen an attempt to virtually repeal the federal responsibility for caring for children and, more broadly, for all the poor.

Morra—*Relatively speaking, though, not too many voters seemed to mind. Why was it, do you think, that the Great Society impulse grew stale for a lot of Americans?*

Edelman—I think it grew out of several things. One factor was the Vietnam War, which diverted our attention from a lot of domestic concerns, including the War on Poverty. Another factor was the economic downturn. Then you have to combine those events with the changes that occurred in the Civil Rights movement. When the Civil Rights movement began to broaden its demands to include housing and jobs and affirmative action—particularly during tough economic times—it meant, inevitably, that some people would be threatened, that some people would lose something. It's one thing to pursue basic political civil rights; it's another to try to establish the social and economic underpinnings that make for true equality. When the focus of the movement broadened, the politics became more complicated. I also think a very different set of national leaders came to the fore. In the aftermath of John F. Kennedy's assassination, and with the passing of Lyndon Johnson and Robert Kennedy and Martin Luther King, I think we lost some of the moral direction we'd had.

But I also believe in historical cycles. We attack a problem for a period of time and then get worn out with all the dissension and debate and need to rest for a while. I think that we've been in that resting period for at least a decade, during which many problems have been allowed to get worse. Rather than expand Medicaid, for instance, or health programs or AFDC benefits or food programs, the tendency has been to cut them back. So a decade passes and more families fall into poverty.

Allen—*There are something like 125 federal programs that serve children and their families. Is it possible that people see this array of programs and assume that plenty of resources are going into them, and then question whether those resources are being used as efficiently and effectively as possible?*

Edelman—The idea that nothing works—that all government is bad—has been part of the public perception for a long time. But there are a lot of wonderful people running wonderful programs all over this country who are taking the right approaches and who are making a difference and are getting results. We've got to document, again and again, what's working and why, and what's not working and why not. And we've got to get the message across that the problems involved are not insolvable, that most poor children are not part of an intractable underclass—that many of them need a simple immunization rather than protracted medical care, that most of the mothers just need reasonable prenatal care rather than some massive amount of government investment, that most kids just need a tutor rather than 12 years of special education.

I don't for a moment doubt that we can solve the problems of our children and families. But it's going to take a sustained, thoughtful set of efforts and a lot of experimentation. It's going to take trying and failing, just as it does when we want to put a man on the moon or take on some other great challenge. We're going to need to pursue the same kind of scientific experimentation in social areas until we figure out what works.

I like the idea of making domestic programs accountable for their results. I want it to happen. In fact, I'm terrified that this expanding interest in children may lead to programs that are merely cosmetic.

At the same time, though, I've also seen a double standard at work. Defense programs, for all their waste and overruns, haven't experienced the kind of criticism that programs for kids have experienced. The savings and loan scandal makes Teapot Dome look like nothing, yet there's been less outcry against this outright scandal than against programs that try to help kids. If we're going to talk about how we need a more efficient and accountable government, let's apply these standards across the board.

I just want to make one other point. We need to move the debate beyond policies and programs and dry statistics. We've got to personalize child suffering, make people see what's at stake in the choices the government makes. I remember that one of the most effective statistics we used in all of our years of doing budget analysis did not address the massive cost overruns at Defense. Instead, it was the fact that while we were cutting immunizations for poor children in 1981, we were spending $4.2 million immunizing the pets of military personnel. That made people mad.

When we make our case for children, we have to make people mad, even ashamed. Most of the time, they just don't get it. The Congress really doesn't get it. They don't really understand why we get upset when they delay child care legislation for another year, because they don't understand what it's like to be a mother trying to get across town at five o'clock in the morning to drop your kid off someplace, or what it's like at that day care center where you can barely get through the next week. They don't know anything about that life.

One of the things we're doing now is trying to get congressional people and business leaders and media people to go with us to D.C. General Hospital and see the American future lying there hooked up to these tubes and see how much it costs all of us. And I want to take them to Southeast General Hospital to see an alternative setting where better programs operate, and how much is saved in dollars and suffering.

The point is that we do have choices, that these are man-made problems that men and women can solve. But the people who make the decisions and shape the public's awareness are going to have to be taken into these housing projects and see these rats and smell that urine, and then they'll understand why kids may come to school and not be filled with confidence and enthusiasm. And they'll have to be convinced that it will cost much more to neglect these kids than to invest in them.

Bowsher—*In the past, it seems, the federal government has always had enough money to deal with major problems. But now we've allowed ourselves to get into this terrible budget situation, so that many people say that whatever new resources the* *government comes up with—a possible peace dividend, for instance—ought to go to deficit reduction. There are four or five areas that are going to be crucial to our competitiveness, but where we just don't seem to have the money to solve our problems. Does this state of affairs worry you?*

Edelman—It worries me a great deal, but I also have a very strong set of feelings about it. There are some things that you've simply got to do, not just if you're going to be competitive, but if you're going to survive intact. Investing in your children is one of them. Keeping your families together is another.

Children are a deficit reduction strategy. In a deficit era you can't afford *not* to make the up-front investment in children and families. Peace dividend or no peace dividend, you've got to take care of your kids. What do you get otherwise? The fastest growing area of public spending at the state level is in prison costs.

There's an awareness growing everywhere around the world, I think, that preventable child suffering is wrong, just as the awareness gradually developed that slavery and apartheid were wrong. In September, for instance, the United Nations will hold a summit of world leaders in New York on kids and world famine. If America expects to be a moral force in a world that is two-thirds non-white and two-thirds poor, we're going to have to demonstrate our commitment in this area.

Frazier—*I heard you mention the underclass earlier. Do you make any distinction between a child who lives in poverty and one who is part of the so-called underclass? Do we need a special underclass strategy?*

Edelman—Well, I did use the word underclass, but in the context of saying that I think most poor children aren't in it. At our office we hate the word underclass, first of all because nobody can define who's in it or why they're in it, and secondly because you can use the concept as an excuse not to act—to say that these social problems are intractable and therefore we shouldn't try to do much to solve them.

What we say instead is that most kids can be helped, and that people tend to move in and out of poverty, and that we ought to prevent as many folks as possible from falling into this condition that we fear may be an underclass.

Frazier—*We have been struggling with the concept ourselves [see "The Issue of Underclass," the GAO Journal, Number 5, Spring 1989], because you see the term coming into wide usage without any real notion of what it means.*

Edelman—We're very uncomfortable with it, although I think that when you look at some combinations of symptoms—teenage mothers with drug problems, for instance—you can clearly see there are some categories of folks none of us really know how to reach. But when I see a 30-year-old male drug addict in the subway, I know that even if we can't reach him, we might still reach his child. We mustn't lose that opportunity.

Bowsher—*In serving on the National Commission to Prevent Infant Mortality with Senator Lawton Chiles, I get a sense from some people in the business world that they understand the importance of early childhood initiatives, but that others think the job of preparing children for a competitive world begins later—in elementary school or even junior high. What's your sense of that?*

Edelman—I think that is what most of them still feel, although we're making progress. The Committee on Economic Development report [see "Investing in the Very Young" by Owen B. Butler, the *GAO Journal*, Number 3, Fall 1988] made a very strong case for reaching these children in their early years. A major part of that involves working with disadvantaged mothers.

Any way you look at it, no one's come up with anything better for kids than parents. But in this society, we don't value parenting in a way that's reflected in public policy or private sector practices. We haven't come to grips with the need to balance work and family—especially with the sorts of families that are so numerous today. How are we going to nurture and prepare the next generation? Where have our values got to change? These questions must be confronted. We've got to bring the debate out to center stage in this country.

Morra—*How do you intend to do that?*

Edelman—I think the overarching task is to convince a critical mass of the American public that this is, fundamentally, a national security problem. Neglect of our children is something more likely to destroy us than any external enemy. We can't say it enough, can't preach it enough, can't write it enough, and we've got to win over other people from all backgrounds and get them to say it, too.

From the mail I receive, and from my visits around the country, I get a sense that the people are ahead of the politicians on this one. They know that we're in trouble. People are out there hanging on by their fingernails, and middle-class people are as worried as the poor. Poverty grew in the 1980s among whites and two-parent families—among all those folks who thought it couldn't happen to them. Everybody knows somebody who's working but struggling economically, even working and homeless. People are beginning to understand that middle-class women can be one divorce away from welfare, or that middle-class kids are just a mistake or two away from drugs and crime. The letters and calls that I receive from the little nooks and crannies all over the country—from towns in Idaho and Montana, for instance—tell me that people understand this because they've experienced it or have seen it around them.

But while people are struggling in their individual ways, all their struggles haven't quite galvanized into something bigger. I think the 1992–96 period will see the nation really begin to sort through these things.

Bowsher—*Is that your prediction?*

Edelman—That's my determination, let's put it that way. By 1992, I want to have a Children's Day that will have the same sort of impact on the public's consciousness as Earth Day. I think to get things done we need to bring together a mass constituency, and I think it would be a shame if we didn't aim high enough for the brass ring. We really must reach out. •

APPRAISING
AMERICAN
AGRICULTURE

Jeffrey Itell

An Opportunity to Modernize U.S. Agriculture Policy

In light of a changing American agriculture, federal farm policy faces new scrutiny.

Several years ago, when the United States began its infatuation with oat bran, American food processors could meet rising domestic demand only by importing oats from Canada. The U.S. agricultural sector (arguably the most efficient in the world) was unable to supply the additional oats despite 60 million idled farm acres—the equivalent of all the farmland in California, Colorado, Kentucky, Louisiana, Montana, and Wisconsin.

This failure to respond to changes in demand for

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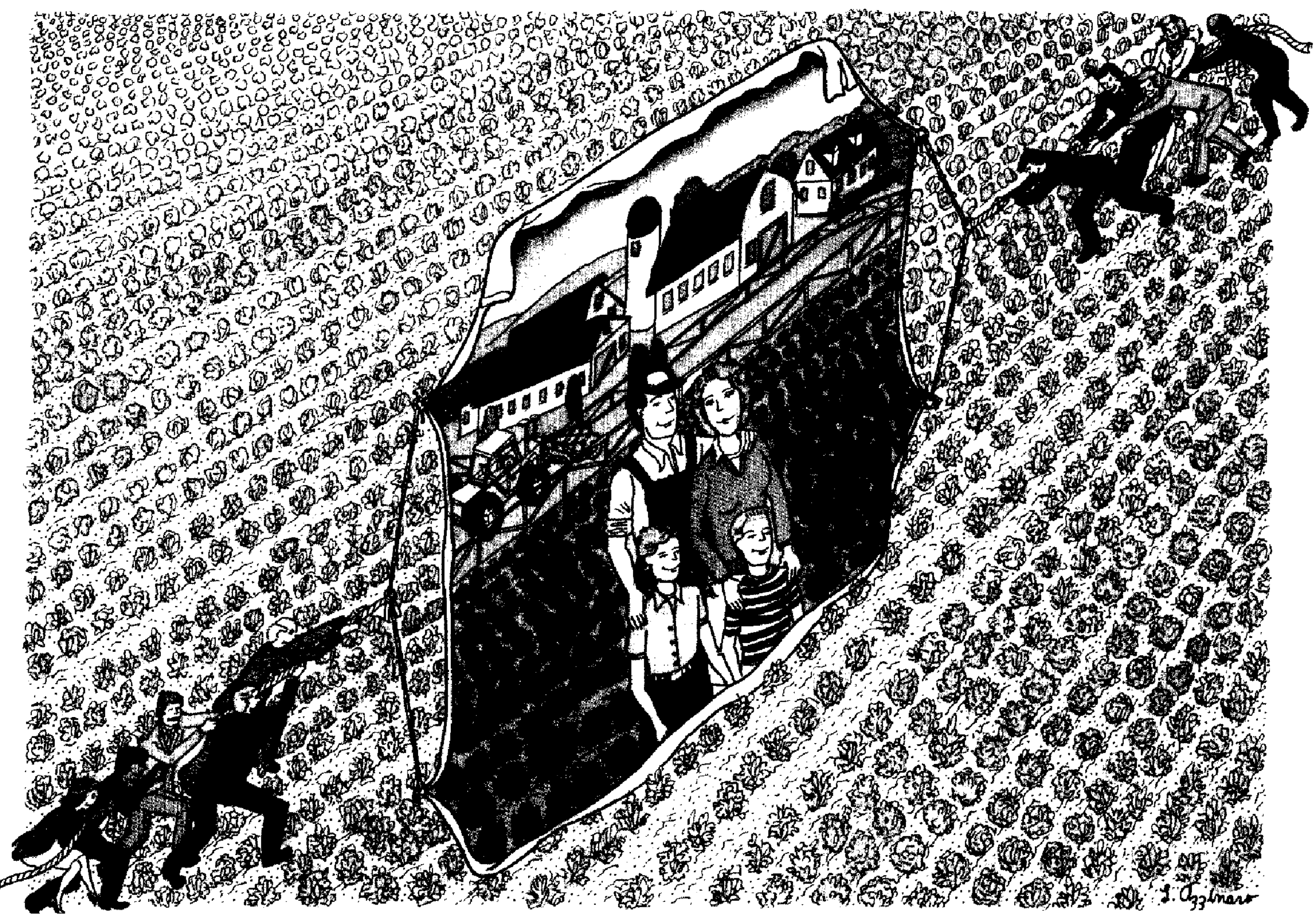

food commodities was by no means an isolated case. In 1988, for example, many Corn Belt producers lost a good marketing opportunity when they did not react to market signals suggesting that a switch from corn to soybeans would yield higher market returns. Government subsidies that are higher for corn than for soybeans, and farmers' need to maintain their corn base acreage for government subsidies, resulted in an undersupply of soybeans, a gap that some of our major competitors—Brazil and Argentina—were happy to fill.

Current agriculture policy, which was developed in the 1930s, relies on a network of supply- and price-control polices that only a Talmudic scholar could unravel.

American farmers have also failed to respond to increasing demand for canola, a crop that yields an edible oil with the lowest saturated-fat content of any oil currently on the market. World demand for canola is growing very quickly. But U.S. farm programs offer many disincentives for growing new crops. Consequently, U.S. farmers are planting only 100,000 acres of canola; in 1989, manufacturers had to import the equivalent of 500,000 acres, mostly from Canada.

The lack of flexibility in American farm programs is but one indication that much of U.S. agriculture policy is outdated. Some programs have objectives that no longer serve the public interest. And others have multiple and conflicting objectives that make them difficult or impossible to administer effectively.

Agriculture policy today

Current agriculture policy, which was developed in the 1930s, relies on a network of supply- and price-control policies that only a Talmudic scholar could unravel. The government's original aim was to smooth over some of the variations in production and price that are inevitable in agriculture, thereby providing a measure of income stability that would allow producers to farm more efficiently. Although Congress changes the program's details every few years and has added new programs to accomplish new objectives (relating primarily to conservation, the environment, and increasing exports), the federal government has continued to exercise a great deal of supply and price control over the agricultural sector.

The nation's agriculture policy attempts to ensure the provision of a safe, reliable, and affordable food supply. Every five years or so, agriculture policy is revised with the passage of a new farm bill. This bill affects virtually all aspects of the nation's economy including international trade, the environment, rural development, and domestic social welfare; it accounts for $40 billion to $50 billion in annual federal spending. (In fiscal year 1990, only about $25 billion of this went to the farm sector; the remaining $23 billion was spent on social welfare programs such as food stamps and child nutrition programs.) The 1990 farm bill promises to be one of the most significant pieces of legislation developed this year.

As laid out in the farm bill, agriculture policy uses many complicated methods—including nonrecourse loans, government purchases, direct payments, planting allotments, and marketing quotas—to support and stabilize prices and producer incomes for certain commodities. Export, market development, and scientific research programs also form part of the picture. The old saying that economics is common sense made difficult could easily apply to U.S. agriculture policy. It would be impossible to survey all farm programs in the space available here, but the major programs do fall into three basic categories:

- **Price supports**. Used to keep commodity prices higher than they otherwise would be, price supports include nonrecourse loans and direct government purchases. Nonrecourse loans are loans that the government provides to producers at a set price, with a certain crop as collateral. Should the crop's market price turn out to be lower than the price of the nonrecourse loan, the producer has the option of forfeiting the crop to the government and not repaying the loan. Essentially, this approach establishes a floor price for commodities that allows farmers to wait for prices above that floor before selling their crops. The government also establishes a floor price through the direct purchase program, in this case by stating that it will purchase any amounts of a certain commodity at a certain price. Producers know they can get this price from the government even if the market price falls below it.

- **Income supports**. Agriculture policy utilizes a variety of programs to provide additional income support to farmers. The major method, deficiency payments, operates under the premise that the government should compensate producers for the difference between the actual market price and what the government considers to be a fair market price. Payments equaling this difference are sent directly to participating producers. This method raises farmers' incomes without raising consumer prices. Disaster payments are another means of income support: Farmers are compensated for some of the difference between what they produced and what they would have produced had no disaster occurred.

• **Supply management**. As a condition for receiving price and income supports, participating farmers are sometimes required to take a number of actions to manage the amount of commodities they produce, such as abiding by acreage set-aside and reduction programs, marketing quotas, and dairy diversions (programs under which farmers are paid to reduce their milk sales). Other programs not directly related to supply management, such as soil and water conservation, have also become requirements for farm program participation. Farmers often receive additional payments for participating in these programs.

There are two additional factors to keep in mind when thinking about farm programs. First, the bulk of government expenditures provides support for only a select group of commodities: wheat, corn, barley, grain, sorghum, oats, rye, rice, peanuts, tobacco, sugar, wool, mohair, soybeans, cotton, and milk. No tomato programs, no pumpkin programs, and, of course, no broccoli programs. In fact, more than 500 crops grown in the United States receive no subsidies at all. Those that do were selected partly in response to historical events and are not dealt with uniformly, each being covered by different combinations of the available programs.

Farm programs are generally based on production, not on financial need. Most U.S. government farm payments go to about 200,000 farmers, who, on average, are wealthier than the typical American household.

It is also important to note that farm programs are generally based on production, not on financial need. The largest farms are entitled to participate along with the smallest farms. And in fact, most U.S. government farm payments go to about 200,000 farmers, who, on average, are wealthier than the typical American household. Congress has passed a variety of laws designed to limit these payments to wealthy farmers, but farmers have found the laws easy to circumvent.[1]

Fixing the farm programs

Discussions of the need to reform agriculture programs often turn on questions of goals and objectives. Both proponents and detractors of government involvement in agriculture can muster arguments to support their positions. Advocates from any side (and there are more than two sides to agriculture, as the group of articles that follows makes clear) can haul out bushels of statistics proving whatever point seems to be fashionable at the moment. For example, advocates of current programs like to stress how well American agriculture compares with that of the rest of the world. Critics, on the other hand, like to focus on the fact that each year current programs cost the American public \$30 billion—\$20 billion through taxes and \$10 billion through higher food prices. They also like to point out that Americans spend less of their income on their food not because American food is so cheap but because American incomes are so high.

Nevertheless, even within the context of the current approach to agriculture, policymakers could implement a number of changes that would make a lot of sense. According to GAO,[2] improvements would involve increasing the flexibility of programs; eliminating programs that are outdated and therefore no longer necessary (the "dinosaurs"); and providing clearer program objectives.

Flexibility

It is probably inevitable that widespread government intervention in farming has led to regulations that stifle innovation, initiative, and market responses. The country's recent experiences with oats, soybeans, and canola attest to some of the government-induced rigidity in the farm sector. This rigidity has its source in programs that require farmers to qualify for federal price and income-support benefits by establishing crop acreage bases. Each farm's acreage base for a particular crop generally represents the five-year average of the acreage planted with that crop. (Crops covered by these programs are wheat, corn, barley, sorghum, oats, cotton, and rice.)

To retain eligibility for the full amount of program benefits, farmers usually must plant program crops on the maximum number of acres they are allowed. Otherwise, program payments for the following year could be reduced. For example, if a farmer with a 100-acre base for corn chose to plant that land with soybeans, the farmer's corn acreage base would be reduced to 80 acres the next year because of five-year averaging. The farmer would then be eligible to receive only 80 percent of the program benefits to which he or she was entitled when the base acreage was 100 acres.

These rules discourage farmers from planting alternative crops, even when doing so in a particular year might be more lucrative than sticking to program crops. Farmers are thereby limited in their ability to respond to changes in the commodity marketplace. These rules also deter farmers from rotating crops on their fields—the environmentally preferred means of farm conservation.

The "dinosaurs"

Because times and conditions change, some government programs that may have been appropriate when established have now become obsolete. For example, the government no longer runs a homesteading program—providing 40 acres and a mule—to settle the West, nor does it maintain forts to protect settlers. But the government does currently operate several agriculture programs that have outlived their original purposes and are no longer necessary.[3]

• **The honey program**. Consider the honey program, which was established in 1952. In addition to supporting producer income (a goal of virtually all farm programs), the program was designed to maintain sufficient bee populations to pollinate food and fiber crops. But since the program began, beekeepers have been more concerned with increasing honey production than with providing bees for crop pollination. Producers of crops requiring pollination have not complained, however, because they have ready access to bees through rental and ownership. Therefore, according to the U.S. Department of Agriculture (USDA), the main purpose of the honey program now is to support beekeepers' incomes.

If the program were vital for the nation's economic security, one could still argue its merits. But the honey industry is relatively small and the program supports relatively few producers—mostly the nation's 2,000 commercial beekeepers. GAO recommended that Congress eliminate the program in 1985.[4] At the time, USDA agreed; but it has since backed off. Nevertheless, the program still serves little public purpose but to raise the incomes of a small number of producers at an annual cost of $40 million to $100 million.

Dairy programs contribute to periodic surpluses by encouraging the production of more milk than can be marketed at prevailing prices. During the 1980s, surplus dairy products cost the government more than $17 billion.

• **The wool and mohair program**. USDA's wool and mohair program is another example of costly farm programs with dubious objectives. The government established the program in 1954, following a decade of dramatic decline in the U.S. sheep industry. The wool program had multiple objectives, among them encouraging domestic wool production in the interest of national security, since wool was then considered a strategic material for the military. (Never mind that the United States managed to muddle through World War II without the program.) Framers of the mohair program did not specify any objectives at all.

As one analyzes the merits of the wool and mohair program, the cover of national security can be quickly dispatched: Wool has not been classified as a strategic material since 1960. So the real question is whether the wool program has been good for the economy. Industry representatives argue that the program stabilized the industry and helped slow the decline in wool production. GAO found, however, that despite high program costs, wool production has continued to decline.[5] Despite $1.1 billion in wool payments from 1955 to 1980, annual U.S. wool production declined from 283 to 106 million pounds. In 1988, the federal government was purchasing wool at $3.04 a pound when wool was selling on the market for only $1.38 a pound.

As with the honey program, wool and mohair program benefits are not widespread. Although approximately 115,000 wool and 12,000 mohair producers participate in the program, about 6,000 producers receive nearly 80 percent of all payments.

• **The dairy program**. The nation's dairy industry has changed radically since the government's dairy programs were established more than 60 years ago. In the early part of this century, milk was consumed either on the farms where it was produced or in nearby communities. Production was concentrated in certain geographic areas, productivity was low compared to today, and distribution was limited because of the lack of refrigerated transport. Consequently, there was a need for a government program to ensure adequate distribution of milk throughout the country at reasonable, stable prices. The government accomplished this by regulating milk prices and other marketing practices in those areas where producers voluntarily adopted them and by guaranteeing a minimum price for whatever amounts of certain dairy products farmers produced.

Over the past 60 years, however, dairy production has spread throughout the country and the efficiency of milk production has greatly increased. Government dairy programs, therefore, have contributed to periodic surpluses by providing farmers incentives to produce more milk than can be marketed at prevailing prices. Because of excessive milk production during the 1980s, the government purchased more than $17 billion of surplus dairy products; $2.6 billion was spent on such products in 1983 alone.

To counter these surpluses over the past decade, the government has tried to curb milk production by reducing price-support levels or by paying producers to slaughter or export their entire herds and leave dairying for five years. GAO has concluded, however, that efforts to control surpluses by paying producers to leave dairy farming or to reduce production would have no lasting effect.[6]

Instead of operating a program designed for a production system that no longer exists, the government should pursue a more market-oriented approach that could provide a lasting solution to periodic dairy surpluses and reduce federal expenditures.[7] According to GAO, Congress could accomplish this by phasing out the features of federal dairy programs that encourage increases in milk production and by continuing to penalize overproduction of milk by reducing the guaranteed price.

Clearer program objectives

Government is often called upon to do what the private sector cannot or will not. For example, fearful that they could never charge enough to cover their risks, insurance companies never offered farmers comprehensive crop insurance that covered the full range of perils. So the government has increasingly taken on the responsibility of providing what is called multi-peril crop insurance. But the government is also supposed to provide this service in a fiscally prudent manner. So far it has not been able to find a way to meet both objectives simultaneously. Consequently, the Federal Crop Insurance Corporation has required an additional $2.3 billion in federal funds to cover losses during the 1980s.

Similarly, many other agriculture programs have multiple and conflicting objectives that make them difficult or impossible to operate effectively. Perhaps the foremost example is the Farmers Home Administration (FmHA), which provides what is intended to be temporary credit assistance to family farmers whose financial situations prevent them from obtaining credit elsewhere at affordable rates and terms. In this capacity, FmHA must balance two competing objectives: first, to provide assistance to financially troubled farmers; and second, to follow sound lending practices that protect the government's and, ultimately, the taxpayers' financial interests.

Those who make farm policy could implement a number of changes that would make a lot of sense: increasing the flexibility of programs; eliminating outdated, unnecessary programs; and providing more clear-cut program objectives.

FmHA has been unable to balance these conflicting objectives.[8] Simply stated, FmHA has found itself in financial trouble because its mission, in part, is to provide credit to uncreditworthy farmers. As a result, FmHA has become a continuous rather than a temporary source of subsidized credit for many borrowers (many of whose loans will never be repaid). As of September 30, 1989, about 35 percent of all FmHA farm program borrowers had had at least one FmHA loan continuously for 10 years or more.

The cost of this program has been enormous. Since its inception, FmHa's revolving fund has accumulated a deficit of nearly $29 billion. About half of its $23 billion in outstanding direct farm loan principal is owed by delinquent borrowers and is vulnerable to future losses. In fiscal year 1988 alone, FmHA reported $30.5 billion in unpaid principal and interest on its direct farm loan portfolio.

Because FmHA's financial condition continues to deteriorate despite an overall improvement in the agricultural economy, Congress faces fundamental questions about FmHA's ability to serve as a temporary source of credit while fulfilling its role as a lender of last resort. Unless FmHA's role and mission are reevaluated, its farm loan portfolio will continue to deteriorate and losses will mount.

An era of competition

Despite agriculture policy's complexity and, in some areas, outdatedness, its beneficiaries have grown accustomed to it. After years of such extensive federal intervention in agriculture, other policy options have begun to seem inconceivable. Yet many choices were available to the New Dealers creating policies to address the severe farm crisis of the 1930s. That they constructed the current policy only reflects what seemed politically possible and economically reasonable at that time.

It's important to keep in mind that the New Dealers devised the current array of farm programs when worldwide competition was not a primary concern. They felt, rather, that their most important objective was to stabilize the farm sector—to insulate producers from the vagaries of weather and price fluctuations. All mature industries seek some level of stabilization: for example, a steady supply of parts and raw materials and a well-trained and content work force. But U.S. agriculture policy may now provide too much stabilization and not enough flexibility and incentive to compete in the world marketplace.

This emphasis on stabilization may no longer be appropriate, given that agricultural trade is becoming increasingly internationalized and that the United States is facing increasingly tough competition for overseas markets. Unlike many industries, U.S. agriculture still enjoys a competitive advantage on the international market. America's food and agricultural sector currently contributes $18 billion annually to the U.S. balance of trade. But whether the United States can maintain a positive balance in this sector is an open question, because its competitive advantage is shrinking for some products and disappearing for others. Many competitors—particularly Australia, Brazil, and the European Community countries—have made inroads into the nation's overseas markets.

That is why this year's farm bill is so critical. One of Congress's main goals in drafting the 1985 farm bill was to boost the competitiveness of U.S. farm products overseas. Two new programs were enacted—the Export Enhancement Program and the Targeted Export Assistance Program—and export credit guarantee programs were strengthened.

So far, the 1990 farm bill promises more of the same. At the same time, there are important developments in the current negotiations of GATT (the General Agreement on Tariffs and Trade), scheduled to be completed this year. Specifically, the Bush administration has taken an aggressive free-market stand in these talks, placing top priority on eliminating virtually all agricultural subsidies. If this attempt is successful, Congress will need to revamp most of the nation's current farm policy. Even if the negotiations are only partially successful, and call only for the gradual dismantling of farm programs, Congress will, as we have seen, have many candidates to choose from. One can only hope that Congress is as successful in meeting the challenges and opportunities presented by the new era of international agriculture trade as the New Dealers were in confronting the challenges of their time. •

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1. See *Farm Payments: Basic Changes Needed to Avoid Abuse of the $50,000 Payment Limit* (GAO/RCED-87-176, July 20, 1987).
2. See *1990 Farm Bill: Opportunities for Change* (GAO/RCED-90-142, Apr. 10, 1990).
3. See *1990 Farm Bill: Opportunities for Change*.
4. See *Federal Price Support for Honey Should Be Phased Out* (GAO/RCED-85-107, Aug. 19, 1985).
5. See *Wool and Mohair Program: Need for Program Still in Question* (GAO/RCED-90-51, Mar. 6, 1990).
6. See *Dairy Termination Program: An Estimate of Its Impact and Cost-Effectiveness* (GAO/RCED-89-96, July 6, 1989).
7. See *Federal Dairy Programs: Insights Into Their Past Provide Perspectives on Their Future* (GAO/RCED-90-88, Feb. 28, 1990).
8. See *Issues Surrounding the Role and Mission of the Farmers Home Administration's Farm Loan Programs* (GAO/T-RCED-90-22, Jan. 25, 1990, and GAO/T-RCED-90-27, Feb. 8, 1990).

AT $25 BILLION A YEAR, PLENTY TO THINK ABOUT

THE GAO JOURNAL recently approached 10 experts—people who have made their living in agriculture or studied the issues surrounding U.S. agriculture policy—and posed them a question:

"This year, American taxpayers will spend $25 billion on food and agriculture programs. Are they getting their money's worth? What cutbacks, increases, or re-allocations of federal resources would you advocate?"

The answers we received appear on the following pages. The range of issues they raise certainly affirms that, as the author of the preceding article pointed out, "there are more than two sides to agriculture."

U.S. DEPARTMENT OF AGRICULTURE OUTLAYS*

FISCAL YEAR 1991 BUDGET

(Dollars in millions)

RESEARCH AND EDUCATION *(Including Agricultural Research Service, Cooperative State Research Service, and Extension Service)*	$1,364
COMMODITY PROGRAMS	10,239
INTERNATIONAL PROGRAMS	1,144
SOIL AND WATER CONSERVATION *(Including Soil Conservation Service and Conservation Reserve Program)*	2,940
FOREST SERVICE	3,020
SMALL COMMUNITY AND RURAL DEVELOPMENT *(Including Farmers Home Administration, Rural Electrification Administration, and Federal Crop Insurance Corporation)*	6,900
MARKETING AND INSPECTION SERVICE	929
ECONOMICS AND STATISTICS	139
DEPARTMENTAL ACTIVITIES	234
RECEIPTS	−1,590
	$25,319

*Figures are drawn from the 1991 Budget Summary, U.S. Department of Agriculture, pp. 2–3. Includes all USDA outlays except those for USDA-administered social welfare programs (such as Food Stamps, Child Nutrition, and the Special Supplemental Food Program for Women, Infants, and Children), which total $23.4 billion.

"There is basically no need for major changes—certainly none that might require large amounts of taxpayer money."

Richard P. Anderson

THE $25 BILLION in taxpayer money spent on food and agricultural programs must be seen, first of all, in the context of the overall size of U.S. agriculture. In 1989, gross receipts for this sector of the economy totaled more than $150 billion; farm assets, about $780 billion; net farm income, about $50 billion. The basic "return on assets" for production agriculture is thus about 6.5 percent, or about 5 percent if direct government payments are excluded from income.

Of the $25 billion spent by the government on food and agriculture programs, about half goes toward direct payments to farmers. The question for the taxpayer is whether this money is helping U.S. agriculture become a more viable industry for the future—both in terms of producing the kind and quality of food the consumer wants at the price the consumer wants to pay, and in terms of competing abroad for export markets.

The quality and safety of our domestic food supply is presently the subject of extensive debate. I believe that the record contradicts all the hysteria and hype. No finer food system than ours exists on the face of the earth, and there is basically no need for major changes—certainly none that might require large amounts of taxpayer money.

To me, then, the big question is how competitive our agricultural sector can become in serving world markets. As with all American businesses, the ultimate future market has to be international.

The opportunity likely to unfold over the next decade or two will be truly immense. The United States has only about 5 percent of the world's population but about 25 percent of its food-producing capacity. In a world of over 5 billion people, only about 2 billion are reasonably well-fed. The remainder get by on about "two square meals per day," when they all would like to have three. If the remaining 3 billion people find the means to buy the additional meal, then demand for the world's exportable food will quadruple, and in this country we may have the opportunity to double or even triple our agricultural production. I'm not talking here about food donations, but about the realistic business opportunities that will present themselves to American agriculture as world incomes increase enough to allow the world's people to eat what they want. The breakdown of communism and the growth of market economies around the world bode well for future income growth.

Regardless of new demand, however, export markets for our products will remain intensely competitive. Effective competition requires more than just being the most efficient producer. In this we are certainly the leader. But other nations seek to compete by means of subsidy programs for their farmers, and I

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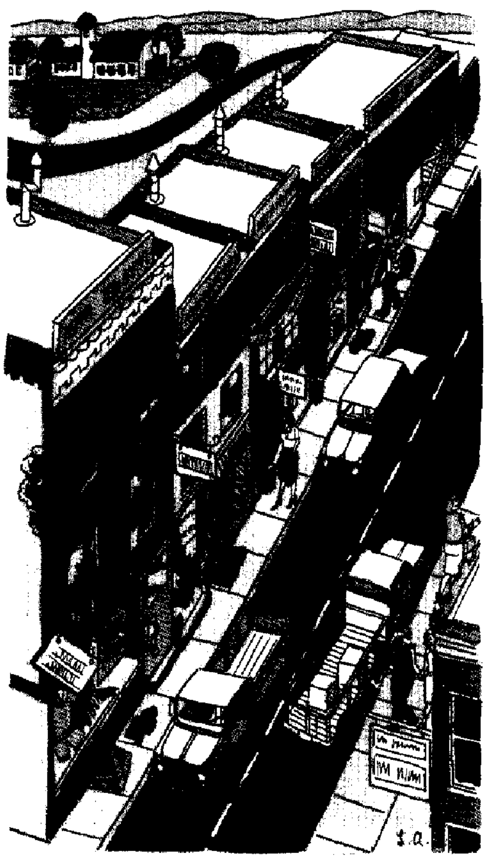
think that we've all stopped trying to kid each other about this. Until the General Agreement on Tariffs and Trade (GATT) participants can agree on a new agricultural trade protocol in which subsidies are progressively reduced and eventually eliminated—by all countries—then it seems to me that our yearly expenditure of $10 billion to $15 billion on price supports and export enhancements is justifiable. I would not want to "disarm" unilaterally, but I would certainly be in favor of eliminating these subsidies as part of a global agreement.

Research and extension in U.S. agriculture cost the taxpayer about $2 billion. With the kind of eventual world demand I foresee and with the constant need to produce more from fewer inputs—a consideration derived as much from simple economics as from environmental concerns—I think that the expenditure on research is entirely proper.

Altogether, the future of agriculture in the United States is mainly a question of public attitude. We have the resources to serve world markets. But will we decide finally to *use* them effectively?

"We should not ignore our responsibility to keep the agriculture system of family farmers in place."

Linda F. Golodner



WALK INTO ANY supermarket in the United States and you will see one measure of the success of American farm policy: The shelves are filled with abundant supplies of a wide variety of fresh and processed food products to meet any consumer's tastes and food habits.

When that same consumer walks up to the supermarket checkout stand, another measure of the success of the American food production system is evident: He spends less of his hard-earned wages on food than any other consumer in the world. The average American family spends only 10.4 percent of its disposable income to keep itself fed.

Drive down the streets of thousands of rural communities in America's heartland, however, and you get a different measure—of the failure—of America's farm policy. You find empty storefronts and deteriorating services, all of which take a toll on the lives of those individuals who have made America's abundant food supply possible.

Take a closer look at that supermarket tab and you see yet another indication that all is not well with America's farm policy: The U.S. farmer today receives only $1.40 out of every $14.41 bag of groceries, according to one recent survey.

These are some of the early warning signs that something is wrong with American farm policy and that the system that produces an abundance of reasonably priced food is in jeopardy.

At stake today is the issue of who will control this country's food production resources. The 1980s saw the demise of several hundred thousand full-time commercial family farms because they did not receive enough income from

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farming to remain in existence. According to a recent Congressional Budget Office report, another 500,000 commercial farms could be lost in the 1990s if Congress authorizes the price levels embodied in farm legislation now under consideration.

This would not be in the best interest of the American consumer. The public is not well served by a farm policy that tends to concentrate food production into a very few hands and removes it from diverse, mostly family-owned businesses in rural communities. When individuals and families cannot earn a living from their farms, they also cannot support local businesses, pay taxes for schools and hospitals and public utilities, or support rural religious or community organizations. Moreover, it is the family farmer who respects the environment, who knows and protects the richness of the land so it can be passed to the next generation in the same fertile condition as inherited. It is the family farmer who does not exhaust the soil by responding to economic concerns alone. Without this personal attachment to the land and understanding of what it can reap, the diversity and quality of food available to the consumer could be compromised.

What is needed by the American consumer is a farm policy that fosters this diversity and prosperity in rural communities. The nation needs to spend its federal farm policy dollars in such a way that farmers can get a fair and reasonable price in the marketplace; in turn, rural communities will prosper.

Even though this country has to watch every federal dollar that is spent, we should not ignore our responsibility to keep the agriculture system of family farmers in place. We need to keep in mind that only 16.9 percent of fiscal year 1990 Department of Agriculture outlays actually went to support farm prices. The rest went to other vital programs, such as food safety inspections, school lunches, food stamps, and research to keep this country's largest and most productive industry on the cutting edge of technology.

Cuts in federal farm spending would be an unwise investment decision—one that this country and the American consumer would come to regret.

"If the objective [of current policy] is to ensure a supply of cheap food, then the public is certainly not getting its money's worth."

Vernon M. Crowder

TO DETERMINE WHETHER the American public is "getting its money's worth" from agricultural programs, it is necessary to identify their objective.

If that objective is to ensure a supply of cheap food, then the public is certainly not getting its money's worth. It is true that food is generally less expensive in the United States than in many other industrial countries. This results, however, not from federal farm programs but from the productivity of American

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agriculture and the intense competition in domestic commodity markets. And the fact that Americans spend a comparatively small portion of personal income on food does not reflect food's "low cost"; rather, it reflects Americans' relatively high disposable incomes—a result of high U.S. productivity in a number of sectors.

Some farm programs have occasionally encouraged farmers to dispose of their commodities at prices below their production costs, which would seem to serve the objective of providing cheap food for the public. But in the case of commodity supports, the programs' primary effect has been not to lower food costs but to increase the value of the real estate that produces the food, since farmers qualify for support payments primarily on the basis of the acreage they own or operate. In fact, historically there has been a very high positive correlation between total government expenditures on farm programs and average agricultural real estate values. In general, these increased real estate values and prices have had the effect of raising the overall average costs of production. Paradoxically, then, federal support payments can have the effect not of lowering food prices but rather of raising them.

Farm programs have also contributed to the volatility of commodity markets. Many farm program benefits are linked to the amount of commodities produced, which gives farmers nonmarket incentives to produce those commodities. As a result, inventories sometimes reach excessive levels; at that point, farm programs must be adjusted to discourage the production of surpluses. Such market interventions frequently either contradict or reinforce market forces in such a way as to cause even greater surpluses or shortfalls.

Many federal farm programs are also aimed at stabilizing market supplies or ensuring consistent product quality. But most such efforts are administered by farmers, who use them to restrict total production, thereby raising market prices. This benefits producers but not consumers. These programs can also end up keeping new producers out of the market or impeding expansion efforts by low-cost producers.

Mention should also be made of restrictions on food imports. Their effect is merely to raise the price that American consumers have to pay for these goods.

Overall, then, federal farm programs seem relatively ineffective at ensuring a supply of inexpensive food. But another objective these programs are often assumed to have is that of providing an economic "safety net" for farmers, especially smaller ones. Farm programs are seen as constituting a social policy aimed at slowing the historical shift of the agricultural industry from small farming to agribusiness. In this regard, however, they appear to have been only partially successful. Many smaller farmers either have left the industry or have become larger farmers, expanding their operations to capitalize on the newer technologies, which require greater economies of scale. And although there are still relatively few larger farmers, they now account for a very high proportion of total agricultural production.

At the same time, the number of small farms has also been increasing, but farm program benefits are not relevant to most of these new farmers. For one thing, most of the new operations are located near communities where farmers can obtain other employment to supplement their farm incomes. Furthermore, many who have recently entered farming have done so for "life-style" considerations; they generally are not concerned with receiving federal benefits. Even in the cases of small farmers who do receive benefits, these benefits have not always prevented them from acquiring high-priced real estate by taking on excessive debt, thereby jeopardizing their financial futures. (As we have seen, real-estate prices are high partly because of federal support payments.)

Any significant changes in farm policy must be made with policy objectives in mind. If the goal is to ensure that competitively priced food is available, the federal government should allow the agricultural and food processing industries to respond to market forces, independent of support payments or restrictions on food production or imports. If farm policy is understood to have a social component, farm benefits should be decoupled from the farmer's production decisions and real estate holdings. This would enable these benefits to function more effectively as a safety net, since they could be explicitly targeted toward the specific groups that the public wished to encourage. Many smaller farmers, however, might resent this concept because it suggests that farm programs are merely income transfers or "welfare."

"We do have a 'cheap food' policy in America."

Trenna R. Grabowski

ARE AMERICAN TAXPAYERS getting their money's worth from government spending on food and agriculture programs? Indeed they are. American citizens enjoy the most abundant, safest, and most wholesome food—along with the largest selection—of any country in the world. According to the Agriculture Council of America, less than 15 percent of the American consumer's household budget is spent on food. This percentage is lower than in any other country. We *do* have a "cheap food" policy in America.

The amazing production capability of the American farmer leaves *98 percent* of Americans free to pursue academic and humanitarian interests, science and technology, literature, the arts, and other endeavors.

Ideally, the farmer would produce for a free market, one governed only by the law of supply and demand. But the ideal is not the actual, and interference by governments over the decades has become a very real factor in the marketplace. We operate in a global economy, and the trade-distorting practices of other countries, as well as our own, have very real implications for the world market. The current General Agreement on Tariffs and Trade (GATT) negotiations are aimed at correcting the well-intended but sadly misguided efforts of many governments.

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American farmers are productive and efficient. They can compete in a free market situation that rewards production and marketing efficiencies. But until that much-talked-about "level playing field" is an actuality, the safety net of deficiency payments, set-aside programs, guaranteed loans, and disaster assistance will remain an economic necessity for American producers.

The Food Security Act of 1985 encouraged a market orientation, with more of the farmer's income coming from the marketplace and less from the government. The cost of the price support program has gone down in recent years, a trend that, I hope, will continue under the 1990 farm bill. The production flexibility being written into the bill will allow farmers to respond, that is, adjust their production according to market forces.

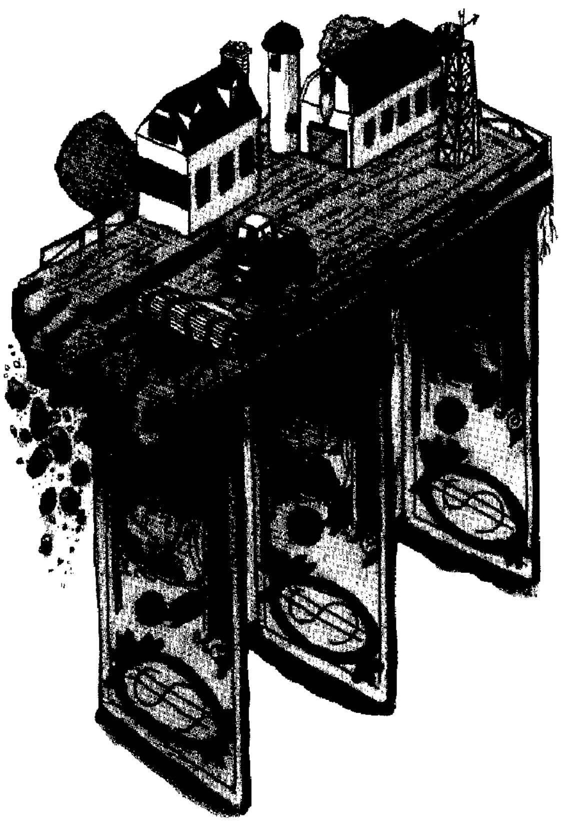
In allocating resources among government farm programs, we would do well to emphasize export development and market enhancement to provide an expanded horizon for U.S. farm products. It would be good to see government involvement redirected toward programs that more effectively encourage a healthy, contributing agriculture sector. Ideally, the government commodity loan program should be devised as an alternate source of credit for the farmer, rather than as a program to guarantee prices. The emphasis should move toward market development; a broader use of the Foreign Agricultural Service; a revolving fund for Commodity Credit Corporation credit to encourage sales to developing countries; and a greater emphasis on trade, including the elimination of trade barriers. Encouragement of the creative use of vertical integration—selling products in various stages of production—would add jobs and improve the U.S. economy.

We all benefit from government research and development in the agricultural area. Thanks to the agricultural research programs of past years and USDA educational efforts, the American consumer is aware of the concept of a healthy diet—and has access to the foods that make up that diet. The government should go further to encourage research to develop alternative uses for traditional crops—such as degradable bags and diapers, road de-icer, fuel derived from corn, and newspaper ink derived from soybeans. Through agricultural research, we are finding new alternative and industrial crops; an example of these is kenaf, which can be used to produce paper and is an annually renewable resource.

We all benefit from the fact that farmers take their stewardship seriously. Farmers were the original environmentalists. Contrary to what one hears, farmers have been practicing low-input sustainable agriculture (LISA) for years—even before the practice became widely recognized enough to earn its own acronym. Farmers routinely take soil samples. They apply the levels of fertilizer necessary to achieve optimum fertility. They replace what their crops take from the land. As for crop protectors, farmers apply only what is needed to control specific pests. After all, it would not make sense economically for farmers to use more product than necessary to get the job done. Farmers have the same environmental concerns as the rest of us; they are careful about farming practices. Many are second- and third-generation farmers, born on the land they farm, and they want to preserve that land for their children and grandchildren. The modern farm practices they employ reflect a healthy respect for the land that feeds millions.

"Many government programs . . . create an economic pressure to misuse the agricultural resource base . . ."

Ralph E. Grossi



THE CURRENT PRICE and income support structure of U.S. farm programs reflects policy objectives encompassing both economic and social values; purportedly, the overall goal is to ensure an abundance of food and fiber at reasonable prices. But what has been the cost? Many government programs designed to support farm income and commodity prices at the same time create economic pressure to misuse the agricultural resource base—a pressure that is not adequately counteracted by laws that ostensibly promote agricultural conservation.

In particular, current commodity program rules lock in rigid production patterns that dictate continuous cultivation of certain crops. Therefore, because of the economic considerations involved, farmers are effectively discouraged from practicing crop rotation to retain or restore soil fertility, and they are encouraged to expand agricultural production into environmentally sensitive areas, such as highly erodible lands. Moreover, payment provisions may prompt farmers to strive for maximum yields through excessive use of fertilizers and intensive cropping. In these ways, commodity programs present a financial barrier to the use of sound conservation practices.

Commodity programs also tend to skew farm production. Rather than stimulate cultivation geared toward consumer demand, these programs perpetuate a "plant for the program" mentality among program participants. The financial security offered by current farm programs provides a powerful incentive to plant crops covered by the programs even when the local markets might indicate that other crops would be more lucrative choices. This sometimes results in shortages of non-program crops.

During consideration of the 1990 farm bill, Congress has tried to introduce flexibility into the commodity program rules. Many proposals reflect a concern for making the programs more responsive to market forces. Others were designed to allow farmers the freedom to adopt more ecologically sound production practices. Yet these are simply attempts to fine-tune the existing policy structure; one cannot help but wonder if the problem is not just a few misguided program details but rather the policy structure itself.

Consider the fact that in 1988 this country paid $12.5 billion to farmers under subsidy programs—four times as much as was spent on conservation. These direct government payments to farmers came to approximately $35 million *each day*. More than 50 percent of these payments went to the largest 15 percent of U.S. farms (as measured by volume of sales); the smallest 70 percent of U.S. farms received only 18 percent of direct farm payments. It is difficult to justify the sum of outlays going to a relatively small number of wealthy farm operators.

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Perhaps it is time to reassess this nation's agriculture policy structure. It is one thing to spend billions of taxpayer dollars on programs that achieve a current policy objective. It is another to spend that amount on programs that subsidize the destruction of our natural resources to the detriment of many and the benefit of only a few. Since Congress seems more than willing to continue relatively high farm support payments, why not use those dollars to achieve contemporary public objectives? Instead of encouraging often unwise production choices, could those payments go to farmers for resource stewardship? The American taxpayer might be more amenable to continued farm subsidies if they were used to correct some of the environmental problems currently associated with agriculture.

"A major consideration to be kept in mind when framing agriculture policy is the policy's social impact."

Don Reeves

FOOD AND AGRICULTURE policies should contribute to three broad goals: to ensure food security; to protect and enhance the environment; and to build community.

First, food policies should ensure that everyone has access to enough food to sustain productive life. Good food, even luxury food, is practically a given for those who read and write for policy journals such as this one. But secure access to food has not been achieved for everyone—not even for all U.S. citizens. If you doubt this, try living for a few months on the U.S. Department of Agriculture's Thrifty Food Plan, which forms the basis for allocating food stamps. Then recall that half the families eligible for food stamps don't get them, and that because the deductions allowed for housing are low many families are forced to choose between paying the rent and buying food. Food prices are reasonable, but the safety net needs repair.

The U. S. contribution to world food security also gets a mixed score. For the past half-century, the United States has been the world's principal reserve granary—often inadvertently, as a result of domestic commodity programs, but more deliberately since the creation of formal grain reserves in 1976. This country remains the world's largest food aid donor, as well it should. Three times over the past decade, America's large government-held and farmer-owned reserve stocks have seen the nation and the world through crop shortfalls without food shortages or serious price increases.

But the storage bins are now nearly empty, largely as a result of the U.S. drive to dominate world grain markets. This could have disastrous consequences for the poorer food-importing nations. Because of the U.S.-European Community subsidy war, food prices for these poorer nations have remained

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low; but at the same time, these low prices, coupled in some instances with misuse of food aid, have undercut poor nations' efforts to develop their own food-producing capacity. With this capacity low, and U.S. reserves low as well, there is an increased possibility that crop failures could lead to famines.

The United States could enhance its role as a dependable supplier of grain in world markets by more prudently managing its grain reserves. These reserves should be continued—with international cooperation if possible, but by the United States alone if necessary. At present, U.S. grain reserves are too low.

The second major goal that agriculture policy should pursue is the encouragement of stewardship and sustainability. Through the early 1980s, about one-third of U.S. cropland was eroding at a threatening rate. Several provisions of the 1985 farm bill aimed to slow further damage: the Conservation Reserve Program; acceptable conservation practice as a condition of eligibility for commodity program benefits; and applying brakes to the plowing up of grasslands and wetlands.

The concept of sustainable agriculture is gaining favor, but this country's grasp of the idea and of its policy implications is still rudimentary. Much more research is needed, particularly to understand the complex interactions and trade-offs between fertilizer and pesticide use, on the one hand, and soil health, water quality, and food quality and safety on the other hand. In the meantime, commodity program rules, which now reward intensive farming practices and planting of the same crops on the same land year after year, should be changed to encourage practices less likely to cause long-term degradation of natural resources.

A third major consideration to be kept in mind when framing agriculture policy is the policy's social impact. Although lip service is paid to the tradition of family farms, broad social issues are currently given very little thought. This is a serious oversight, because clearly the nature and distribution of farm commodity program benefits affect the number and character of farms as well as the health of the communities in which they are located. One can make a strong case for stabilizing farm family incomes—particularly for families whose livelihoods depend primarily on their farms. But it seems difficult to justify the ever larger payments that go to families whose farms have expanded beyond modest size and who are much better off than average U.S. taxpayers.

As things now stand, farm workers rank very low in nearly every social indicator of well-being—a result not only of agriculture policy but also of tax, immigration, and labor policies. Furthermore, the types of marketing systems that are permitted or encouraged are leading to dramatic changes in the variety and quality of foodstuffs—changes that are not always to the benefit of the American consumer. Add up these considerations—food security, environmental sustainability, and social consequences—and it becomes clear that if this country thought more clearly about the goals of its agriculture policy, it would most likely decide that substantial changes were in order.

"Sure, identify ways to save in agriculture spending . . . but also check the government's other spending activities."

Dean Kleckner

IN 1990, FARMERS are receiving about $8.2 billion in support payments from the federal government. Other federal agriculture programs, such as export subsidies, agricultural research, the U.S. Forest Service, the Farmers Home Administration, conservation programs, and inspection services, add $17 billion. Food stamps and other programs to help the poor add $23.5 billion to the U.S. Department of Agriculture's (USDA) budget.

A budget rarity, USDA's commodity support costs have actually decreased over the past 5 years. Payments to farmers fell $11 billion, while Social Security and medical outlays soared $91 billion, defense costs jumped $44 billion, and health costs rose $24 billion.

What does the taxpayer get for the money paid to farmers? Peace of mind, economic growth, jobs, and full bellies. America's farmers are the world's most productive. It is a rare American consumer who has seen empty shelves at the market, a common occurrence in other lands.

Furthermore, we pay less for what we eat than do inhabitants of other countries. While Americans spend about 11 percent of their income for food, European and Japanese consumers spend between 15 and 20 percent, South Americans spend between 30 and 40 percent, non-Japanese Asians spend from 35 to 50 percent, and Africans spend about 60 percent.

Our food, besides being less costly, is safer and more wholesome, due in part to the quality assurance function of USDA—financed, of course, by taxpayer money. Our foodstuffs are also frequently more nutritious, thanks to innovations and improvements provided by government research, again funded by the U.S. taxpayer.

A robust American agricultural sector benefits the entire economy. While less than 1 percent of America's workers are farmers, more than 21 percent of the nation's work force depends on agriculture for its paycheck.

Export sales of U.S. farm goods are also extremely important to the country's economic growth. Agricultural exports habitually exceed imports, making farm goods a positive contributor to our balance of trade. We will sell $40 billion worth of farm goods to foreign buyers this year, about one-fourth of our total production of food, feed, fiber, flowers, and lumber. Remember that every $1 billion in export sales creates 30,000 jobs, and you see the human, as well as the economic, value of increased exports.

Rather than scrutinize the $8 billion in commodity support payments to farmers, take a look at the country's annual trillion-dollar spending spree. Sure, identify ways to save in agriculture spending, as has been done in a major

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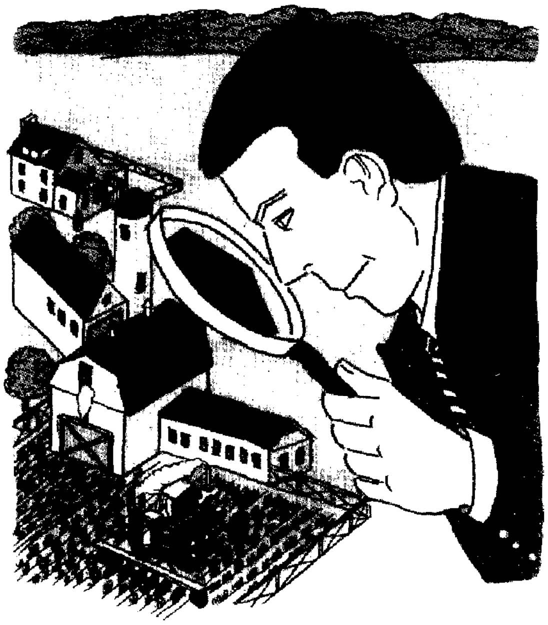

way over the past 5 years. But also check the government's other spending activities. Nearly 75 percent of government spending is exempt from Gramm-Rudman-Hollings budget-balancing scrutiny and resultant penalties. Agriculture is unprotected and bears an excessive burden when the law calls for across-the-board budget cuts.

Agricultural research and plant and animal health inspection services are two areas that could suffer if further cuts occur. Scientists, for example, are on the verge of producing disease-resistant plants that manufacture their own insect repellents. Research funding cuts would stifle such advances. Inspection services are also crucial in providing quality, wholesome agricultural products. Imported diseases, such as hoof-and-mouth disease, or pests such as the Medfly, pose constant threats to our livestock and our fields. Research and inspection funding should be increased rather than cut.

Payments through USDA to farmers yield tremendous dividends for America. Only here do citizens boast of abundant supplies of wholesome, nutritious food at bargain prices. A strong agriculture is a major contributor to a strong national economy and farmers are proud to be a part of it.

"An environmentally sound farm policy would reinforce, rather than subvert, American farmers' commitment to stewardship."

Douglas P. Wheeler

PREDICTABLY, CONGRESSIONAL DELIBERATIONS about the 1990 farm bill have been accompanied by editorial-page expressions of concern, mostly focused on the high cost of farm subsidies. Although the price of this year's legislation is likely to fall short of the record set in the mid-1980s, when Reaganomics resulted in costs of more than $30 billion annually, the rationale for heavy federal subsidies is still subject to question. Endorsing legislation that would deny payments to farmers who earn more than $100,000, or to farms with sales of more than $500,000, the *New York Times* recently urged that the nation "kick wealthy farmers off welfare."

High as the farm bill's costs are likely to be, however, they do not include an accounting for the irreparable damage to natural resources and the environment that can be caused by today's "industrial agriculture." Intensive, large-scale farming is the regrettable, if understandable, response to a farm policy that subsidizes production and obscures market signals. Those subsidies, and the agricultural practices they support, have contributed substantially to soil erosion; depletion of freshwater aquifers; contamination of streams, rivers, and bays; destruction of wetlands; and the loss of wildlife habitats. But for the government's intervention, past practices suggest, most farmers would be careful stewards of the land upon which they depend for their livelihood.

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At the very least, an environmentally sound farm policy would reinforce, rather than subvert, American farmers' commitment to stewardship. During debate on the 1985 Farm Bill, an unprecedented coalition of conservationists, farmers, and agricultural economists sought to reconcile the exigencies of price supports and other farm payments, on one hand, and the imperative of environmental protection, on the other. They succeeded in securing enactment of a far-reaching Conservation Title, which for the first time established linkage between these previously contradictory public policy objectives.

In essence, the Conservation Title stipulated that farmers shall not be eligible for commodity payments unless they make adequate provision for soil and water conservation. The Title also established a "conservation reserve" of highly erodible lands (now totalling 32 million acres), in which farmers are paid to substitute cover crops, such as trees and grass, for row crops. In addition, the Title imposed sanctions on those who destroy wetlands (the so-called "swampbuster" provision) and previously uncultivated grasslands (the "sodbuster" provision), and authorized the acceptance of conservation easements as payment for farm debts. These innovative programs have proved to be not only cost-effective and environmentally sound, but also popular among farmers. Five years after the imposition of "conservation compliance" requirements, a survey of 900 farmers in 15 states found agreement among an overwhelming majority (as high as 84 percent in Colorado, for instance) that they should be obliged to conserve fertile soil in return for federal farm program benefits.

The same coalition of conservationists, farmers, and agricultural economists, now joined by consumer advocates, has worked to make comparable progress on environmental goals in 1990, stating quite rightly that "farm policy is environmental policy and consumer policy." It seeks to increase the protection of wetlands and—for the first time—to prevent pesticide and nutrient pollution of groundwater and surface water.

Will taxpayers get their money's worth from the 1990 farm bill? Perhaps not, as the *New York Times* suggests, unless welfare payments to the wealthy are sharply curtailed. But, because farmers and legislators have shown such commendable sensitivity to the environmental implications of farm program payments, we can be hopeful that tax dollars will at long last be used to conserve and enhance, rather than degrade, the quality of soil and water resources.

"It is imperative . . . that government officials crafting future agricultural policy recognize the globalization of agriculture . . ."

Mike Harper

FEDERAL EXPENDITURES ON agriculture affect all Americans. Farming and agribusiness provide jobs for nearly 20 percent of the U.S. work force and account for approximately 20 percent of Gross National Product (GNP). American farmers not only feed the U.S. population, but also export roughly one-third of the crops they produce, at a value of $20 billion annually—which helps offset our overall balance of payments deficit. Americans spend a much smaller

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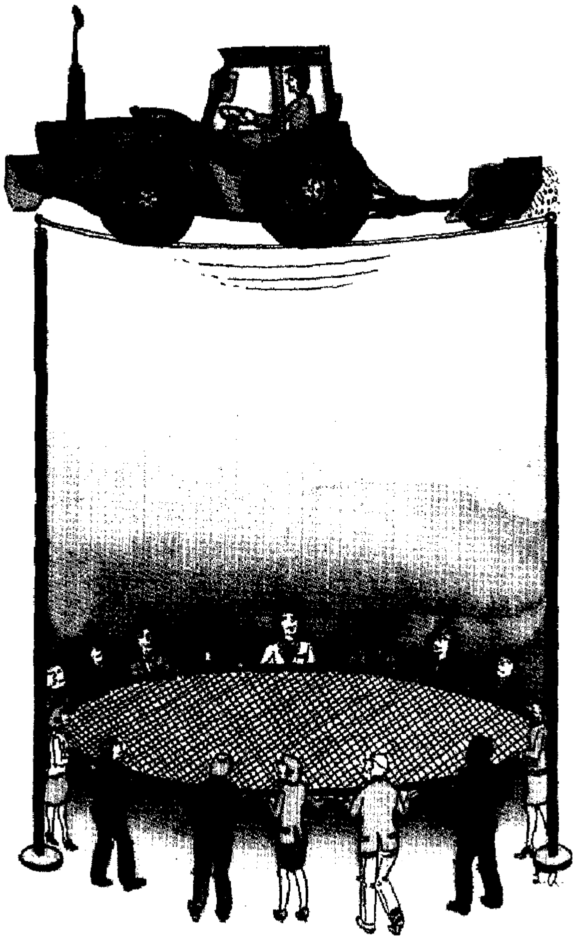

percentage of their income on food than the residents of any other country, yet they eat out at restaurants more often and benefit from the highest quality and most abundant food supply in the world.

For the most part, federal expenditures on food and agriculture have proven to be a wise investment. During the past decade, federal spending on commodity programs represented only 1.5 percent of total government spending, and this proportion has been even lower over the past three years. Because agriculture tends to be cyclical, with some very good years and some very bad years, government expenditures serve the important function of helping farmers make it through the low-income years. They also help stabilize the rural economy, where few alternative job opportunities exist for displaced workers.

Furthermore, federal support of the Land Grant College and Extension system has provided for rapid technology transfer to U.S. producers, which helps keep them the world's most efficient. This state-of-the-art production technology complements America's unparalleled transportation and business infrastructure and its favorable climate and land. Preservation of that land is encouraged by federal conservation programs; federal sponsorship of production technology development helps ensure clean water supplies for current and future generations. Federal export assistance helps to level the international playing field, where some foreign competitors unfairly provide huge export subsidies in order to gain export market share at the same time that they maintain high internal price supports.

It is imperative, however, that government officials crafting future agricultural policy recognize the globalization of agriculture that has occurred since the mid-1970s. In today's global climate, government assistance that supports grain prices above market levels is counterproductive because it makes U.S. commodities uncompetitive in world markets, thereby giving foreign producers an advantage. American grain ends up in government storehouses; not only is storage expensive, but the presence of surplus grain tends to depress prices.

It also makes little sense for the government to pay producers to let land lie idle when there is growing world demand and U.S. agriculture has the capacity to meet that demand. The United States is the only major agricultural exporter to implement these kinds of large annual land retirement programs. These programs result in higher food prices, the need for higher taxes, and a shrinking productive base. The efficiency of U.S. farmers is adversely affected while competitors are encouraged to expand production.

Future federal expenditures should be designed to help keep U.S. products competitive in world markets. Some people still see the family farm as 60 acres, a horse, and a plow, and think that the federal government should guarantee farm income because U.S. producers cannot compete in the world marketplace. But this view is inaccurate. Family farms represent a mix of all sizes. For example, the top 15 percent of U.S. farms each represented gross sales in excess of $100,000 and together totaled 77 percent of gross agricultural sales in 1988. These are sophisticated, well-financed operations—yet an overwhelming majority are operated by farm families.

Federal agricultural policy should not inhibit the ability of these commercial family farms to compete and grow. Rather, farm policy ought to give producers maximum flexibility to produce for changing markets, ensure that they are on a level playing field to compete for foreign markets, and provide a financial safety net to help them get through the low-income years of the agricultural cycle. If the political process determines that farm support should be above current or safety net levels, then specific income transfer measures should be designed that do not reduce competitiveness or interfere with the market. The 1985 farm bill, with its increased market orientation, began to recognize this policy need.

Farmers and farm income responded dramatically and positively: Net cash income reached record levels in 1989. The challenge for the future is to build on the market features of the 1985 legislation, recognizing the growing role the world market will play for U.S. agriculture throughout the 1990s. Providing farmers with more flexibility as it relates to their production and marketing decisions, and maintaining the competitive price support structures contained in the 1985 farm bill, are the keys to continued growth for U.S. agriculture in the years ahead.

"The Achilles heel of the USDA budget, from a consumer perspective, is the $8.17 billion spent on commodities programs."

Kristen McNutt

TWENTY-FIVE BILLION dollars may not impress Members of Congress and staff who daily deal in large numbers. But for folks who worry about monthly credit card payments, day care for latch-key kids, and the pros and cons of investing in dental insurance, that amount of money is difficult even to comprehend.

Most people I know have very limited knowledge of where their dollars go after April 15. Their impressions come primarily from journalists who, because of the ground rules of the communications industry, focus more on outlandish Defense Department expenditures on toilet seats than on dollars spent for saving forests or keeping food safe.

If the media did bring more attention to bear on U.S. Department of Agriculture (USDA) expenditures, my guess is that a better-informed public would judge them by the usual standard: Do the expenditures fit the public's values?

USDA's food and agriculture research and education programs ($1.38 billion), forestry programs ($3.18 billion), and soil and water conservation ($2.71 billion) all coincide at least roughly with what consumers consider important. So does USDA's food inspection service ($.78 billion). Even its rural development program—while a harder sell—has benefits for city folks, as well as those out in the country.

But the Achilles heel of the USDA budget, from a consumer perspective, is the $8.17 billion spent on commodities programs. To working people whose paychecks (less deductions) are taxed by the federal government at up to 28 percent, paying farmers not to work is worse than just throwing money away: It's using tax dollars in a way that conflicts with taxpayers' values. The economic reasons behind these programs may well be sound, but neither the Congress nor USDA has managed to explain these reasons convincingly. Their failure to do so tarnishes consumer perceptions of all food and agriculture expenditures, not just those for commodities programs. USDA and its supporters must either hope that the media and the public continue not to pay a whole lot of attention to these programs, or else do a much better job of explaining why they're worth billions.

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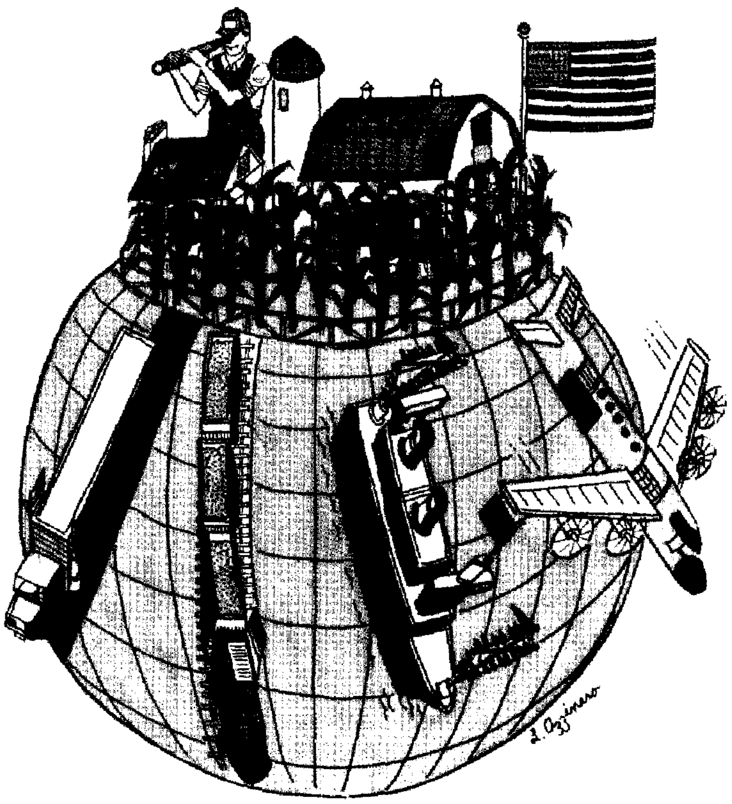
Ray A. Goldberg

AGRIBUSINESS LEADERSHIP: A KEY TO WORLD PROSPERITY

Getting the full benefit of global agribusiness will depend on innovation and cooperation.

GLOBAL AGRICULTURE IS a major force in world enterprise. It accounts for half the world's jobs, half the world's assets, and half the consumption of all world consumers. Growth in agriculture is considerable. In 1950, global agriculture was worth \$.4 trillion; by 2028, that figure will have risen to \$10 trillion. Growth in agriculture input services will have grown 16 times over this period, farming will have grown 11 times, and food processing and marketing will have grown 32 times.



These figures suggest not only that agriculture is growing, but that certain aspects of it—particularly processing and marketing—are growing faster than others. In other words, the area of greatest potential growth is no longer only production—for example, determining how best to grow a bushel of wheat. Instead, today the real task is to figure out what kind of tasty, affordable, nutritious, healthy breakfast cereal consumers in different parts of the world want; to select the best wheat seed to plant in the most appropriate farmland; to grow that wheat with innovative, environmentally sound methods; and then to store, transport, process, market, and distribute the cereal worldwide. The original wheat may be American or Moroccan or French, or a blend of all three; the final product might be sold anywhere.

This trend toward increased emphasis on value-added innovation is becoming prevalent not only among the wealthy nations but throughout the rest of the world as well. And more and more, the leaders of U.S. agribusiness—the major firms that produce, process, market, and distribute food—are playing a significant role in extending this innovation worldwide. Their role can get even bigger in the future. But to play that role effectively, they must continue to move from emphasizing commodity production to emphasizing value-added products and services. In addition, government policies will have to be changed to further encourage fair and open markets, although safety nets will always be present for low-

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income consumers and producers during severe shocks to the system.

This country has invested heavily in its agricultural system over the past 40 years. There now exists an opportunity to capitalize on this investment—to maximize the value of what is in place. But we can take advantage of this opportunity only if we pay close attention to the shifts now taking place in the global agribusiness system.

The emerging global system

World agriculture has passed through three phases since World War II, and is now entering a fourth phase. During the first phase, from 1950 to 1970, U.S. grain surpluses provided a shock absorber for the world's food system. There were enough surpluses that prices and supplies remained relatively stable throughout the world. This stability provided a sort of insurance policy for businesses and consumers: They did not have to be concerned about grain availability, since the U.S. government had assumed responsibility for it. Farmers also relied on the underpinnings provided by government programs. In addition, the United States provided food relief to many developing countries, and food stamps became a major welfare program for 10 percent of the U.S. population.

The next phase, the 1970s, changed all that. Essentially, this was a boom period—a seller's market that also saw the beginning of major price volatilities. Producers and consumers became aware that the surplus-grain shock absorber was reduced and that the quantity and quality of agricultural commodities would no longer always be assured.

A key event triggering these shifts was the U.S. decision to sell surplus grain to the Soviet Union. This reduced U.S. surplus stocks dramatically and, together with the energy crisis, spurred inflation worldwide, with several effects.

- First, the United States became a significant player in the world agriculture market. It had in place a sophisticated food production system, of which it was able to take increasing advantage.
- Second, other countries, such as Japan, realized they could no longer rely on the United States as a surplus supplier and therefore needed to buy into the U.S. system to ensure their supplies and to acquire U.S. know-how. Zen-noh, a Japanese cooperative of 5 million farmers, built the largest, most efficient grain terminal in New Orleans to ensure continued access to U.S. grain. Toepfer, a German firm, entered into a joint venture with U.S. and EC (European Community) farm cooperatives, together with Archer Daniels Midland (an agribusiness firm), to better integrate U.S. and EC markets.
- Third, the EC, in addition to making investments in the U.S. system, used its Common Agricultural Policy to further insulate itself from the rest of the world and to develop increased self-sufficiency. These policies resulted in a commodity and processed-food surplus that contributed to global price instability.
- Fourth, the United States imposed embargoes on some commodities—soybeans, for example—to protect American consumers from the loss of supplies to export markets.
- Fifth, food security, food safety, nutrition, resource management, efficiency yield, and value-added processes became more important: Because a seemingly endless supply of food could no longer be taken for granted, food producers and processors had to work to get as much as they possibly could out of raw commodities.

By the end of the 1970s, there was a widespread assumption that there would continue to be a global food shortage and that the United States would continue to serve as the breadbasket of the world. Many government policies and programs, such as those covering crop assistance and lending to farmers, were based on these assumptions.

But continued food shortages and high demand ended in a bust during the 1980s. Over this decade, U.S. agriculture alternated between gluts and shortages. To a great degree, U.S. farmers, farm suppliers, and commodity handlers bore the brunt of these changes. Food processing and retailing firms, on the other hand, adjusted by taking advantage of recent technological innovations and seizing new opportunities for cross-investment with firms in other countries, thereby producing further global integration in the agriculture sector. In addition, it became clear that food shortages were not going to continue, that world competition in foodstuffs was increasing, and that the United States would not exclusively serve as the world's breadbasket; the federal government therefore refocused its attention on the global market and on regaining market share. The decade

If the United States is to maintain a competitive position, it will have to work to improve its own share of value-added products, which currently stands at only 13 percent of the global market.

marked the beginning of a global food system in every sense of the word.

This leads us to the present. The country has reached a point where the effective use of new technology and the quality of leadership, among both on-farm and off-farm managers, will determine the extent to which U.S. agriculture plays a major role in the world market. It is important to keep in mind that U.S. agriculture has tremendous assets as it enters this period. The United States is an extraordinarily competitive, low-cost supplier of raw commodities: In supplying large volumes of commodities, it can compete with any other country on a global basis *without subsidies*. In the volume of its commodity exports and imports, the United States is improving its position and is expected to move from a global market share of 28 percent in 1987 to 33 percent in the year 2000.

But if the United States is to maintain a competitive position, it will have to work to improve its share of value-added products, which currently stands at only 13 percent of the global market. Value-added services and products—such as the hypothetical breakfast cereal mentioned earlier—are the fastest growing segment of global agribusiness. This growth springs from the development of mass distribution and processing centers in both developed and developing countries, increasingly upscale consumer food demand, and the growing ability of technology to add nutritional, taste, packaging, and environmental values to assist both the manufacturer and the distributor in catering to this changing demand. This is not to suggest that the world has overcome poverty and malnutrition, but rather that those who can afford to pay for food have upgraded their diets.

One crucial element in the emerging structure of global agribusiness is the role of the EC. Through market barriers and internal subsidies, the EC has continued to insulate itself from the world marketplace. In this kind of environment, the United States can't compete efficiently: Being a low-cost producer is meaningless if one does not have market access or if one pays economic penalties for the privilege of gaining that access. In addition, the EC's insulation forces the United States, along with Australia, Canada, and the developing world, to serve as shock absorbers during volatile periods in the world agriculture market. The United States also continues to be a major holder of inventories.

The EC does, however, seem to be moving toward freer agribusiness trade, even though it has not yet named a date for eliminating domestic subsidies. The developed-country market is important because, as it lowers its barriers, there is increased opportunity for trade in value-added products.

At the same time, the developing world represents a growing market not just for commodities, as one might expect, but also, as Third World incomes rise, for value-added products, for new production techniques, for new distribution systems, and for new partnerships with U.S. firms. In fact, it may well turn out that the Third World represents the real growth market in agribusiness trade over the coming decades. If we can get agribusiness markets opened up and operating effectively now, the centrally planned and developing economies will offer extraordinary opportunities in the years to come. These markets represent 4 billion consumers, as opposed to the 1 billion in the developed world; moreover, because these economies are starting out for the most part at subsistence levels, there is tremendous room for growth in demand, in jobs, and in new enterprises.

A few more words about the emerging structure of global agribusiness. One important trend is the increase in cross-ownership patterns worldwide. For example, foreign firms now own 25 percent of U.S. farm supply firms and 20 percent of U.S. agricultural processing and distribution firms. Grand Met, an English company, has acquired Pillsbury; Tate and Lyle, also English, has purchased Staley; Ferruzzi, an Italian firm, now owns Central Soya; British Petroleum has acquired the Feed Division of Ralston-Purina; and Zen-Noh has bought Consolidated Grain and Barge Company. Seven EC supermarket chains have created a buying organization to improve their relationships with such firms as Coca-Cola and Proctor & Gamble.

Consolidation is also occurring at the production level. Particularly in the United States, farm consolidation continues: Over the next two decades, 75,000 out of a total 2 million U.S. farms (of which 1 million are part-time farms) are expected to account for two-thirds of agricultural production. This type of consolidation is also occurring in Europe, even though the average farm size is still very small by U.S. standards. In the developed world, therefore, there continues to be a consolidation of production into fewer farms and a reduction in the total number of farms. Given these trends, U.S. farm income can increase—depending, however, on the reduction of subsidy supports and trade barriers, the introduction of new technologies, the implementation of new free trade patterns such as the Canadian Free Trade Agreement, and the prevention of large surpluses so that gluts of certain commodities do not develop.

The developing countries, which are still moving out of a subsistence agriculture stage, continue to see a rise in the total number of farms. But the trends occurring in the United States and Europe may be precursors of what is likely to happen elsewhere. As Third World incomes rise and new technological innovations are absorbed, Third World farms will most likely undergo consolidation.

All these changes add up to a continuing and massive restructuring of the world's food system. New technology, new players, new information and logistics systems, new packaging, new governmental and environmental requirements, and new ownership patterns are changing the tasks to be performed and the individuals and firms that are performing them. Consolidation is occurring at every level, major decisions are constantly being reevaluated, and new strategic global alliances are being forged. Who or what will coordinate the new global food system remains a very open question.

U.S. leadership

To fully capitalize on the wealth of U.S. agricultural assets will require leadership from every spectrum of agribusiness. This leadership will have to deal with four major trends that will be driving U.S. and global agribusiness over the next decades:

- the continued globalization and integration of markets;
- growing dynamism in national and agricultural policies;
- shifts in consumer priorities; and
- increasing technological innovation.

The United States must encourage freer trade and a market orientation worldwide. It also needs policies that continue to provide a backstop of support for poor consumers and small-scale producers without interfering in open trade.

As globalization and integration take place, strategic alliances continue to be formed within and between markets. For the United States to take a major role, it must shift from being a commodity supplier to becoming an integrated player not just in the developed world but in the growing markets of the developing world and the emerging free world of Eastern Europe. We must use our market know-how and technology to become a global partner to new firms in all aspects of global agribusiness.

The United States must also push for policies that encourage freer trade and a market orientation worldwide. In addition, this country needs policies that continue to support poor consumers and small-scale producers without interfering in open trade. It is also important that the United States recognize that it can no longer serve as the shock absorber for the world and instead can use new approaches such as just-in-time inventory management, global sourcing, and surplus safety valves.

A crucial point in all this is the need to fully understand consumer priorities and to anticipate how they shift—both domestically and globally. Not only can this help the United States avoid excess surpluses as well as shortfalls in supply, but it is a key to improving the U.S. position in value-added products and services.

Finally, we need to capitalize on our leadership in the biotechnology and information systems that are crucial to improving the food system. These systems offer opportunities for producing food and services that can enhance health, reduce disease, and improve environmental quality. On the other hand, these technologies are more complicated and link together all sorts of business enterprises, the environment, and human life in a more complicated fashion than anything we've ever dealt with before. These complex linkages will require that technologies, products, and processes be carefully and impartially evaluated to ensure that human and environmental safety and health are well served. Most likely, new national and international institutions will be needed to do the job.

Leadership in these areas can come from all parts of the agribusiness industry: from unique retailers who develop private-label products, such as Marks & Spencer in the United Kingdom or Loblaws in Canada; from manufacturers who combine technology and brand-name products, such as Unilever; from new firms outside the system, such as the NutraSweet Division of Mansanto, which will help develop tailor-made foods; from farm input suppliers that combine traditional plant and animal genetics with the new science of biotechnology, such as Pioneer Hi-Bred and Booker-McConnell; and from those firms that can integrate all the functional operations of the value-added food system from farm supply to ultimate consumer, such as corporations like ConAgra and farm cooperatives like Ocean Spray and Land O'Lakes. In all cases, what is required for U.S. agribusiness to position itself effectively in a global food system is to continue to pursue a market-oriented perspective, to forge new alliances, and to use new technology, new logistics, and new institutional relationships.

An integrated world food system

U.S. government and agribusiness leaders should take their cue from foreign investors by focusing on the great potential for continued growth in the agriculture sector and by taking the steps necessary to ensure that this growth does occur.

If we're able to set aside special interest and nationalistic policies and capitalize on the value of the existing assets in U.S. agribusiness, the opportunity truly exists for a fully integrated world food system that serves consumers worldwide, that sources food worldwide, and that draws on cross-investment patterns worldwide. In effect, the nations of the world could look like America's 50 states, where agribusiness management and technology have provided an open trading system and a finely tuned research and distribution network that gives American consumers a wide variety and continuous supply of food products and services.

How we measure the success of the system may be very different from the way we've measured success in the past. The volume of commodities exported has always served as a hallmark of success. But in a sophisticated distribution system that operates worldwide, a more important indicator is the degree of coordination among the different parts of the system. Providing that coordination may be the key to an enhanced U.S. role in agribusiness. Already, U.S. agribusiness firms have shown great skill in developing such a system within the United States; in addition, these firms have greater access to technology and information than either public institutions or firms in other countries. As agribusiness leaders work together with public institutions to satisfy consumer priorities, the global food system can act as an engine of change and a force for social responsibility for the rest of the world.

As discussed earlier, overseas investors obviously believe that the long-term prospects for U.S. agriculture and agribusiness are excellent. Part of their enthusiasm was at one time due to the decline of the U.S. dollar, but, for the most part, their enthusiasm is based on the breakthroughs that are occurring in biotechnology and information systems; the health and vigor of the emerging superfarmers in the United States; the creative processing, packaging, and logistical systems that are being developed; and the new marketing opportunities that exist because of sophisticated consumers who want nutritionally sound and environmentally friendly food products.

U.S. government and agribusiness leaders should take their cue from these foreign investors by focusing on the great potential that exists for continued growth in the agriculture sector and by taking the steps necessary to ensure that this growth occurs. If we don't make the agriculture sector work to the mutual benefit of its major players and the consumers they serve, then real economic benefit will not occur in our lifetime. For agribusiness is the most important sector of the world economy and the key to global economic development. •

John R. Schultz & Charles F. Smith

SCALING DOWN AMERICAN FORCES IN EUROPE

The pressure is on to bring troops home. Just how to do it is no simple question.

A NEW WORLD order is emerging from the ashes of two world wars and the subsequent face-off between the two great superpowers. The massive presence of U.S. military forces in Europe without doubt helped buy time for Western Europe to rebuild and for centrally planned economies in the Eastern Bloc to fail. But political events and economic realities are creating enormous pressures to reduce that presence as quickly as possible.

Counting civilian employees and dependents, the United States has about 723,000 people in Europe associated with its defense commitment. More than half of these are not warriors but rather noncombatants of various types.

Reducing U.S. forces will not, however, be a simple task. Whether the final number is 225,000 or 75,000, many complex issues—political, military, logistical, and economic—will need to be sorted out by policymakers both before withdrawals begin and while they are under way. Complicating the resolution of these issues and an orderly withdrawal is the enormous size of the U.S. military presence on European soil.

The scope of the U.S. commitment

Over the past four decades, American involvement in the defense of Europe has led to the creation of an enormous complex of people, materiel, and organizational structures. Right after World War II, as the fighting commands demobilized, U.S. strength in Europe dropped from about 3 million service members to a low of 116,000 in 1950. But tensions in Korea and suspicion about Soviet intentions—heightened by the Soviet interventions in Hungary and Czechoslovakia and the building of the Berlin Wall—spurred the rebuilding of U.S. forces within the NATO (North Atlantic Treaty Organization) alliance. The United States committed itself to fielding 10 full combat divisions in Europe within 10 days of mobilization. About half of that force was already stationed in Europe, and enormous caches of equipment for the rest were stored and maintained on European soil.

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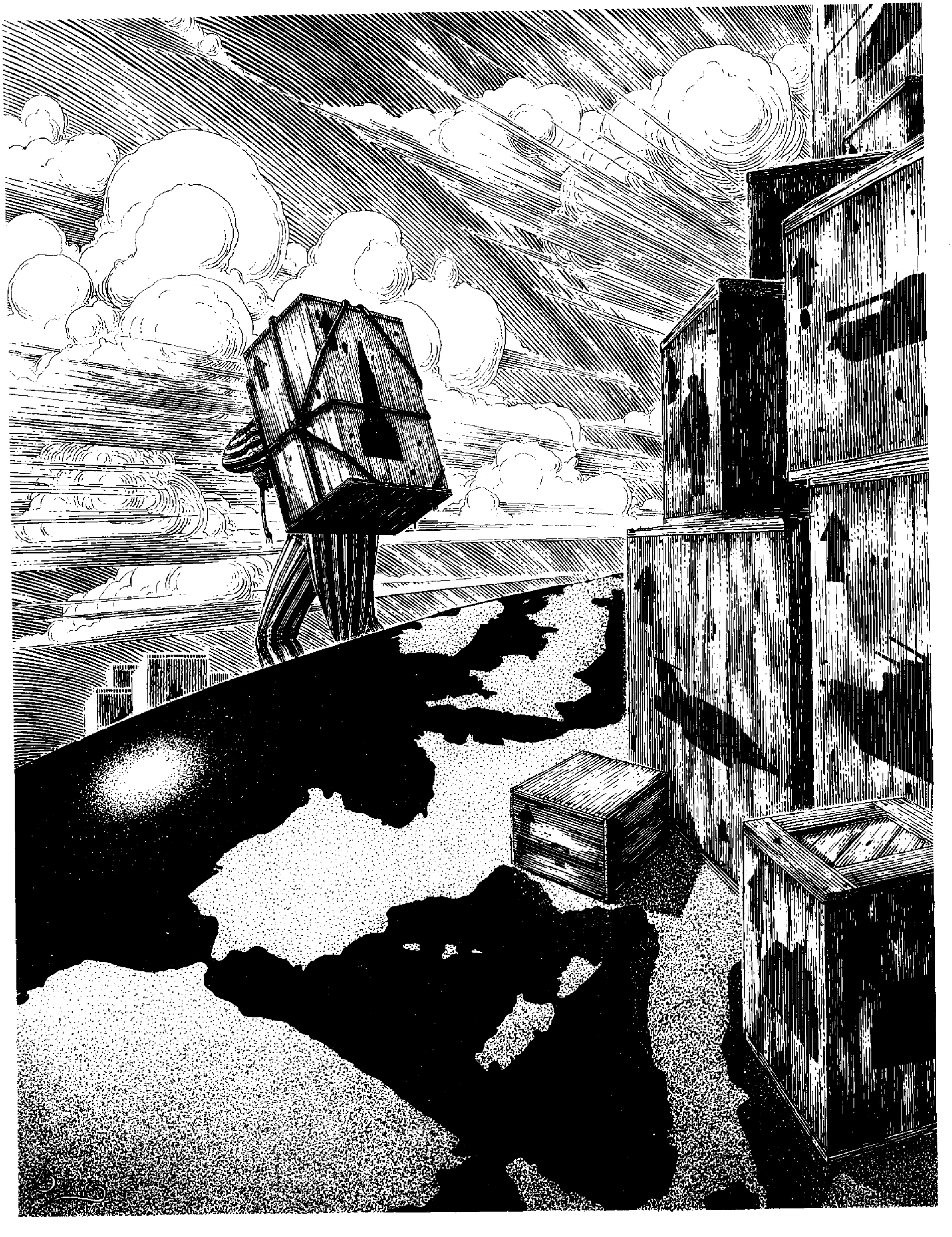

tants of various types. Although assigned strength has varied, by the end of fiscal year 1986, there were more than 326,000 soldiers, sailors, and marines assigned ashore in the U.S. European Command. To feed, house, clothe, and care for the troops and for civilian workers and their families, a vast service structure has evolved. The Army and Air Force Exchange

At home, the U.S. defense budget is under intense pressure as anticipation is building for the much-touted "peace dividend." The debate on how to spend the peace dividend is already heating up.

Services provide shopping and entertainment facilities, employing more than 23,000 people in 1987. The DOD (Department of Defense) School System educates more than 100,000 children in more than 200 schools. All these people reside either on base facilities or in nearby housing. The Army alone supports 39 separate military communities.

The amount of weaponry and equipment in theater for the defense of Europe is staggering. As of January 1988, more than 5,000 heavy and medium tanks were kept in Central Europe, as were 580 tactical fixed-wing aircraft and 258 attack helicopters. The U.S. Navy's Second and Sixth Fleets, which would be involved in NATO's defense, contained more than 200 ships, including fixed-wing and helicopter aircraft carriers, attack submarines, battleships, cruisers, destroyers, and other ocean forces.[1] And these numbers omit thousands of other types of weapons and support vehicles and equipment both in Europe or ready to move there—an inventory of untold billions of dollars.

To direct and control all these resources, a complex military command structure was created and integrated into the overall NATO organization. U.S. forces are stationed in 14 NATO European countries. They are assigned to the U.S. Army, Europe, and 12 other Army commands; to the U.S. Navy, Europe, and 18 other Navy commands; and to the U.S. Air Force, Europe, and 20 other Air Force commands. There are six additional defense agencies involved, such as the Defense Communications Agency, the Defense Courier Service, and the Defense Logistics Agency.

All told, DOD estimates that, of its total budget, about 60 percent—some $170 billion in fiscal year 1987—is devoted to NATO-related activities.

A changing American role

The threat on which the U.S. military commitment was originally based—a quickly mounted, massive assault by Soviet-led forces through Eastern Europe—now seems a remote possibility. Therefore political pressure is mounting at home and abroad for force reductions. At the same time, however, a considerable amount of instability remains in Central and Eastern Europe, which suggests that U.S. military forces will have to play a continuing, if diminished, role in guaranteeing the region's security.

At home, the U.S. defense budget is under intense pressure as anticipation is building for the much-touted "peace dividend." The debate on how to spend the peace dividend is already heating up. How big it will be and how quickly it might be available are still open to question. But there is no doubt that America has any number of good uses for it: crumbling infrastructure, the war on drugs, education, the savings and loan crisis, housing, medical care, or just reducing the budget deficit.

The pressure to reduce U.S. forces is also great in Europe, particularly in the Federal Republic of Germany, arguably the most occupied country in the world. What used to be a left-wing political plank—getting the United States out—is now gaining support in more conservative parties as well. One of the most heavily militarized areas in Germany is the Rhineland-Pfalz (Palatinate), termed the "Aircraft Carrier Rhineland-Palatinate" by the state premier, Bernhard Vogel. Historically, Vogel's party—the conservative Christian Democratic Union (CDU)—has supported the American presence, in part because of all the German jobs it creates. But, in late March of this year, the Rhineland-Pfalz government called for the United States, during the initial phase of troop reductions, to shut some of its largest installations in West Germany—including Kaiserslautern, a community with 20,000 American military personnel and their 26,000 family members.

Along with these calls for U.S. withdrawal, some notes of caution have been sounded. Even though the historical threat to NATO has all but disappeared, with the Soviet Union's aggressive will seeming to have abated and Moscow apparently preoccupied by domestic problems, overall European security is far from settled. For one thing, the current political and economic turmoil in the Soviet Union and Eastern Europe could trigger more widespread instability. Furthermore, the Soviet armed forces are as capable as ever. And, as NATO Secretary General Manfred Wörner wrote, "we have no guarantee, whatever our hopes, that the Soviet Union will remain benign in its attitude." Although he does not doubt Mikhail Gorbachev's sincerity, Wörner believes "it would be foolhardy to make our security depend exclusively on his political survival."[2]

Also to be considered in any plan to draw down U.S. forces is the fact that the past 40 years, when there has been a strong U.S. presence in NATO, have constituted one of the few lasting periods of peace Europe has experienced in several centuries. In particular, some residual fear lingers about the potential actions of an economically revitalized and reunified Germany—even one that remains within NATO.

It is doubtful, therefore, that the United States can back completely away from its general role as a stabilizing influence. Karel de Gucht, a member of the European Parliament, noted that, although the U.S. military role might be diminished, "the United States will remain a superpower, and will thus want to remain in one or another way involved in the Western European continent."[3] Even the Germans acknowledge the value of the U.S. presence. As observed by one German writer, "America is clearly still needed to guarantee the Old World's stability. Its presence in Europe, far from being called into question, was presupposed in the terms agreed by [West German Chancellor] Kohl and [Soviet President] Gorbachev . . ."[4] Moreover, NATO's Supreme Allied Commander, General John Galvin, has made the point that NATO forces—including American troops—could play a valuable part in verifying arms control agreements.[5]

Thus, while many good reasons exist to reduce the number of American troops in Europe, it seems likely that the United States will need to maintain some kind of credible military presence there.

Once NATO assesses the threats it potentially faces, the problem becomes how to reduce U.S. forces efficiently and effectively while retaining a NATO force capable of defending Western security interests.

Restructuring U.S. forces

Before U.S. troops are withdrawn from Europe, the forward-deployed force structure must be redesigned to reflect a new defensive strategy toward Eastern Europe and the Soviet Union. As Senate Armed Services Chairman Sam Nunn has said, "Our strategy must be revised to reflect the changed threat environment. We must then determine what forces and what level of defense spending are required to implement our revised strategy."[6] Fair enough, but how does one go about restructuring the vast complex described above?

In the simplest terms, force structure is the number, size, and composition of units that make up the defense force. It is usually described in terms of numbers and types of Army and Marine Corps divisions (Mechanized Infantry, Light Infantry, Armored, etc.), Navy ships (Carriers, Submarines, Destroyers, etc.), and Air Force wings (Fighter, Bomber, Missile, etc.). Force structure is based upon a determination of who our likely adversaries are, where they are located, what trouble they are likely to cause us, and how we should deal with it.

These are difficult questions to answer even with a politically stable enemy. In today's highly unstable world, they become all the more challenging. And in light of the rapid changes in Europe over the past few years, NATO must make entirely new assessments of the threats it may face. Once these assessments are made, the problem becomes how to reduce U.S. forces efficiently and effectively while retaining a NATO force capable of defending Western security interests.

Ways to restructure

There exist various ways to restructure forces and to reduce the number of troops permanently assigned in Europe. Three broad examples suggest some of the possibilities:

• The United States might identify non-wartime-essential units and personnel and send them home. For instance, although military bands and other ceremonial units have a positive effect on morale, they are not essential in today's cost-cutting environment.

• The United States might reduce the size of the existing force structure, fully staff what is authorized, and equip and train it to the highest possible readiness levels.

• The United States might hollow out the existing force structure—leave the structure on the books, staff it below authorized levels, and accept reduced readiness levels. A hollow force could mean that command and support structures remain forward-deployed with only a small combat force in place, or it could mean the opposite—a full combat force with only a hollowed-out support structure.[7]

In the near term, the price of restructuring will eat into the peace dividend in a big way. The opportunity for waste, fraud, and abuse—not to mention honest mistakes—will be significant.

Considerations when restructuring

Until the United States reexamines and revises its defense commitments, whatever military force DOD and Congress decide upon must be capable of meeting the country's current worldwide commitments and political interests. There are no magic formulas, but there are some basic things that must be considered as the forces are reduced and redesigned.

There must be a balance between strategic and conventional forces. U.S. strategic capability will remain the primary deterrent to a major aggressor against the United States and its allies. But, as recently demonstrated in Grenada, Panama, and the Persian Gulf, conventional forces will be called upon to project U.S. military power in support of the interests of ourselves, our friends, and our allies.

Smaller numbers of forward-deployed forces must be well-equipped and ready to fight if necessary. Supplies, ammunition, and equipment must be prepositioned to sustain troops in combat until they can be reinforced from the United States or elsewhere.

Mobilization will be the cornerstone of any new force structure. With fewer forces forward-deployed in Europe, it would be a challenge for the United States to meet its NATO commitment, however it is redefined, even if warning time were increased. The United States must have adequate airlift and sealift capacity ready to deploy a significant number of troops and hundreds of tons of equipment to Europe on short notice.

Managing force reductions

Pulling U.S. troops, civilian employees, family members, and equipment from Europe could be compared to relocating a major U.S. city—its people and their belongings, everything but items permanently affixed to the earth—from New York to California. Managing the relocations will stress to the limit every existing personnel, transportation, inventory control, and accounting system within the DOD bureaucracy.

Needless to say, the process will be costly. In the near term, the price of restructuring will eat into the peace dividend in a big way. The opportunity for waste, fraud, and abuse—not to mention honest mistakes—will be significant, and adequate controls must be designed and kept in place throughout the entire process.

The key to holding down costs and ensuring a smooth transition is planning. Before relocation begins, and even before it is determined which units will be removed from or relocated within Europe, planning for base closure and personnel and equipment relocation must be completed. Base and facility commanders must be thoroughly aware of drawdown protocol, policy, and procedure, and they and their staffs must be trained to safely and efficiently relocate people and equipment and return real property to host nation control. Some of the more obvious factors that must be taken into account are:

• preparing locations in the United States and elsewhere for units, troops, and equipment remaining in the force structure but withdrawn from forward-deployed locations in Europe;

• preparing social services in communities throughout the United States to help the hundreds of thousands of people who will lose their military jobs as a result of the drawdown;

• preparing and relocating troops, civilian employees, essential equipment, spare parts, and supplies to locations in the United States;

• relocating troops, civilian employees, and their family members within European countries to locations hosting the remaining forces;

• preparing and relocating, as appropriate, mobilization-essential equipment and supplies to prepositioned storage sites in Europe; and

• disposing of excess equipment and supplies in the most cost-effective manner.

Three years from now, U.S. forces in Europe will be significantly decreased; by the end of the decade if not sooner, America may have only a token force there to demonstrate support for whatever European security structure evolves.

Facilities the United States vacates will be returned to the host countries under the provisions of the NATO Status of Forces Agreement (SOFA). Basically, the SOFA requires that facilities be returned in the same condition in which they were received, with allowance for normal wear and tear. To prepare for facilities transfer, DOD will have to assess the conditions of bases and facilities being returned to the host nations, as well as the value of buildings and facilities constructed and improvements made during the U.S. occupancy. On the basis of these assessments, the United States will negotiate with the host nations to determine how much we must pay them or they must pay us. But, according to knowledgeable diplomatic and defense officials, these assessments may be so difficult to make that facilities could simply be transferred back to the host nations without an attempt to determine who owes what to whom.

The economics of force reductions

The anticipation of a peace dividend is, in large part, predicated on the expectation that major defense procurements will be cancelled and that significant numbers of troops will be released from active duty as part of an overall restructuring of the armed services. The drawdown in Europe will obviously contribute to the overall cuts in the defense budget, but to what extent and when are unanswerable questions at this time. As discussed above, unwinding the immense military complex will be an expensive proposition, so the immediate dividend may not be as large as some would anticipate.

The ultimate impact of defense cuts on the U.S. economy will depend on which programs are cancelled and how funds previously intended for defense spending are used. If they go to finance new domestic programs or to expand existing ones, the net cost to the U.S. taxpayer may not change. If the defense cuts lead to reduced budget deficits and therefore to less government borrowing, pressures on interest rates may decrease and easier credit may stimulate domestic investment. On the other hand, a decrease in overall government spending when the economy is already sluggish could slow the economy still further. But even in this case, currently projected reductions in defense spending may have only minimal impact, as they are smaller in macroeconomic terms than the ones following World War II, Korea, and Vietnam.

Regardless of the overall effects of defense cuts, some economic dislocations are inevitable. The flow of billions of dollars to defense contractors is already starting to dry up, and the major contractors will probably face extensive restructuring. Some analysts believe that defense industries are ill-equipped to compete in the nondefense market. As a result, many local economies will have to suffer through layoffs and other effects of reduced spending.

GAO WILL HELP ASSESS THE CHANGING INTERNATIONAL SCENE

Recognizing the scope of the changes now occurring in international affairs, GAO has prepared a document entitled "Plan to Address Changing East-West Security and Economic Relationships," which will guide its work in this area through fiscal year 1991. GAO's National Security and International Affairs Division has or will soon have under way at least 64 separate studies identified in the plan. These are grouped into four major areas:

- *Planning and Managing Force Restructuring*
- *Impacts of Force Restructuring (including Logistics; Facilities; Weapons, Equipment, and the Defense Industrial Base; and Strategies, Roles, and Missions)*
- *Arms Control and the Changing U.S. Role in NATO*
- *Future Economic Relations*

This extensive body of work is intended to assist U.S. executive branch policymakers, government administrators, and Members of Congress as they adjust U.S. policies and programs to the new security, political, and economic environment.

The end of the Cold War

No one doubts that the U.S. commitment to NATO is outdated. In light of changed conditions in Europe, it does not make sense to forward-deploy four-plus Army divisions and associated air and naval forces in European countries. Moreover, the United States can no longer afford to spend $300 billion a year for defense, a good portion of which is dedicated to the protection of a now economically and militarily revitalized Europe.

U.S. strategic interests and commitments worldwide are being reevaluated, and military planners have already begun the arduous task of preparing for the drawdown in Europe. Three years from now, the U.S. military presence in Europe will be significantly smaller than it is today; by the end of the decade if not sooner, America may have only a token force there to demonstrate its support for whatever European security structure evolves.

It is imperative that policymakers make careful decisions now about what the new U.S. force structure should be and plan for the orderly reduction of U.S. troops, their families, and support operations. If they don't, this country could waste much of the hoped-for peace dividend and be unprepared for tomorrow's defense needs. •

1. *NATO-Warsaw Pact: Conventional Force Balance—Papers for U.S. and Soviet Perspectives Workshops* (GAO/NSIAD-89-23B, Dec. 13, 1988), pp. 98-107.
2. Manfred Wörner, "NATO's New Decade," *European Affairs*, Spring 1990, p. 12.
3. Karel De Gucht, "France/Germany, Centrepoint in European Security," *European Affairs*, Winter 1989, p. 85.
4. Jürgen Koar, "America Looks to Redefine Its Role in the New Age," *The German Tribune*, Aug. 5, 1990, p. 1.
5. *Jane's Defense Weekly*, Vol. 13, No. 11 (March 17, 1990), p. 486.
6. *Congressional Record—Senate*, March 29, 1990, p. 53450.
7. The Comptroller General testified, on March 1, 1990, that his preference is for a smaller, well-trained, and well-equipped force rather than a larger one with no muscle. See *Defense Budget and Program Issues in the Fiscal Year 1991 Budget* (GAO/T-NSIAD-90-18, Mar. 1, 1990), p. 15.

John M. Kamensky

THE 51st STATE?

Next summer, Puerto Ricans may finally get a chance to decide their own political destiny.

Once again, the question of Puerto Rico's future political status is under debate. Should the island continue to be a commonwealth of the United States, as it has been since 1952? Should it opt instead for statehood? Or should it go its own way altogether by becoming an independent nation?

If all goes as planned, this issue may be resolved next summer. During the November 1988 elections, candidates from all three of the main Puerto Rican

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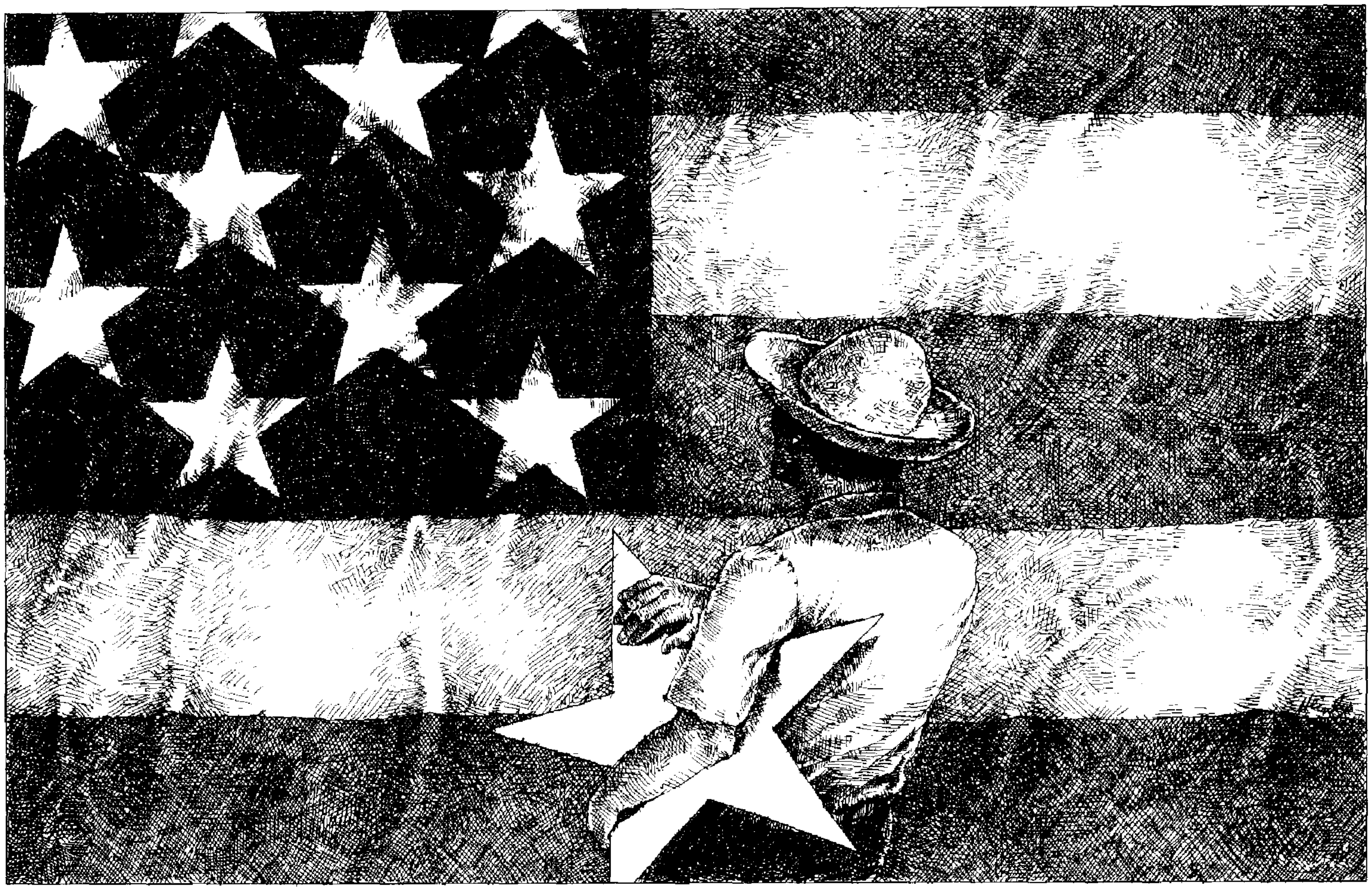

political parties promised that, if elected, they would support a referendum in which Puerto Ricans would decide their future political status. The pro-commonwealth party won, but the leaders of all three parties jointly signed a letter to the President and Congress requesting action. Their approach has been to ask Congress to state, up front, what Puerto Rico can expect from each of the three options it faces—"enhanced" commonwealth, statehood, or independence. All parties have agreed that the ensuing referendum, tentatively scheduled for the summer of 1991, will be binding.[1]

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Pressure for some change in Puerto Rico's status comes not just from Puerto Rico but also from international sources. If Congress were to continue putting the whole issue on the back burner, as it has for the past four decades, it could face international opprobrium. The United Nations, for instance, has been urging since 1971 that the United States transfer total sovereignty to Puerto Rico. Furthermore, it recently adopted a resolution calling for decolonization of all territories by the year 2000. (Even though the United States does not consider Puerto Rico a colony, some other nations do.) Therefore, leaving Puerto Rico's status in limbo may not be an option, especially as movements toward political self-determination continue to gain worldwide popularity. A referendum—even if it resulted simply in enhanced commonwealth status—would clear the United States of charges that it was impeding Puerto Rican self-determination.

Commonwealth

Puerto Rico has been pushing for increased political autonomy since the latter years of its four centuries under Spanish rule. This effort continued after the United States acquired Puerto Rico in 1898. In 1917, U.S. citizenship was extended to Puerto Ricans, and they were given one nonvoting seat in Congress. Puerto Rican pressure encouraged Congress to grant increasing autonomy until finally, in 1952, Puerto Rico became a commonwealth, with full local executive, legislative, and judicial authority. This new status also gave it immunity from most federal taxes and limited access to some federal benefit programs, although Puerto Ricans were still given no vote in federal elections.

Puerto Rico's efforts to enhance its status have continued over its 38 years as a commonwealth. Exactly how Puerto Rico's status should change is a matter of dispute among its political parties: The Popular Democratic Party supports enhanced commonwealth status; the New Progressive Party advocates statehood; and the Puerto Rican Independence Party (as its name indicates) pushes for independence from the United States.

The Popular Democratic Party argues that commonwealth has been good for Puerto Rico. Since becoming a commonwealth, the island has been transformed from a farm-based economy to one based on manufacturing. Manufacturing now accounts for more than half of Puerto Rico's gross product. This high share results, in large part, from the huge federal and Puerto Rican tax benefits granted to U.S.-based corporations that operate production facilities there. For example, in 1983 (the last year for which data is available), pharmaceutical companies reaped $2.65 in federal tax benefits for every dollar they paid to Puerto Rican workers.[2]

Overall, the federal government's expenditures in Puerto Rico are considerable. In 1988, for example, Washington spent about $6.2 billion there, which amounted to approximately one-third of the island's $18 billion gross product (federal spending is only 18 percent of the average state's gross product). Much of this spending is in the form of welfare benefits, many of them capped at levels lower than on the mainland. Moreover, in 1988 the federal government provided about $703 million in loans, loan guarantees, and insurance, as well as about $2 billion in tax benefits to U.S.-based corporations (as mentioned above).[3] According to one study, if Puerto Rico maintains its commonwealth status, annual federal subsidies will be higher than they are now by about $1.3 billion by the year 2000.[4]

What impact have all these federal expenditures had on Puerto Rico? By U.S. standards, the island is still poor. Puerto Rican unemployment is three times the U.S. average; 44 percent of the population is eligible for the island's version of food stamps; and the commonwealth's per-capita income is only half that of Mississippi, the poorest state. On the other hand, Puerto Rico's per-capita income is higher than that of any South American nation and is one of the highest in the Caribbean. It's plausible to argue that its position as a U.S. commonwealth has significantly boosted its economic well-being—that the economic and political ties between the United States and Puerto Rico have not relegated the island to colony status but have helped its people achieve a higher standard of living than might otherwise have been possible.

Some statehood advocates, including the Bush administration, depict statehood as a moral issue. Puerto Ricans, the argument goes, should be allowed to vote for those who make their laws; their rights as citizens demand this.

Indeed, Governor Rafael Hernández Colón, of the Popular Democratic Party (PDP), sees the current commonwealth arrangement as "a noble experiment in flexible political relationships for people with different cultures."[5] But his party does not simply advocate a perpetuation of the status quo; it wants those political relationships to become even more flexible—the enhanced commonwealth option. Specifically, the PDP wants Puerto Rico to have the authority to nominate all high-ranking federal officials sent there as well as to reject all federal laws that adversely affect it. In addition, the PDP wants most federal grants to the island to be consolidated and the number of required grant applications to be reduced so the government would have expanded discretion over their use.[6]

Statehood

On the statehood issue, Puerto Rico has straddled the fence. Depending on which party is in power, it has tried either to reinforce its separateness through new commonwealth powers—or to put the 51st star on the U.S. flag. Political forces in Puerto Rico have historically favored commonwealth, but the statehood option has attracted increasing support over the past year.

Some statehood advocates, including the Bush administration, depict statehood as a moral issue. For 73 years, Puerto Ricans have been citizens without representation. At this point, the argument goes, Puerto Ricans should be allowed to vote for those who make the laws they have to live under; their rights as citizens demand this.

Statehood would create complications, however, from the U.S. as well as the Puerto Rican perspective. For instance, Puerto Rico would be the 26th largest state, which would entitle it to as many as six Members of the House of Representatives. Making room for them would inevitably affect other states. Another issue is language: About 60 percent of Puerto Rico's residents do not speak English. After its four centuries of Spanish culture, should Puerto Rico have to adopt English as its official language before it can enter the Union, as has been required in some other cases? Many Puerto Ricans value their distinct cultural heritage and want to maintain it; they see statehood as posing a threat to centuries of proud tradition.

Statehood could also create a political powder keg. Of Puerto Rico's 3.3 million inhabitants, roughly 6 percent favor independence. How embittered might these individuals become if Puerto Rico were made the 51st state? It's important to remember that Puerto Rican nationalists have at times committed acts of violence: During the early 1950s, they made an assassination attempt on the President and wounded five Members of the House of Representatives; more recently, Puerto Rican terrorists have bombed banks and military bases. More peaceful protests have also indicated that feelings on this issue run deep. In June 1989, for example, 80,000 marched for independence and burned U.S. flags during congressional hearings in San Juan. Because U.S. law prohibits advocating secession, statehood would make outlaws of these members of the currently legitimate Puerto Rican Independence Party. More generally, although statehood might settle the status debate, it could also create political chaos in Puerto Rico, since the status debate is itself a major reason the two nonstatehood parties exist.

Statehood would have economic costs as well. According to a Congressional Budget Office (CBO) study,[7] they would be high—a prediction that has discouraged statehood supporters. For one thing, because the Constitution requires uniform federal taxes among the states, statehood would mean the end of the special tax breaks that U.S.-based corporations now enjoy in Puerto Rico. By the end of the decade, enough corporations could pull out that the island would lose almost half of the existing $22 billion in private investment. This could translate into a loss of 100,000 of Puerto Rico's 900,000 jobs.

On the other hand, federal welfare benefits under statehood would increase by $3.6 billion a year. Nevertheless, Puerto Rico's economy would grow at a rate of only 2.4 percent—3.3 percent less than the rate anticipated under continued commonwealth status. Statehood supporters, looking for *some* good economic news in the CBO projections, have tried to portray the 2.4 percent growth rate as an encouraging sign. They have also stressed the more intangible results of statehood, such as the increased attraction Puerto Rico would have as a secure, low-cost site of production within the United States, and the improved visibility Puerto Rico would have for tourists from the U.S. mainland.[8]

Those who advocate Puerto Rican independence place value on the increased pride that nationhood would bring them. Not only would independence reinforce Puerto Rico's separate identity, but it would immediately transform perceptions of the island.

Independence

Intangible benefits are also a main focus of those who support total independence for Puerto Rico. They place a paramount value on the increased pride that nationhood would bring them. Not only would independence reinforce the island's separate cultural identity, but it would immediately transform perceptions of the island: Far from being the poorest state in the American union, it would be one of the richest countries in Latin America.

Counterbalancing these intangible benefits would be some very tangible costs. Both the tax breaks that U.S.-based corporations enjoy in Puerto Rico and the welfare benefits supplied by the U.S. federal government would eventually be withdrawn. This would represent a major loss of financial support. But independence advocates believe that, if the island were no longer dependent on the United States, and if the local government could no longer afford to be the employer of last resort, the people might accept lower wages and become competitive in the international economy. And this, they say, would be preferable to Puerto Rico's current economic dependence on the United States.[9]

Puerto Rican independence would have benefits and costs for the United States as well. The United States would certainly gain financially if it no longer supported the Puerto Rican economy. Under one legislative proposal, by the year 2000, federal aid and tax benefits to the island would be cut by $1.5 billion; over time, all aid and tax benefits would be phased out completely.[10]

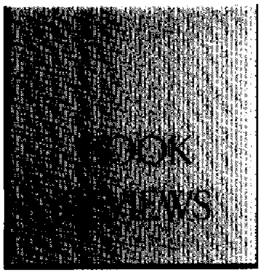
Yet there are also some military considerations. Puerto Rico is located in a strategic sea lane, and houses one of the largest U.S naval bases. Independence could create more overt conflicts over the U.S. military presence there, as has happened in the Philippines; eventually, the United States might have no choice but to withdraw its forces.

Political, economic, cultural, and historic forces are all at work. One Puerto Rican economist, however, has noted that "statehood or independence could have big payoffs 15 years down the road, but the risks are enormous. Commonwealth is a safe bet."

Enormous risks

The issues surrounding Puerto Rico's political status have become so tangled that it is difficult to sort out the relative importance of the political, economic, cultural, and historic forces at work. Underlying all these considerations, however, may be a more fundamental issue: fear of the future. One Puerto Rican economist has noted that "statehood or independence could have big payoffs 15 years down the road, but the risks are enormous. Commonwealth is a safe bet."[11] Barring some unforeseen, dramatic resolution of the issues at stake, this "safe bet" calculation could well be the determining factor in Puerto Rico's political status debate. •

1. Both the House and the Senate are currently considering legislation to define the terms of the election. The ultimate passage of this legislation is still not certain.
2. "The Operation and Effect of the Possessions Corporation System of Taxation, Sixth Report," Department of the Treasury (March 1989), p. 47.
3. *Puerto Rico: Information for Status Deliberations* (GAO/HRD-90-70BR, Mar. 7, 1990), p. 28.
4. "Potential Economic Impacts of Changes in Puerto Rico's Status Under S. 712," Congressional Budget Office (CBO) (April 1990), p. 21.
5. Rafael Hernández-Colón, "Statehood for Puerto Ricans…A Cultural and Economic Disaster," *New York Times*, Feb. 26, 1990, p. 17.
6. S. 712, 101st Cong., 1st sess. (Apr. 5, 1989), Star Print pp. 42-72.
7. "Potential Economic Impacts of Changes in Puerto Rico's Status Under S. 712," p. 21.
8. "CBO Economic Report on Puerto Rico," *Puerto Rican Statehood Movement Newsletter*, Apr. 19, 1990.
9. Peter Passell, "Debate on Puerto Rico's Future Has a Bottom Line," *New York Times*, May 15, 1990, p. A18.
10. "Potential Economic Impacts of Changes in Puerto Rico's Status Under S. 712," p. 24.
11. Passell, p. A18.



IMMIGRATION RECONSIDERED

George J. Borjas

FRIENDS OR STRANGERS: THE IMPACT OF IMMIGRANTS ON THE U.S. ECONOMY

New York: Basic Books, 1990. 274 pp.

By Lowell Dodge

According to news reports, some Californians have taken to parking their cars side by side in long rows along the Mexican border, their headlights trained on areas that are not adequately patrolled. This vigilantism, along with the results of opinion polls, suggests that the Immigration Reform and Control Act of 1986 (IRCA) has not allayed public concern over illegal immigration into this country.

Such concern may be justified. IRCA's centerpiece was the provision making it illegal for U.S. employers to hire unauthorized aliens, which should have eliminated the "magnet" of American jobs. But evidence of this provision's effectiveness in curbing illegal immigration is mixed at best. Furthermore, as reported by GAO in March 1990, IRCA may well have contributed to a high level of discrimination against legitimate job applicants who simply happen to look or sound foreign.

Although it is too early to render final judgment on IRCA, it is apparent that the law does not seem to be accomplishing its objectives as fully as had been hoped. The debate on immigration policy has rekindled. Currently, however, the debate is generating more heat than light. It is therefore heartening to encounter the level-headed, dispassionate perspective of economist George Borjas. In his book *Friends or Strangers*, Borjas examines key issues in the debate: Economically, are immigrants a blessing or a burden? Do immigrants take jobs away from native-born Americans? Do they lower wages of employed workers? Do today's immigrants differ from earlier immigrants, and if so, how?

Friends or Strangers draws comprehensively on recent research, much of it Borjas's own, to provide answers that are solid and often reassuring. It appears that much of the concern over the current wave of immigration is vastly overblown. Consider, for example, the fact that the proportion of the U.S. population that is foreign-born has dropped from 14.2 percent in the early 1900s to 6 percent in 1987. While this percentage is beginning to increase again, the statistics still call into question the notion that immigrants are overrunning the country. Borjas's key findings include the following:

- Despite all the concern that immigrants (legal and illegal) will displace U.S.-born workers, a 10-percent increase in the number of immigrants decreases the average wages of native-born Americans by a mere 0.2 percent. This applies across the board—such increases have little effect on the employment opportunities of practically all native groups, including African-Americans.
- To the extent that immigrants do have an impact, it is on the earning and employment opportunities of foreign-born residents. A 10-percent increase in the number of immigrants will decrease the wages of foreign-born persons by 2 percent—10 times the impact on the native-born.
- Immigration creates immigrant enclaves within American cities. These enclaves are economically vibrant and generate significant opportunities for immigrants; for instance, immigrants have higher self-employment rates than native-born Americans. On the other hand, the flow of new immigrants into these enclaves can have a depressing effect on the employment and wages of previous immigrants.

Although these assessments of immigration's impact are reassuring, some of Borjas's other conclusions are much less so. For example, over the past few decades the skills of immigrants have declined "precipitously," as measured by a number of indicators including educational level, labor participation rates, and potential lifetime earnings. Recent immi-

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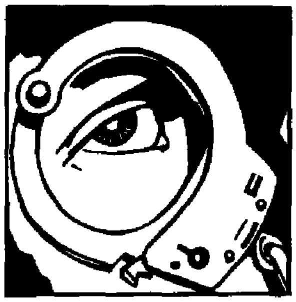
grants, now for the most part from Asian and Latin American countries, have relatively less schooling, lower earnings, lower employment rates, and higher poverty rates than earlier immigrants had at similar stages of assimilation. The typical male immigrant who arrived here between 1960 and 1964 will, over his lifetime, earn about 7 percent less than a U.S.-born male, whereas men who immigrated during the late 1970s will have lifetime earnings that are 30 percent less. Recent immigrants are also more likely to go on welfare—a likelihood that increases the longer they live here.

In contrast, immigrants from Western Europe—who made up 60 percent of all immigrants as recently as 1950, but are now only 11 percent—fare better in the U.S. labor market. This does not, in Borjas's view, reflect higher levels of discrimination against other immigrant groups; rather, immigrants from industrialized economies simply have more skills, and skills that are more easily transferred to the U.S. labor market, than do immigrants from less developed countries.

To explain these trends and to develop possible solutions, Borjas applies market economy concepts. The United States, he suggests, participates in the "immigration market" in an unsophisticated way. Current U.S. immigration policy emphasizes family reunification and does not encourage the immigration of persons with high skill levels. The U.S. immigration "offer," interacting with conditions in source countries, ends up attracting unskilled immigrants who have little chance of attaining economic parity with U.S.-born individuals. Canada and Australia, in contrast, construct a different offer. In screening visa applicants, these countries use point systems that consider such factors as education, the demand for certain occupations, employment arrangements, and initiative and motivation. Both countries attract higher percentages of skilled immigrants than does the United States.

Does Borjas recommend that the United States institute a point system based on the Canadian and Australian models? Not necessarily. He recognizes that systems of immigration control must reflect not only economic considerations but also, more fundamentally, what a society believes about liberty, human rights, and family values. International relations also enters the picture. Borjas discusses the possibility of an expanded point system incorporating these factors. It would need enough flexibility to accommodate sudden political changes in source countries and to permit the entry of refugees fleeing political or religious oppression. Yet even this kind of system, because of its selectivity, would be inherently discriminatory. Inevitably, Borjas concludes, difficult choices must be made.

Borjas is to be commended for separating the real from the perceived issues in immigration policy. But because of the trade-offs inherent in crafting any immigration policy, he doesn't feel that, in the end, he can offer a clear recommendation. So while he informs the debate, he may not have brought it closer to resolution.



FITTING PUNISHMENT

Norval Morris and Michael Tonry

BETWEEN PRISON AND PROBATION: INTERMEDIATE PUNISHMENTS IN A RATIONAL SENTENCING SYSTEM

New York: Oxford University Press, 1990. 283 pp.

By Richard M. Stana

Americans tend to equate criminal punishment with prison. Partly because of the war on drugs and a general "get tough" attitude toward crime, the U.S. prison population has more than doubled since 1980. The federal and state prison systems are now operating at about 63 percent and 27 percent, respectively, over their rated capacities.

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In some states, prison overcrowding has resulted in sentencing policies or court orders that limit prison populations by keeping some newly convicted criminals out of prison and releasing some previously convicted prisoners. Federal and state construction programs have increased prison capacities. But given the anticipated future growth in prison populations, prison construction costs of about $50,000 per bed, and annual operating costs running at about $20,000 per inmate, federal and state governments are unlikely to be able to afford to build their way out of this problem.

The primary alternative to prison is probation. Prison overcrowding and fiscal concerns logically suggest increased use of this option. But sentencing a convicted criminal to ordinary probation does not appear to be an effective punishment. In many urban areas, a single probation officer is expected to track and supervise more than 200 people. This is far from a manageable caseload, and the quality of supervision suffers so much that probation amounts to virtually no punishment at all.

In *Between Prison and Probation*, Norval Morris and Michael Tonry contend that the "prison or probation" system of punishment is unworkable and ineffective, and that the United States should develop a system of intermediate punishments to bridge the gap between these two extremes. The authors believe that both prison and probation are used excessively. Some offenders now sent to prison could be dealt with more effectively and economically through intermediate punishments such as substantial fines, community service orders, house arrest, intensive probation, and closely supervised treatment programs for mental illness and drug and alcohol abuse.

The authors outline a comprehensive system of intermediate punishments they believe would better serve the community, the victim, and the offender. Central to this system is the principle of interchangeability. That is, the system should identify prison and nonprison punishments that have roughly equal punitive properties, are appropriate to the offenders' crimes and personal conditions and to society's needs, and do not result in unwarranted sentencing disparities. This requires that punishments at each level of the scale be roughly equivalent from the offender's perspective in terms of pain, suffering, or intrusion on autonomy; and from society's perspective in terms of the purposes fulfilled by the punishment (for example, retribution or prevention of further crimes). The judge would not simply choose whether, and for how long, to send a convict to prison; instead, the choice of sentence would be guided by the objectives of punishment in the individual case and by the "exchange rates" among the different punishments available. For example, one day in jail might be equal to three days of intensive probation.

At the top of Morris and Tonry's list of punishments that could be used more fully than at present are fines and other financial sanctions. The authors find it paradoxical that a society so reliant on financial incentives in its social philosophy and economic practice should be so reluctant to use financial disincentives as punishments for crime. Why should it be thought unfair to impose a fine that causes an individual to lose his or her home, car, and accumulated assets when a prison term has the same effect? Morris and Tonry argue that, in fact, fines could be the punishment of choice for most crimes if they were calibrated to the severity of the crime, collected with the vigor and ruthlessness characteristic of finance companies, and tailored to each offender's economic status so as to constitute roughly comparable financial burdens.

Community service orders are another form of punishment that Morris and Tonry explore. The possibilities here are limited only by the imagination of the sentencing judge and the availability of supervision to ensure that the terms of the sentence are fulfilled. Sentencing an offender to community service could cut prison costs, provide symbolic reparation to the community, and give the offender a sense of self-worth. On the other hand, the cost of close supervision, the uncertainty of community service's deterrent value, and the possible displacement of labor suggest that community service be used mainly as punishment for relatively minor offenses or in conjunction with other punishments.

The remaining intermediate sanctions discussed in the book all offer some degree of offender incapacitation (that is, they tend to limit the freedom of convicts). These include intermittent imprisonment, house arrest, and intensive supervision probation. Any of these can be enforced by electronic monitoring. They may be appropriate both for those who otherwise would go to prison and for those who would simply be put on probation. These individuals would need to be closely supervised and steered away from situations conducive to crime.

An important part of any community-based intermediate punishment is the treatment of alcohol abuse, drug abuse, and mental illness, all of which are frequently associated with criminal behavior. If they can be directly linked to the actual commitment of a crime, participation in a treatment program should be a condition of nonincarceration. Sufficient supervision would be needed to ease anxiety about such offenders remaining out of prison.

In discussing how a system of intermediate punishments might be developed and implemented, the authors raise three points of special concern. First, they warn that such a system might simply have the effect of widening the net of social control: Each new sanction might tend to draw in those who previously would have been either less severely punished or not punished at all, rather than those who would have been punished more severely. In that case, a system of intermediate punishments would simply increase the number of individuals under the criminal justice system's supervision; instead of cost savings, there would be cost increases.

The authors' second concern relates to the question of who will enforce these intermediate punishments. Probation officers, who work for the courts, are now responsible for supervising offenders placed on probation. But large caseloads often prevent them from performing this task effectively; furthermore, most judges consider the preparation of presentence reports to be probation officers' primary responsibility and seem to provide them little incentive to closely supervise offenders. Therefore, unless additional funding is made available so that more probation officers can be hired, or their supervisory responsibilities are assigned to executive branch law enforcement officers, it is likely that the terms and conditions of intermediate punishments would be inadequately supervised.

The third concern involves the budgetary impact of the new system. At first, additional funding would be needed for personnel to supervise the offenders sentenced to intermediate punishments and to make the system work. Only over time, as increasing numbers of offenders were diverted from prison, could budgetary savings be expected. And these would not occur (or would be greatly diminished) if the new system simply cast a wider net of social control, if close supervision proved costly, or if new prison construction proved unavoidable.

In addition to these three concerns, *Between Prison and Probation* raises several fundamental questions. Do intermediate punishments really work? Would a comprehensive and graduated system be less costly than incarceration? How would recidivism rates compare with those following prison sentences? How would the various sentencing commissions deal with a system of intermediate sanctions governed only by the principle of interchangeability and the discretion of the judge? Would this system correspond with society's desire to put offenders behind bars, and are nonprison punishments really interchangeable from society's perspective? The authors do not have definitive answers to these questions, but neither will anyone else until such a system is in operation and can be evaluated. Until then, a decision to fully implement such a system will be guided primarily by political considerations rather than empirical evidence. Nevertheless, the authors make a good case for revamping America's system of punishment to make criminal sentences less costly and more meaningful. •

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