Grain embargo

A punch at the Soviets that hit the U.S. farmer

President Carter's Jan. 4 imposition of an embargo on U.S. grain exports to the Soviet Union, including the 17 million tons already under contract for 1979-80, has thrown the country's agricultural sector into chaos.

The markets have already given the lie to Carter administration assurances that any ill effects of the embargo will be prevented. Reopened Jan. 9 after Carter had summarily ordered them shut down on Jan. 7 and 8, the Chicago agricultural exchanges have registered limit-price drops across the board for two days running now: traders have nothing but sell orders in hand.

The Administration's plan to gear up a gasohol program to absorb grain supplies was denounced the day after it was announced—industry spokesmen said U.S. gasohol production capacity couldn't begin to compensate for the loss of the Soviet market.

And the new bumper crops in the offing, a shortage of storage space across the country, and nearly 20 million tons of grain in the hands of a certifiably untrustworthy government, no one will guess where the price collapse might end.

There is no way to contain the damage. In the first place, the move is and will be highly inflationary, boosting the federal deficit by at least 3 billion just to purchase the outstanding contracts. Any additional mooes to attempt to compensate producers for the ensuing price and income collapse will add untold billions on to that.

At the same time, the sole positive item in the nation's external trade balance sheet—at plus $16 billion in 1978-79, helping to offset the minus $43 billion nonagricultural trade balance-will be slashed by several billions, opening the way for new attacks on the dollar.

The embargo intersects an already precarious situation in the farm sector. A net farm income drop of 20 percent for 1980 was already being projected several months ago, the result of terrific cost-price inflation, expecially energy-related. The tight-money policy of Federal Reserve Chairman Volcker has simultaneously set the conditions for a complete financial bust as the cash-flow crisis hits.

How the embargo hits

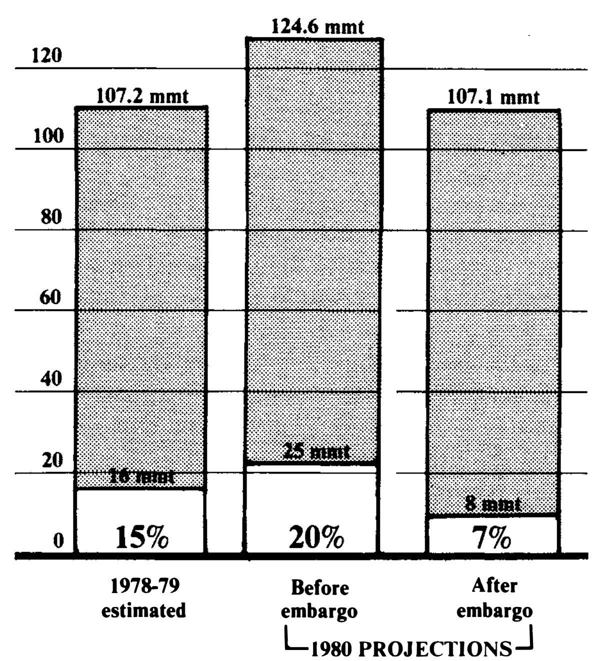
As such, the embargo will do little damage to the Soviet economy—the administration's stated intent. The Russians may be able to secure the needed grains supplies elsewhere, but if not, do some belt-tightening and, in particular, cut back on their livestock development program, the principal beneficiary of the American grains shipments. This they have been forced to do previously.

Not so the United States. The grain exports to the Soviet Union have been an increasingly crucial factor in the farm economy since 1972. In fact, expanding East bloc sales have been the principal basis for finally dismantling the electorate system of tax-subsidized production and marketing controls that have hobbled American agriculture since the 1930s Depression and the New Deal, and steadily and profitably expanding output.

The 1975 agreement with the Soviet Union guaranteeing a minimum of 5 and a maximum of 8 million tons of grain exports per year cemented this productive trade relationship and the Carter administration, not more than several months ago, announced a major expansion in the ceiling for Soviet 1979-80 purchase—to 25 million tons and with further negotiation more than 30 million tons. On this basis the administration proclaimed recently that there would be no set-aside program for the next session.

U.S. grain exports total and to Soviet Union

in million metric tons; corn, wheat and soybeans



Suddenly, an 18-25 percent chunk of the market is removed. There is little that can stop the ensuing price collapse. The measures announced Jan. 9, raising crop loan rates or the rates on operating loans the government offers to producers who put up their crops as collateral and which loans tend to act as the floor for crop prices were planned long before the embargo and are useless to prevent disaster. Last month's average wheat price was \$3.82 per bushel; the new loan rate was raised to \$2.50 per bushel—wheat producers cannot survive a \$1.32 per bushel price collapse! Stocks on hand are high, and projected planting levels are high. Winter wheat seedings are greater than last year, and the crop, which accounts for about 75 percent of U.S. wheat output, is estimated at just under last year's huge 1.6 billion bushels.

But corn, which makes up about five-sixths of the embargoed grain stocks, presents an even more serious problem. Not only was the 1979 crop a record-breaker at over 7 billion bushels, but as it now stands not much of it is eligible under the crop loan program. In the key states of Indiana, Ohio and Illinois only 8 percent of the producers participated in the 1979 set-aside program, a preprequisite for subsequent participation in the income support and crop loan programs.

The immediate effects are severe enough. More significantly, the highly leveraged credit positions of both farmers and their regional bankrs could give way. As one Midwest banker put it, "I'd hate to be a farmer trying to get a loan this year from a bank. And I'd hate to be the banker, too." With lower crop prices, farmers will be unable to get sufficient credit to cover their basic needs, something most just barely managed to do this year because of the relatively high prices and large volume of export sales. In the next few months, bankers and farmers are facing widespread defaults on loans already made for the coming planting season, as well as drastic cutbacks on capital expenditures and equipment purchases.

Food weapon unsheathed

Best accounts indicate that the decision to proceed with the grain embargo was forced through against wide opposition. As late as the afternoon of Jan. 4, sources close to the deliberations insist, there was no indication that the embargo would materialize. It appears that that late Friday Cabinet meeting was the scene of a rug-chewing episode by Zbigniew Brzezinski, a propoent (as is Henry Kissinger) of the "food weapon" and everyone was ordred into line on the grounds that the Soviet mop-up operation in Afghanistan posed a "threat to national security." Use of the "food weapon" without the invocation of "national security" is unconstitutional. The 1977 Farm Act expressly prohibits such action except under circumstances of a serious national grain shortage and then mandates a simultaneous hike of the support loan rate to 90 percent of parity to protect the producer.

At the first press briefing after the announcement, Walter Mondale, who was asked if the Carter administration was now taking up the use of food as a weapon, told reporters: "We are now ready to acknowledge that we will use those tools available to us."

The point was clear enough, but not very climactic. For the principled organized opposition to such nationally self-destructive policy had already fallen into line like dominoes. Allan Grant, outgoing president of the American Farm Bureau Federation, repudiated the bureau's long-standing opposition to the Kisisnger policy when he was put over the administration's Iran barrel in mid-December. That done, it was not a big step to issue a ringing defense of the Carter embargo. Such a statement was under deliberation, preparatory to being voted up, at the Bureau's annual convention Jan. 6-10 in Phoenix. The Bureau urged only that the embargo apply equally to all relations and contacts with Russia, and appended a seven-point program for implementing the embargo efficiently, including the gasohol push and the reinstatement of production cutbacks.

The National Farmers Organization, also meekly deferred to the President's prerogatives in a printed statement released this week and, as if shutting down commodity futures trading for two days and exports to the Soviet Union indefinitely were not enough, called for a two-week suspension of "all grain sales" with the provision to extend that pending the outcome of NFO meetings to determine how to stem the price collapse.

The National Farmers Union has issued no statement on "what the President did" since it concerns foreign affairs, but has expressed concern as to how to prevent an utter catastrophe in the farm sector, urging in that connection an immediate increase in the crop loan rates.

The response in Europe has been more realistic. European nations have announced their refusal to participate in extending economic sanctions against the Soviet Union. At the same time, they have madee clear that they will not jump into the breach in supplying the Soviet Union with grains—undoubtedly under heavy threats from Brzezinski and Co. On Saturday Canada, Australia, Argentina and an European Community delegation are scheduled to meet with Undersecretary of Agriculture Dale Hathaway on the matter.

But, as one Washington source pointed out, "watch France," she may be the "dark horse" that breaks the game up. French Foreign Minister Jean François-Poncet has frankly questioned the Carter administration's policy by pointing out the fact that American trade relations with the Soviet Union were overwhelmingly in the U.S. interest rather than mutual as those between France and the Soviet Union.