tempts to obtain more liberal trade conditions around the world. But, to ignore opportunities in some instances and, in other instances, not create opportunities to participate in countertrade will not necessarily lead to abandonment of countertrade by other countries. The nonconvertibility of currencies of other countries and the shortage of hard foreign exchange currencies by many countries compel them to seek countertrade arrangements. International trade negotiations are not going to change these conditions quickly and may not at all.

**A Short Definition of Dumping**

According to the General Agreement on Tariffs and Trade (GATT), dumping is a means "by which products of one country are introduced into the commerce of another country at less than the normal value of the products."

Under the GATT an importing country may protect its producers against injury by imposing antidumping duties. These can be no greater than the amount by which an existing country's domestic price exceeds its export price.

The United States does not levy antidumping duties unless the U.S. Treasury Department finds that sales are made at less than fair value and the U.S. Tariff Commission finds that there is injury.

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**Steve Gabriel and Paul Prentice on Macrolinkages**

**Fundamental Economics (Not Farm Policy) Now Drives Agriculture's Future**

In spite of all the hoopla about the 1985 Farm Bill, costly as it is, the most important developments for agriculture in recent months involve major macroeconomic indicators—federal deficit reduction efforts, an accommodative monetary policy, prospects for stronger economic growth at home and abroad, and plunging interest rates, exchange rates, and oil prices.

In fact, these macroeconomic fundamentals are all interrelated. Taken as a whole, they all point to eventual economic recovery for the U.S. farm sector. On the policy front, a tighter fiscal policy (deficit reduction) combined with a loose monetary policy (12% growth in M1 last year) is just the right policy mix for lower real interest rates and a weaker dollar. This is a total reversal of the macroeconomic policy of the early 1980's—fiscal stimulus combined with monetary restraint—that helped to get us into this mess in the first place.

Interest rates are perhaps the single most important macroeconomic linkage variable to agriculture. On the cost side, farm debt at $200 billion and interest payments at $20 billion imply that the 300 basis point drop in rates over the past year will eventually save U.S. farmers $6 billion in interest expenses alone. Just as importantly, lower real interest rates imply higher prices for fixed assets such as farmland. Not necessarily higher land prices than last year, but higher than they would have been if rates had not fallen.

**Less Cost, More Demand**

Also on the cost side, the 50% fall in crude oil prices will save farmers about $2 billion in direct energy expenses. Fuels, oils and electricity represented about 7% (nearly $10 billion) of total farm production expenses in 1985. The indirect savings will be just as large, as lower energy prices get passed through prices of nearly every other farm input. This is more good news for the future of land prices as this increase in per acre profitability becomes capitalized.

On the demand side, there will be stronger economic growth here and abroad—perhaps as much as 1 full percentage point worldwide—stemming from lower oil prices and interest rates. This is good news for improved domestic demand as well as for world trade. Finally, although the exact impact is arguable, the 30% decline in the dollar (on a trade-weighted basis) over the past year certainly can't hurt exports. Clearly, the macroeconomic fundamentals are now in place for eventual economic and financial recovery of the U.S. agricultural sector.

However, the financial adjustment process that will continue to occur even with farm sector recovery will be painful for many segments of agriculture—farmers, lenders, and other agribusiness firms. And it poses serious social welfare problems that ought to be addressed just that. Targeted social welfare programs will be more effective than programs which tinker with farm prices, incomes, and credit.

In addition, there will be substantial economic costs associated with these adjustments in the form of loan losses, and income and wealth losses. The question that loms now on the policy front is who should bear these costs and how should they be distributed? Net cash farm income has dropped over 11% in constant dollars since 1980. But there appears to be some stabilization in the last few years (with a lot of help from Uncle Sam). No doubt, large supplies of crops will exert strong downward pressure on commodity prices. But the changing macroeconomic fundamentals should provide substantial relief on the cost side as well as higher commodity prices than otherwise would have occurred.

Furthermore, don't tell your farm lender or debt-burdened farm neighbor this, but lower farmland prices and debt liquidation are good for agriculture. No question about it, these financial adjustments will lead to considerable misery for those involved and as a society we
Bold Steps Have Been Made

Stanley R. Johnson
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The Food Security Act of 1985 is designed to move major agricultural commodity markets and the U.S. agricultural sector into a more balanced position. Key features of the Act include more competitive pricing in domestic and export markets to stimulate demand growth, a long-term conservation reserve to remove fragile land from crop production and to reduce excess production capacity, and income and gross receipts protection near current levels in exchange for planted acreage reductions by farmers.

Excess capacity will be reduced by decreasing planted acres, especially those from fruit land, and expanding domestic and export markets. But export markets are not likely to respond to lower U.S. support prices (loan rates) sufficiently in the short run to prevent substantial declines in farm prices. Thus, government direct payment to farmers will be high with annual costs for the next 2-3 years likely to be more than two times the annual average costs under the 1981 Farm Bill. Net farm income will hold near current levels with declining receipts offset by reduction in costs due to energy and real interest rate declines.

Government will be prominent during the planned transition to a more competitive U.S. agriculture. The farm debt problem will continue in the near term and will probably be addressed with special legislation, since the Food Security Act of 1985 does little to improve financial conditions of farmers with high debt loads. Bold steps to recapture export markets and reduce U.S. excess production capacity have been made, with the government assuming much of the risk associated with possible declines in market-price-based net farm income and gross farm receipts.

Family Farm Income Threatened

Cy Carpenter
President
National Farmers Union

The legacy of the 1985 Farm Bill will be grim indeed if immediate corrective action is not taken to restore farm income. Its biggest effect could well be the elimination of the family system of agriculture in the United States. If that happens, what will replace family farm ownership? Corporations that take production overseas, or import foreign grain, or hire at wages so low that families are forced to drift from temporary farm job to farm job?

No one knows. Until that all-important question is answered, we must reverse this disastrous direction and marshall all our energy into preserving the most efficient system of agriculture on earth: the American family farm.

Farm income is the missing link in the 1985 Farm Bill. USDA’s own Economic Research Service forecasts that off-farm jobs are “the only income source projected to increase substantially between now and 1991.” This trend is forcing more and more families to sell their land and give up their vocations. This elimination of farming and ranching families is fundamentally wrong. We need to take acres and livestock out of production—not people. Keeping families on the land with a widespread distribution of land ownership has long been a goal of democracy. Our present course means an elimination of this model system.

Farmers and rural communities across our nation are being economically raped. They are not alone. Workers have already lost a half a million jobs because of the rural depression.

Our farmers have kept pace with, if not ahead of, other sectors of the economy in productivity, efficiency, willingness and capability to adjust, quality of product, capitalization and modernization—all hallmarks of successful business. Now, they deserve better legislation and a chance to continue that record.