The embargo's effects

A price tag totalling at least $15 billion

The estimate of a $14 billion price tag on Mr. Brzezinski's food weapon, currently circulating in some circles to gasps of disbelief, might just turn out to be on the conservative side. Every indication at this time is that it may in fact take $15 billion or more—an amount double President Carter's projected 1980 federal budget deficit—to prevent a financial catastrophe in the farm sector due to the grain embargo.

Agriculture Secretary Bergland has been given carte blanche powers by the White House to "spend whatever it takes" to soften the blow on farm producers. But few observers believe that his boss, Mr. Carter, can not be just as easily convinced tomorrow that it is his image as an enforcer of sacrifice—"the man who kept his promise to hold the deficit to $15 billion"—that will win him the renomination. It is, after all, the same Jimmy Carter who in 1976 solemnly promised he would never use food as a political weapon.

It is not clear what the Administration will actually do to back up its new promises. More will be known, perhaps, after Secretary Bergland is put through the wringer at congressional hearings scheduled to begin Jan. 22. As of Jan. 15, however, the situation was, in the words of a Washington source, "wide open." The Agriculture Department has not yet made a decisive move on even the first thorny issue it has brought down on its own head—namely the form, and therefore the amount, of its restitution to the grain companies holding the embargoed contracts. Will the Department reimburse the cost of the grain paid to producers, or will they cover the grain companies' sales price to the Soviet Union?

The grain companies for their part emphasize that they have been caught out on an impossible limb, with long hedges—that is, hedges based on a rising price trend—in the face of a declining market, and that the smaller and cooperative export companies couldn't survive it. But the cost of abrogating the contracts does not simply correspond even to the face value of the negotiated agreements; all other contracts, to other trading partners are put into question and possible renegotiation. And prospective buyers will hold off signing any contracts, anticipating further price declines.

But the Agriculture Department's dilemma over what to do with the embargoed contracts is just the beginning of the mess. Whether the contracts themselves cost the government $2 billion or $4 billion, there is growing recognition that the total cost of the embargo—discounting for a moment the relatively incalculable—will be a far sight greater than the $2.5 billion tag the Administration has put on Zbigniew Brzezinski's folly. It is not irrelevant to note that the Administration implemented the grain embargo without a shred of analytical consideration of its impact on the farm sector. A Washington correspondent for *Feedstuffs* reports that the USDA walked into its first meeting with grain exporters convinced that most of the embargoed grain was owned by farmers, backing that conviction up with shockingly inaccurate figures.

As various agricultural consultants told the *New York Times* on Monday, the bill for the grain embargo could exceed $5 billion. But when $2 billion to finance a 1980 cropland diversion program and another $2.5 in lost export revenues are added to the $2.5 contract payoff, it tallies up to about $7 billion.

There are, however, several further considerations. The first is whether markets and prices can be stabilized at a high enough level so as not to bankrupt producers. After falling the limit for two days last week when the

How much will the embargo cost?

$ 3 billion	CCC purchase of embargoed contracts
$10 billion	Agriculture Department expenditures for cropland-diversion and price-support programs
$ 1 billion	CCC appropriations for export credits to market embargoed grain
$ 1 billion	Outlays and tax credits for gasohol program
$15 billion........	TOTAL COST

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commodity exchanges were reopened, prices stabilized at the lower brackets on Friday. As has been emphasized, "removing" the embargoed grain from the market by no means eliminates its price-depressing effects. Agriculture Department announcements Jan. 15 that 1979 crops had been even greater than the records first estimated—corn output up more than 4 million tons from the November estimate, and soybeans up nearly 1 million tons—will not help.

There will likely be large crops in 1980 since producers will have to attempt to make up for the lower prices with a larger volume of saleable output, but feeding the price decline spiral. This will necessitate huge government price support program outlays, and/or a set-aside program that is handsome enough to buy farmer participation.

While it is impossible to quantify precisely at this point, it is useful to note that price support outlays for 1979, a year when market demand firmed nicely even with larger output, were a hefty $5 billion. Projected to drop by $2 billion in the Carter 1980 budget, these outlays could instead easily double to $10 billion in 1980.

There are two additional related cost factors to consider in costing out the embargo. The Commodity Credit Corporation's (CCC) appropriation for export creditlines to market the at least 17 million tons of grains it will be holding will have to be increased. Slashed to $800 million by Carter, most observers concur that it will have to be boosted by about $1.5 billion for 1980-81.

The preposterous presidential gasohol program—$3 billion worth of outlay over ten years to develop the industry—show that it will cost $8.5 to $12.8 billion over ten years—or about $1 billion per year when lost revenues are taken into consideration. A massive subsidy program, the gasohol plan will grant federal tax credits of 44 cents per gallon to gasohol producers. This is most significant in light of the fact that not only have numerous studies repudiated the notion that gasohol represents any kind of viable and cost-effective energy source, but even gasohol proponents involved in the industry have denounced the administration's claims that the industry can absorb 5 million tons of grain this year with or without the subsidies.

So, the bill for the embargo looks like it could add up to about $15 billion. But, the broader damage and the cost of restoring efficient planning, production and marketing all the way down the line in the farm industry is virtually incalculable at this moment.

There are however a number of very clear indications of the scope of implications. First and foremost is the danger of a grave financial crisis in the farm sector. Even before the embargo, as a result of 20 to 30 percent inflation in key production costs such as energy and credit over 1979, farm income in 1980 was slated for a 20 percent drop, to perhaps the lowest inflation-adjusted level since World War II. Obviously giving the income drop another shove, the embargo policy may also act to drive up production costs, undermining farm income by that route. For instance, if Mr. Brzezinski succeeds in embargoing Soviet ammonia exports to the U.S., as he is feverishly attempting as of today, fertilizer costs this spring will jump another notch above the 15 to 20 percent rises already registered over last spring. Ammonia prices had been far and away leading the pack.

A farmer cash-flow crisis

Before the embargo, economists had estimated that to get through in the face of a 20 percent income drop, producers would have to rely significantly on increased borrowing to finance normal production and operation costs. As of Jan. 1, 1980, approximately $70 billion in private credit was outstanding in the farm sector. Producers need this and more, starting now, for 1980 production—but any further income threats immediately puts this credit in jeopardy. The cash-flow squeeze on producers exacerbated by such severe income drops intersects an already precarious situation in the regional credit markets created by the Volcker tight money policy. Private commercial bank lending has been severely curtailed, and where funds are available at all, rates have shot up several notches since Oct. 6 when the Volcker squeeze was announced. Producers can turn to the Farm Credit System, but under the income pressures forecast it is questionable whether many of them can take on the additional credit burden, especially at the higher rates that prevail in the FCS. A self-supporting borrower-owned institution, the Farm Credit System raises its loan funds on the national money markets and its interest rate structure is therefore more closely tied to the higher money-center rates.

The magnitude of cash-flow crisis in the cards will probably necessitate vast new outlays under the Farmers Home Administration "economic emergency" loan provisions—they have already chanelled nearly $10 billion in "disaster loans" into the farm sector since 1978 as credit conditions worsened. Anything less is toying with conditions ready-made to trigger a chain reaction of defaults.

Even less readily calculable at this moment is the impact in terms of the rest of the economy—from agribusiness suppliers such as seed, fertilizer, chemical and equipment producers and dealers. Not only are these in danger, but it is certain that these producers will be forced to budget-cut on future capital expenditures as much as possible.

Finally, America's credibility as a reliable supplier has, perhaps, been destroyed for the foreseeable future—and its command over expanding markets therefore that much weakened.

—Susan Cohen