Free-Market Economics Is the Last Thing American Agriculture Needs

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The following "Testimony to the Agriculture Committee of the U.S. Senate in Opposition to the Confirmation of Ann M. Veneman as Secretary of Agriculture" was submitted by EIR *on Jan. 24.*

Chairman Lugar, and Members of the Committee,

The agriculture and food supply sectors of our economy—along with all other vital sectors and infrastructure—are presently in worsening crisis, *of a systemic, not a cyclical nature*. What is required, is urgent intervention to restore traditional policies serving the general welfare—such as parity pricing, debt moratorium, anti-trust action, and specifically, energy re-regulation, for which there are ample precedents.

The demand is growing rapidly for national-interest emergency measures. Specifically, *EIR*'s Founding Editor, Lyndon LaRouche—now a newly announced candidate for Democratic Presidential nominee in 2004—has forewarned of today's crisis, and is mobilizing for return to the FDR-style approach to get out of disaster.

The opposite approach—sticking to the so-called "market forces," deregulation, globalization, free trade policy—is now blowing up in California, in the food chain, and internationally.

The Bush Administration Cabinet nominations—especially John Ashcroft, as well as the economic team appointments—are all associated with commitment to these very policies which led to the current crisis. We oppose Ann Veneman as Agriculture Secretary for that reason. Below we summarize the scope of the crisis, and the necessity of replacing the destructive and disintegrating free-trade approach, which she has backed, with national-interest agriculture and trade policies.

There is one overall point to be stressed: This is no "ordinary" period of clash of policies regarding agriculture and all other economic policies. The financial and economic *system itself* is at the breakdown point, and insistence on the policies which contributed to that—and which won't work, presents the conditions for imposed crisis-management, with the threat of police-state emergency measures of the type of Hitler's 1933 *Notverordnung* (rule by emergency decree).

LaRouche: Financial System Is Disintegrating

Lyndon LaRouche described both the nature of the crisis, and what must be done, in a Jan. 9 memorandum to a policy conference in Milan, Italy, Jan. 14, on "Debt Forgiveness and the New Bretton Woods." He wrote:

"I emphasize that the present world financial and monetary system is now already hopelessly bankrupt in its present form. Only by putting that system, and most among its associated central banking systems into bankruptcy reorganization, could a viable form of monetary order continue to exist on this planet.

"This means that the following measures must be included as an absolute precondition for the existence of viable world monetary and financial order.

"1. The cancellation of claims to the most disreputable categories of nominal debt, such as financial derivatives and junk bonds, which are to be adjudged morally as claims of the same nature as gambling debts.

"2. The freezing of principal and accruals of interest on much of the world's total debt, and forgiveness of large portions of such debt, as practical and moral considerations dictate.

"3. The reorganization of the world's monetary and financial structures in a manner consistent with the lessons of the immediate post-war decades: a new monetary system whose design is pivotted upon a system of long-term credit and trade agreements in the range of twenty to twenty-five years, at prime interest costs not in excess of between 1% and 2% simple interest per annum in agreements between sovereign national states.

"4. A matching array of fixed exchange-rate parities among currencies, buttressed by capital controls, exchange controls, and financial regulation, consistent with the experience of the original Bretton Woods system's initial two decades of operation.

"5. The creation of large volumes of credit by sovereign nation-states, for the purpose of promoting those investments both essential forms of public infrastructure and related hard-commodity private investments needed to bring levels of employment and output up to levels of sustainable long-term physical-economic growth.

"The great danger today, is presented by the hysterical demand, especially from implicitly self-ruined financier interests, that their financial claims be honored promptly and in full, with disregard for the effects of such demands upon the victims of such usurious policies. If such demands are not resisted by aid of the kinds of reforms I have indicated, this planet will be plunged into a protracted new dark age for humanity as a whole. By submitting to hysterical demands of such as those self-ruined financier interests, great empires of the past have been left, shattered, in the sands of the desert their empires have become. In such matters, it is the common good which must prevail."

The Agriculture and Food Crisis

For the purpose of considering, what the policy direction should be, of the U.S. Agriculture Department, and of related government agencies, we here present three summary points about the U.S. and world agriculture situation: 1) world food supplies are short, and means of production are declining; 2) the U.S. energy crisis, on top of the pre-existing farm crisis, threatens unprecedented food shortages; 3) the financial system breakdown, spells the end of the dollar-trade system, and return to national-interest economics, or chaos.

1. *World Food Shortages.* As of the 1990s, world grain output per capita, has been in decline. This Winter, the UN Food and Agriculture Organization, has issued appeals for emergency food aid for 1 million people in Afghanistan and Pakistan; and for millions more, from Ecuador, to Sudan, to North Korea. Most of these appeals are not met. Tonnage of grain annual food aid is declining. Total world grain output—which to meet per-capita needs should be in the range of over 3 billions of tons, is still under 2 billion tons. There is no technology problem here; it is a policy crisis.

Apart from severe natural disasters, the overall shortages in output, such as in Africa and in South America, come from the degradation of the means of production—absence of infrastructure, inputs, water, and equipment. During the GATT/WTO years since the mid-1980s, agriculture commodity cartels—centered mainly on Anglo-Dutch-Swiss financial interests, have imposed extensive networks of plantation and "industrial" agriculture—for commodities ranging from frozen vegetables, to flowers, to milk protein concentrate. These cartel networks reign over international trade flows in these goods, over and above the interests of nations and peoples.

In the United States, the degree of consolidation of control of the food chain is now notorious. Besides the mega-mergers leading to the domination of livestock production and processing, and the Cargill-Continental merger and other instances, there is the retail food trade control. As the National Farmers' Union latest report (Jan. 8) shows, five firms now take in 42% of retail food sales in the United States (Kroger, Albertson's, Wal-Mart, Safeway and Ahold USA).

Going along with this intense concentration, there has been a rapid decline in the farm states, of independent family-farm operations, supply stores, elevators, and all other farm community essentials, including railroads, hospitals, etc.

Thus we are seeing a situation where the farmer is underpaid for his commodity, and the family-farm system is taken down, while the consumer pays more and more. We can see low grain prices to the farmer, while bread prices can go through the ceiling. This is the recipe for disaster.

2. *California Energy Crisis Impact on Food Chain.* When in 2000, the U.S. farm sector had added onto its below-parity commodity price levels, the soaring energy costs of production (natural gas, propane, electricity, surcharges on rail, nitrogen fertilizers, etc.), a full-scale food supply crisis was automatically in the making. How this works is clear from the unfolding California situation.

California is the foremost state in value of agriculture output, accounting for some $25 billion, out of the nation's $189 billion in agricultural production in 1999. The state has a gigantic food-processing sector—ranging from dehydration plants, to canneries and yogurt factories. Most of these use natural gas, and many are simply shutting down. The national impact on the food chain, as well as on communities in the state, will be disastrous.

In Tulelake, Calif., for example, the potato-flake plant was closed on Jan. 20, for the second time in a month, because of the 16-fold increase in monthly natural gas bills, and then on top of that, the January 10% electricity rate hike. These dried potatoes go out of state to users such as Cincinnati-based Procter & Gamble, for processing into mashed potatoes, chips, and other products.

California is the biggest milk-producing state, accounting for 20% of all U.S. dairy products. The dairy industry accounts for some $4.3 billion a year. It is now in crisis. California Dairies, Inc., the nation's second-largest farmer-owned cooperative, expects farmers' power costs to rise at least tenfold this winter.

The Land O'Lakes Western Region milk plant—the largest in the United States—is in Tulare, California, and electricity stoppages there have resulted in milk dumping and disruptions. The same situation obtains at other plants, but concentration of food processing at "industrial-sized" centers, such as this facility, which occupies a six-block area, means that when such a center is hit, the food chain is automatically jeopardized. The Hilmar Cheese Co., in Hilmar, in the Central Valley, is the world's largest cheese factory. It now has been hit by power outages and operations disruptions. The company also faces December natural gas bills 47%

higher than December a year earlier.

Besides the dramatic developments in California—especially in dairying, involving a highly perishable commodity—the direct impact of the energy crisis on basic grains is equally severe. Nitrogen fertilizer scarcity and high prices are now a national farming emergency. Coming on top of last Fall's winter wheat crop being the smallest are since 1956, and needs for fertilization planning for corn and spring wheat, emergency intervention is required.

Yet, what has been the Bush Administration stated approach to "California" and the "energy crisis"? That so-called "market forces" must rule. Besides the stupidity of this reflex-reaction response, there is the scandal of the fact that the Bush campaigns themselves, and prominent Administration-related political figures, such as James Baker III, not merely Richard Cheney, are themselves directly benefitting financially from the energy companies (Enron, Dynegy, Reliant, and many others), and other commodity companies (food, minerals, etc.) making a killing off the economic breakdown. This is no garden-variety "conflict of interest." This is a policy threat to the nation.

3. *"Dollar Era" Trade Patterns Now at Collapse Point.* One point deserves special attention, regarding Ms. Veneman's stated commitment to "expand U.S. agriculture exports," and similar sentiments. The essential fact is, that the entire financial system is disintegrating. In this context, Ms. Veneman's views relate to a bygone era. Even worse, she is from California, and ought to be able to appreciate the degree of crisis, and not resort to reflex reactions.

What is the former era? Whereas, for many years, the U.S. became increasingly import-dependent for necessities (clothing, electronics, producer inputs, etc.), as shown in the whopping monthly trade deficits; and whereas, at the same time, the U.S. offered a casino of hyper-profits to be made on the stock exchanges, real estate, futures, derivatives, and all kinds of speculation. Now these bubbles are bursting. First the Nasdaq info-tech one; then the $670 billion category of junk bonds. And now the $400 billion category of U.S. utilities debt is teetering on blow-out. The biggest bubble of all—derivatives, some $29 trillions of which contracts are held by U.S. banks—is ready to burst. This will obliterate the financial system as it has been known. Going down with it, are currency values, trade patterns and all else.

In the face of this, many traditional trade partners, are viewing the United States with horror—especially hearing talk of "expanding exports" and such repetitions of from-another-planet nonsense. Some countries are moving to form new trade blocs in their own interests, such as the 13 nations called ASEAN+3 (Southeast Asia plus Japan, China, and South Korea).

Therefore, the only "realistic" approach in the United States, as Lyndon LaRouche is known for around the world right now, is to set in motion internationally a set of new, stable currency relations, and other aspects of a "New Bretton Woods" financial system to serve national-interest trade and economic development. And domestically—as the food and agriculture sector proves dramatically—to recognize the crisis and act on that.

The kind of emergency measures required, include:

1. Act immediately on the energy crisis, through re-regulation, and launching of construction of new generating capacity. Right now, prioritize energy provision for farm, food and other essential operations.

2. Restore parity-based pricing, on the principle of the standing 1949 Agriculture Act; nullify the destructive 1996 "Freedom to Farm Act."

3. Take necessary financial relief measures, to revitalize conditions for family-based independent farms, and middle-sized manufacturing and business operations, through selective debt moratoria and relief, low-interest credits, and infrastructure projects.

4. Take steps to replace the free-trade U.S. foreign policy (NAFTA, WTO, etc.) with mutual-interest national trade.

5. Act to launch expansion of rail, water-borne and other vital transportation systems, and water supply infrastructure.

6. Initiate anti-trust actions to end the commodities cartel control over the food-chain, and over seeds and other farm inputs.