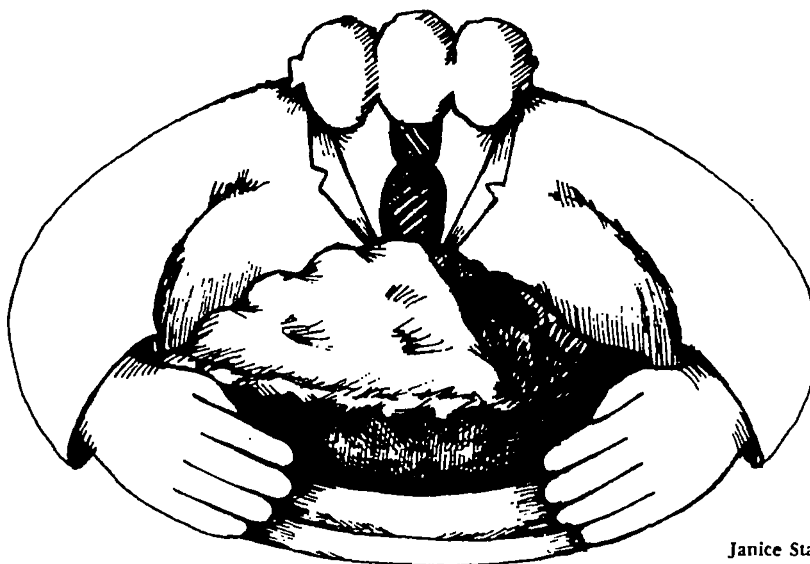
A searching look at who really controls U.S. food policy



Janice Stapleton

Big Money in Hunger

Hal Sheets

Habitually shunned by economists, the press, and the majority of Congress, shielded by a bureaucracy in the Department of Agriculture that long ago became its prisoner, the food industry is a domain ruled by a few giant corporations remote from public accountability. Decisions that can save or condemn to death vast numbers of people are dependent on an esoteric dated market mechanism geared to profit and oblivious to human need. And the most urgent problems facing the conscience and resourcefulness of American foreign policy for the next decade remain hostage to an economic system out of the nineteenth century. That is the argument.

Official Washington explains the world food problem as a "natural" and thus inevitable result of widespread crop failures in 1972. But bad weather is only a part of the background to decisions on food that year.

A winter kill followed by a dry summer in Russia, droughts in Argentina and Australia, typhoons in the Philippines, an inadequate monsoon in India—all combined to reduce world grain production by more than 3 per cent during 1972. Each of these events was duly reported by U.S. embassies to the Departments of State and Agriculture in Washington, some —like the Soviet failure—early in the year, with clear indications of the coming "shortfall." Even during the lush surplus years of the fifties and sixties, however, such a widespread and general failure of grain harvests would have been the basis for concern. More than half the world depends on the direct consumption of grain, and more than half of any average yearly grain yield went to feed livestock which provide about a third of the world's total supply of protein, though mainly in the developed or rich nations.

By 1972, as official intelligence and public figures also indicated, there were ominous new trends emerging for international grain supplies. Beginning in 1966-67, and more acutely since 1969, there had been periodic decreases in the grain reserves held by the principal exporting countries. This left in 1972 a reserve of less than 10 per cent of annual world needs. Moreover, grain supplies were under mounting pressure, not only from population increases—more than 75,000,000 a year—but also from demands of increasingly affluent consumers in the industrialized nations. This revolution in world dietary habits was evident by the late sixties in Japan, Australia, and Western Europe. But perhaps the most dramatic reports came from the Soviet Union. By 1970 the Soviets had turned from a net exporter of grain toward being a net importer. This development was a reflection of a major political-economic

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decision to upgrade dietary standards by increasing the consumption of meat by the Russian population. The decision required increases in livestock consumption of grain even in the face of poor harvests.

By 1972 experts in and out of government pointed to the prospect that the Soviets would no longer be sometime customers but regular and massive consumers of the world grain supply. Added to these developments was a corresponding decline, since 1969, in the world fish catch, foreshadowing further pressures on both the Soviet Union and Japan to increase grain purchases to counter dwindling fish protein yields. Finally, there was by 1972 the all too clear prospect of mass famine in West Africa and Bangladesh. Intelligence on the devastating drought in the Sahel had been gathering in the Agency for International Development and Agriculture since early 1969. The chronic food deficits in Bangladesh had become catastrophic in the wake of the repression of 1971 which drove ten million into exile and eventually led to the war between India and Pakistan that December.

All of this—the low crop yields, the dwindling reserves, the falling fish catch, the relentless demands of population and affluence, the desperate prospects in Africa and South Asia—was known in the U.S. Government in 1972. The weight of the gathering evidence was hard to mistake: There would be unprecedented demands—much of them humanitarian—on the U.S. grain supply, with consequences reaching far into the future. There was little or no evidence that this information was misunderstood. It was understood but ignored for the sake of different and "higher" stakes.

There was nothing natural or inevitable about what followed. In 1972, against this background, the Department of Agriculture withheld some 62 million acres from production—about equal to the total farmland in the United Kingdom. The nearly $4 billion paid to farmers not to farm that year almost doubled the previous annual payment. Then, in July and August, following negotiations by Henry Kissinger in Moscow, the Soviet Union purchased through U.S. companies 18 million tons of American grain for $1.1 billion. The total Soviet grain purchases amounted to 28 million tons worldwide. Although the enormous Russian sales were not enough by themselves to create a food shortage, they had a shock effect on the world grain market. As news of the Soviet deal leaked onto the U.S. market, grain prices swiftly rose, beginning a price spiral that would see wheat climb 300 per cent, from less than $60 a ton to more than $180 a ton, in a year's time. As prices rocketed, and the vast outline of the Soviet purchases became apparent to the traditional buyers of North American wheat, panic seized the grain-purchasing nations.

Beginning in August and continuing on into late 1972, orders poured in from Europe and Japan. The initial and urgent orders tried to take advantage of the Agriculture Department's artificially stabilized world price of $60 a ton. Then subsidies were removed in September and frantic buying continued in an attempt to get any wheat, corn, or soybeans that were left. Finally, in early February, 1973, another predictable event: the dollar was devalued. As American stockpiles neared exhaustion, the price of wheat was suddenly 15 per cent lower in yen, and Japanese orders surged; eventually they totaled more than 17 million tons worldwide, most of it purchased from the U.S.

When it was over, the buying orgy had raised U.S. agricultural exports by nearly $5 billion, more than 50 per cent over 1971. But the apparent commercial triumph had costs not readily seen in the summer and autumn of 1972. Because the sales were subsidized by the U.S. Government, American taxpayers picked up the tab for a third of the Russian purchase directly. The higher prices at the supermarket for grain products and grain-fed meat have become a major cause of the current inflation and will probably never be calculable.

For the poor countries, dependent on commercial surpluses to allow U.S. food aid, the Russian purchases drastically slashed humanitarian assistance. In 1973 U.S. food aid shipments of wheat were less than 30 per cent of the assistance given in 1971. Rice and vegetables were below half the 1971 levels; feed grain shipments were also cut in two.

Secretary Kissinger would later confide to reporters that he had been unaware of the magnitude of the Soviet crop failure in 1972. But that left unexplained why the Administration failed to heed the numerous other factors arguing for close scrutiny of the course and size of the Soviet purchases. What seems a stronger clue to U.S. motives behind the deal came in September, 1972. Even with the magnitude of the Soviet buying finally clear, and its impact felt worldwide, Secretary of Agriculture Earl Butz ordered that still another 5 million acres of wheat land should be idled. With the Presidential election less than two months away, Butz ignored the recommendations of the Cost of Living Council staff and its director George Shultz to put more land into production. As one Agriculture official later put it, "Butz didn't want to be known as a cheap-food man in an election year."

It was not until early 1973 that Shultz finally prevailed. But by then it was too late for farmers to plant more wheat, and the economic consequences of the summer's grain trading could not be reversed. The total paid to idle land during 1972 and 1973—as food aid was slashed—amounted to some $6 billion, more than the total economic assistance given to the world by the U.S. during roughly the same period.

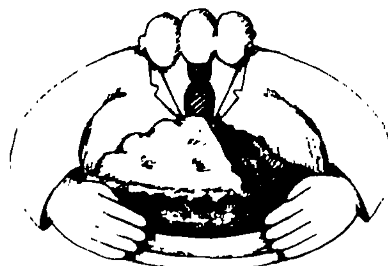
More obscurely, decisions in the Department of Agriculture were also producing similar results in soybeans. The U.S. is the main source of the world's soybeans, producing over 75 per cent of the total crop and responsible for about 95 per cent of the international trade in the commodity. As with wheat, soybeans were in heavy demand abroad, both as an important feed grain and for direct consumption by many millions of people in Asia. A high protein vegetable, soybeans were also a likely substitute for dwindling supplies of fish protein. At the same time, agronomists and government officials had known since the early sixties that increases in soybean yields were accomplished only by planting more acreage. But again the events of 1972 gave evidence of little planning or even of concern in Washington for the status of a vital food resource.

When the Peruvian anchovy catch failed early in the year, the demand for soybeans soared. But prospective international buyers soon discovered that the Russian "wheat" deal also included nearly 7 million tons of nonwheat grains, notably soybeans. Moreover, the late U.S. soybean harvest, severely reduced because of unsuitable weather, could not be moved because boxcars were absorbed by the movement of the Russian purchase to the port cities. In February, 1973, devaluation of the dollar pushed demand for soybeans to new highs. Availability had become so limited by June that the Chicago Board of Trade was forced to suspend trading in soybeans, except when the trader had supplies already purchased available for delivery. On June 27 the Department of Commerce slapped an export embargo on soybeans because of the massive volume then scheduled for export. Agriculture's Conservation and Stabilization Service had reported in mid-1973 that there would be virtually no carryover in soybeans for either the U.S. or the remainder of the world.

By May the cash price of soybeans had risen over 350 per cent and soy meal by 300 per cent. For U.S. exporters profits were immense. Soybean exports were $2.7 billion by the close of 1973, more than three times the volume in 1969. For the American consumer the high price of soybeans and their limited domestic availability would bring much of the increase in meat and poultry prices in 1973 and early 1974. For the poor countries, and for the poor within them, the high price of soybeans would mean exported inflation and increased privation, as the Arab oil embargo was about to have its own inflationary effect on fuel and fertilizer costs. And for all the primary factor was U.S. food policy: soybeans was one of the commodities American farmers were paid *not* to grow in election year 1972.

The wheat and soybean fiascos revealed not only the political manipulation of American food policy and its rudimentary planning failures, but also exposed the tenuous control the U.S. Government was able to exert over the momentous market forces it had unleashed with deliberate decisions to increase export sales amid imminent scarcities. Surrounding the Russian wheat sale there was the strong odor of corruption—immediate advantage for a few major dealers as well as the larger effects on prices and demand. Only a handful of officials, for example, were aware of the actual sale as it took place—one official was negotiating for a job with the major American grain company involved—and no one seems to have known the magnitude of the sale until it was completed. Months afterward Agriculture officials contended they still were unable to determine exactly how much the Soviets had actually bought. The Soviet grain purchases were thus almost totally unmonitored and ultimately uncontrolled by the U.S. Government.

But the soybean case demonstrated even more vividly the incapacity of the government to conduct a food policy which went beyond mere sales promotion for agribusiness.



Even though the soybean scarcity that developed in mid-1973 had been predicted by Agriculture's Economic Research Service nearly nine months earlier (in September, 1972), nothing was done until the situation was out of control. As early as October, 1972, the ERS had advised government intervention in the form of price and export controls. But high-level officials in the department, including Butz, were adamantly opposed to controls, ostensibly because curtailing exports would encourage foreign buyers to seek alternative supply sources, despite the fact that the U.S. accounts for more than 95 per cent of the total world market supply. After months of intense pressure from soybean processors who were warning of imminent shortages, the Council of Economic Advisors began in mid-1973 to examine the feasibility of export controls. Nearly nine months after the initial warnings the CEA's analysts would confirm the 1973 soybean shortages.

On June 29—two days *after* a total embargo had been slapped on soybeans and related products—Commerce's Office of Export Administration began, with Agriculture, a series of public conferences with representatives of the grain trade. Those sessions revealed that U.S. officials lacked hard information on the most basic aspects of the problem, including data on crop growing areas, crop availabilities

through the year, amounts moving by barge and hopper cars, storage availability, average amounts destined for port facilities, and, perhaps most important, supply-and-demand estimates. The public hearings continued on through the summer, but inexplicably excluded representatives from farm organizations, transportation companies, and consumer interest groups. Although Agriculture's Economic Research Service had projected tight supplies and high prices for soybeans as early as September, 1972, it had maintained as late as June, 1973, that available supplies were adequate to meet foreign and domestic needs through August. Later, figures from the newly created reporting system of the Office of Export Administration had shown that Agriculture's estimates of soybean production were as much as 30 per cent above what was actually available.

The July 2, 1973, embargo of forty-one commodities was the result, say officials, of a series of last-minute, informal meetings within the Nixon Administration. Decisions were made on the basis of incomplete analysis without the benefit of well-developed, formal options. Not surprisingly, the export controls imposed in June and July were largely ineffective, since the majority of the export orders had been placed before June.

Beyond Washington's official neglect of short-supply situations, beyond the ad hoc, uninformed decision-making, and the absence of a policy to deal with devastating scarcities, there is the shadow of the vast, unpoliced food market where a pliant Agriculture Department seldom ventures. That market, rather than speeches by Kissinger or even Butz, still largely determines American food policy toward a starving world.

A recent study of the world food problem by the Federation of American Scientists described U.S. food policy and its management by the Department of Agriculture as "disingenuous." A former Agriculture official put it more bluntly: "Agriculture's policy is a non-policy." Whatever the description, food—its production, and particularly its sale—remains the last part of the American economy largely uncontrolled and unmanaged. Food remains the most basic yet least understood aspect of American policy, foreign and domestic. But when Agriculture and agribusiness have met in managing rising prices and profits, there is the impression that both sides understand one another very well indeed. If there is an apt comparison for U.S. spokesmen to draw between food and oil, it is that the food industry in America today resembles nothing so much as the domains ruled by oil's "robber barons" of nearly a century ago.

The six largest American grain companies, accounting together for more than 90 per cent of all the grain shipped in the world, are privately held corporations largely beyond the scrutiny of those government agencies charged with controlling corporate activity. On the domestic market four companies sell 90 per cent of all breakfast foods, three sell 85 per cent of all bananas, one sells 60 per cent of all baby food consumed, and one sells 90 per cent of all the soup. A 1966 Federal Trade Commission study revealed that the hundred largest food manufacturers—about three-tenths of 1 per cent of the total industry—controlled 60 per cent of all food manufacturing assets and accounted for more than 70 per cent of the profits. These middlemen, who effectively control the access of farmers to the market, are able to dictate not only what will be produced, but how much at what quality and ultimately at what price. The tendency toward complete corporate integration already accounts for more than a quarter of total farm output. In commodities such as citrus fruits, processing vegetables, sugar, milk, and chickens, corporate control accounts for very nearly 100 per cent of production.

In the more critical commodities such as wheat, corn, soybeans, and other basic grains a small number of major companies exert even greater control. Companies such as Cargill, Continental, Cook, Ralston-Purina, and Bunge shape access to markets by their ownership of storage facilities at delivery points and market terminals as well as the means of transportation. Other companies, such as Peavey, not only determine access but sell seed, fertilizer, pesticides, and machinery as well. By their ability to control trading on the commodities markets, the major grain companies are able to determine prices as well as future production.

At the center of the complex array of domestic U.S. food markets and at the beginning of all U.S. international food sales and aid programs are the commodity exchanges in Chicago, Kansas City, New York, Minneapolis, and a score of other key shipping and port cities. It is in the nation's commodity exchanges — where future crops of grain are sold, where livestock still on the farm is bought and sold, and where fortunes may be won or lost in an instant—that the "free market" resides. Dominated and manipulated by concentrations of economic power, it is neither free nor publicly accountable. The financial stakes in this market are as enormous as the human consequences

abroad. In 1971-72 the various commodities exchanges did business valued at $189 billion, an increase of more than 300 per cent over the level of ten years before. In fiscal year 1973 trading activity totaled almost $400 billion, or more than 200 per cent higher than the previous year. If that growth rate continues, and there is every indication that it will, 1974 trading will be valued at nearly $800 billion.

The futures market determines not only the price of food, but in a major way also how much food will be available in any given year. Agriculture officials admit that many, if not most, farmers decide what and how much they will plant by watching the price of futures. It is as if AT&T decided how much telephone service would be provided or electric companies how much power would be available on the basis of the day-to-day fluctuations of their stock on the New York Stock Exchange.

Ostensibly to oversee this extraordinary system, the agricultural equivalent to the SEC is the Commodities Exchange Commission, composed of the Secretary of Agriculture, the Secretary of Commerce, and the Attorney General. The Commission has no staff of its own and, according to officials, "rarely meets more than once a year." The Commission's regulatory agency, the Commodities Exchange Authority, which is charged with monitoring the activity of the market, has in large part turned this authority over to the professional traders themselves. In a 1973 Supreme Court decision the Authority was reprimanded for its "failure to regulate." A 1965 Congressional investigation of the Authority, in the wake of a major futures scandal, concluded that CEA's regulatory activity was "inadequate to disclose or even discourage abusive trade practices." In 1971 an internal audit by the Agriculture Department reported essentially the same deficiencies. In an interim report submitted to Congress in early May, 1974, the General Accounting Office concluded that "these deficiencies continue." The GAO investigators had found that while the volume and value of trading had soared to record highs, the level of CEA regulation had actually declined!

After the 1965 investigation the GAO, in an almost unprecedented move, strongly recommended that the CEA obtain more funds and staff in order to improve its ability to police the market. In 1972, however, the CEA cut its staff as the volume of trade on the market was increasing more than 70 per cent and the value doubling since 1971 levels. The staff cut was reportedly to offset the cost of a $35,000 computer monitoring system designed to spot trade violations. But the computer system was so efficient that it spotted more violations than the decreased staff could adequately investigate. Rather than seek additional staff or even investigate the most flagrant cases with existing staff, the CEA administrator, with bureaucratic logic, simply abandoned the system as "unneeded and unworkable." In 1974 the GAO would report of the CEA, in a characteristic understatement: "the lack of adequate staff has been a basic management problem."

Commodities Exchange Authority officials act on the policy that the exchanges are self-regulating. But most admit that the exchanges lack the investigative staffs to police themselves and that the ability of the CEA to regulate the different exchanges is almost nonexistent.

More than five years after the Commodity Exchange Act was amended to require self-regulation none of the exchanges had enforcement programs which conformed to the provisions of the law. It was only in December, 1973, that the Exchange Authority itself adopted a regulation which required each exchange to enforce its own trading rules, and then only one of the Authority's regional offices had specified a time limit for compliance with the rule. The 1974 GAO report observed that the CEA was not sufficiently aggressive in its efforts to monitor the enforcement programs of the various exchanges.

Examples of the abuses in the food markets are almost too numerous to cite, ranging from price-fixing in egg, wheat, and meat futures to manipulation of buying margins by traders shifting profits and losses between the accounts of customers and those of the trader. A recent price manipulation reportedly went undetected for months because blocs of traders worked together to keep purchases below reporting limits. Major trade-practice investigations by the CEA are the only means to insure against such practices, but it is precisely these types of investigations that the Authority is unable to conduct because of staff shortages. Instead it conducts what the GAO called "very narrow scope" investigations of single transactions or of those trades where a complaint has been received, although CEA officials acknowledge that trade-practice investigations are the best way to detect noncompetitive trading.

Of the sixteen such narrow investigations begun during 1973 only six had been completed by the end of the year. In the most active of its three regions—the central—only two of ten investigations were completed by the end of the year. The GAO concluded, in its 1974 report, that the investigations

were unsuccessful even as deterrents to abusive or illegal trading practices. In nearly forty years of operation the Exchange Authority has issued fewer than 230 formal complaints against violators of the Commodity Exchange laws. An independent investigation by the GAO of one exchange during a three-month period discovered fifty cases where traders had probably violated the Act.

All of this affects the price, supply, quality, and shipment of critically needed American food to a hungry world. Incredibly, the United States went to Rome the almost literal prisoner of the staffing patterns and the regulatory practices of the Commodity Exchange Authority.

Rarely do these domestic realities impinge upon the now fashionable discussion of food and world hunger. Largely ignored by the press, the Congress, and most notably by the economists, agriculture has long been treated as a subject beneath their sophistication; it is the eccentric domain of sunbaked bureaucrats and the land-grant colleges. The knowing officials in Agriculture see their constituency as the agribusiness complex. Secretary Butz is not merely a product of that complex but its most persistent advocate; his policies, domestic and foreign, reflect the singleminded corporate interest in profits.

Kissinger, known to measure his Cabinet rivals with meticulous care, cannot be unaware of what Butz represents. Yet the Secretary of State remains supremely uninterested, despite the obvious contradiction in policy the U.S. voiced at the Rome food conference, for example. Perhaps Kissinger realizes full well that Butz holds the key to the most potent diplomatic arsenal of this and the next decade. A lever Kissinger has used adroitly in past pursuits of diplomatic advantage, food is now earnestly being employed to build a "structure of peace."

Seldom has a foreign policy issue been so entwined with domestic politics and the welfare of both American consumers and millions abroad. Perhaps never has a connection between policy and politics been so misunderstood and disregarded. The abuses of the present system affect all of us. The hungry children of South Asia could benefit as much from the restoration of free competition in America's food economy as could the inflation-beleaguered consumers in Kansas or New York. As long as the U.S. food system remains beyond public planning and monitoring, U.S. pledges to help alleviate hunger will be but empty diplomatic rhetoric.

The beginning of reform, as in other sectors of the economy seventy years ago, is rigorous Federal policing of the food markets and a conscientious prosecution and dispersal (on antitrust or other available grounds) of the monolithic corporations now controlling America's food from field to supermarket.

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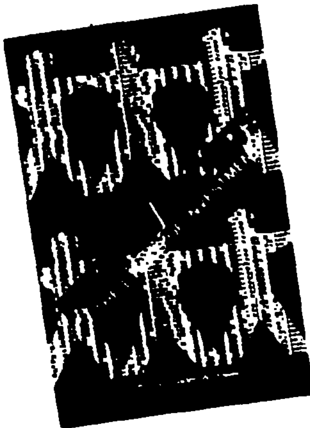

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