FIFTY YEARS OF FARM POLICY:
WHAT HAVE WE LEARNED?

by

B. H. Robinson*

* Withdrawn

May 1984

clemson university
south carolina agricultural experiment station
department of agricultural economics
and rural sociology
clemson university
clemson, south carolina 29631
FIFTY YEARS OF FARM POLICY:
WHAT HAVE WE LEARNED?

by

B. H. Robinson*

*Professor and Head, Department of Agricultural Economics and Rural Sociology, Clemson University, Clemson, SC

Paper prepared for presentation at the annual meeting of the American Association for the Advancement of Science, New York, NY, May 24-29, 1984.

Working Papers are not subject to review within the Department of Agricultural Economics and Rural Sociology
FIFTY YEARS OF FARM POLICY:
WHAT HAVE WE LEARNED?

B. H. Robinson*

My colleagues have provided important insights into the level of our understanding and expectations about the national natural resource base and developments in agricultural trade and agricultural productivity. These discussions provide a perspective on critical components in our collective stock of knowledge about agriculture and its markets. One would hope that this knowledge will be used by the public at large and by policy makers in particular as they debate the issues and formulate the 1985 food and agriculture legislation.

Experience is an important component of our knowledge base. Any effort to assess our knowledge of agriculture and agricultural policy would be incomplete if we ignored the lessons provided by experience.

Few would argue that the knowledge gained through experience will be excluded from the debates about the 1985 agriculture and food legislation. However, one's interpretation of history depends upon one's philosophical perspective, vested interests, and sense of equity. An important lesson (historical insight) to some will seem trivial to others. Considerable disagreement will emerge as to the nature of historical government involvement in agriculture and the success of agricultural policy in achieving various goals. However, if

history repeats itself one common theme will emerge: the government must remain an actor in the market for food and fiber.

Since it is likely that the long arm of government will continue to reach into agriculture, it seems appropriate to review the successes and failures of prior efforts to influence agricultural development and the markets for agricultural products. The desired result of such an effort is that increased knowledge of consequences of alternative policies will guide policy makers in selecting "new" policies for the sector.

Contrary to what the title of this discussion implies, the United States' experience in tinkering with farm policy has not been confined to the past 50 years. As early as 1631, the Virginia Colonial Assembly established a minimum price for tobacco. By 1639, the Assembly was required to enact a crop control program (quota) in order to maintain the government established price. Policy makers were provided an early lesson in one of the consequences of artificially high prices: the market will not absorb increasing quantities of a product in the absence of downward price flexibility. Other important lessons have been provided through our history. Yet, the significance of this single, simple economic fact continues to escape some policy makers.

I will confine most of my remarks to our experience with agriculture and food policies of the past 50 years. This is the period when we gained most of our knowledge about the consequences of direct
government intervention in the agricultural sector. In this period we also learned that politicians have narrow historical perspectives.

I will briefly address some earlier policies and outline some perceptions that may be helpful in analyzing our most recent half century of experience.

**Perceptions**

**Perception I**

Access to a dependable and productive food sector is critical to the welfare and economic well-being of any society. Any time its food production and distribution system is seriously interrupted, a society is threatened. Thus, societies and governments historically have not been willing to depend solely on the market to produce the desired results. Rather, the public has protected its vested interest in agriculture through public policies aimed at achieving desired goals through market intervention [12].

**Perception II**

While societal goals often are reflected through the policies that are established, we must recognize that policy is made by politicians and is, therefore, the result of public pressures. Pressure is most often brought to bear by vested interest groups as they campaign for advantage in the market. Thus, one group's desires often conflict with those of others. Compromise thus is the norm and the result may not completely satisfy any group, but in some sense may be in the best interest of society. So goes a democratic society.
Perception III

The performance of any economic system can be gauged partially by how well the policy institutions it invents serve the goals of society [4]. The basic tasks any economic system must perform are three:

1. allocation of resources;
2. distribution of incomes;
3. providing for economic growth and development.

Unfortunately, the policy dilemma begins here. If, for example, an unfair distribution of income is perceived and an institution is designed to correct it, the chances are that the changes produced will conflict with one of the other roles of the economic system. Specifically, suppose that society believes farm incomes are too low. An institution to shore up farm prices is devised to solve the problem. However, such a procedure leads to misallocation of resources by creating nonmarket incentives to produce undesired farm products. In fact, it well could have been an overallocation of resources to farm production that led to the problem in the first place.

Within the context of the three major tasks of our economic system, how has agriculture fared?

1. Allocation of Resources. In recent history there have been too many resources committed to agriculture as evidenced by low rates of return to agricultural assets. This situation is due in part to abundant natural resources and continuous productivity gains, and in part to the immobility of resources once committed to farm production.
The resource allocation problem also is due, in no small measure, to agricultural policies pursued in this country over the past 50 years which have contributed to income stability and have encouraged investment.

2. Distribution of Income. Farmers and farm workers persistently have fared worse by conventional measures of economic well-being than nonfarmers. Per capita income of the farm population consistently has lagged that of the non-farm population by a substantial margin. Although farm asset values have increased rapidly, the returns to those assets have been relatively low.

Within the farm sector, there also are severe income disparities. This arises from an unequal distribution of assets within the sector, uneven impacts of weather, different enterprise mixes, and government programs. Johnson and Short [5] recently have shown that most of the price and income benefits of government commodity programs for farmers accrue to the larger producers.

3. Economic Growth and Development. In contrast to the other tasks, U.S. agriculture has excelled and is the envy of the world in the areas of growth and development. The tremendous growth is due, in part, to the innate advantages of the U.S. with respect to soils and climate. But, to a large degree, it also stems from public investments in agricultural productivity and historical agricultural programs. The institutions created and funded in the last half of the 19th century laid the foundation for government-sponsored productivity growth (land grant universities, U.S.D.A., government credit and a
government-financed infrastructure). Government price and income policies and the entrepreneurial structure of management also have played their roles. Dr. Sundquist has discussed changes in sector productivities and the results of the shift to a hi-tech, capital intensive agriculture.

**Perception IV**

Policies and institutions change more slowly than the problems they were designed to address. Policy machinery often is the product of years of experimentation and political compromise. Such has been the case with agricultural policy. Tradition, politics, power clusters, sunk costs, existing bureaucracies, and compromise tend to forestall major changes in farm and food policies even though the existing policies may not have a good track record. Major societal, economic, or political change usually is required to stimulate policy change [12]. One has only to observe the public dissatisfaction of the late 1960s and the change in policy in the early 1970s or the policy changes subsequent to the 1973 export boom to validate this assertion.

**Perception V**

Policy tends to be reactionary in nature. That is, a problem exists well before policies and institutions are created to deal with it. Further, policies generally are addressed to symptoms rather than to underlying problems. The policies directed to the dairy industry stand as a glaring example of this point. Programs were designed to shore up prices and protect income when the evidence suggested that
too many resources were committed to the production of dairy products.

Seldom, if ever, do we see policies developed to deal with emerging or anticipated problems. An exception to this rule may be defense policy. Even in defense, differences in perceptions lead to continuous debate and compromise.

Perception VI

The goals for agriculture and agricultural policy change continually. A long-run goal of any society is to ensure a stable supply of reasonably priced food and fiber to its citizenry. A second and related goal is increased productivity. These goals likely will continue to rank high, but even the productivity goal is coming under attack. Public concern about technological advances and their application is increasing. Finally, new goals are added to the list. These include export expansion and food as an international political tool.

The Early Years and the New Deal Years

Prior to the precipitous fall in farm prices after World War I and the collapse of many national economic systems and export markets, agricultural policy had been directed almost exclusively to increasing productivity. The returns to government investments in research and development were minimal before World War I. The domestic demand expansion created by that war and increased foreign demand led to high prices that stimulated production and technological innovation. Gross farm income doubled and exports tripled between 1910 and 1920.
Exports accounted for 30 percent of cash receipts by 1920 ([11]).

The collapse of those markets after World War I, combined with sector overexpansion and increased capacity, led to a collapse of prices which plunged agriculture into the Great Depression.

Farm relief became the rallying cry of the early 1920s. George Peek and General Hugh Johnson led the struggle for agriculture and advocated parity as the proper price standard ([1]). Secretary Wallace saw the problem as one of trade. However, it took a 13-year gestation period for the concerns to generate the "New Deal legislation" in 1933 as the Agricultural Adjustment Act. The AAA brought a new era of direct government intervention in agricultural markets and producer decision-making.

The AAA required a shift in philosophy from one of expanding production to one of controlling it. For 70 years the philosophy and underlying institutions had been geared to agricultural development. However, this was not compatible with the goals of the AAA which were "Relief," "Recovery," and "Reform" ([8]).

Part of the problem was a disagreement as to the nature of the problem. One school of thought maintained that the problem resulted from a collapse of the system of money and credit. The remedy would have been to change monetary policy. Another school maintained that the problem was an overcapacity in agriculture which led to surplus production.

Paarlberg ([8]) has recently suggested that the inability of farmers and politicians to understand the complexities of central
banking was the primary reason that the overcapacity thesis was adopted and the AAA became law.

Decisions made in the 1930s resulted in policy which turned agriculture inward. Production controls and price supports were the primary policy tools. The goal was to improve farm income and stabilize farm and food prices. The Agricultural Adjustment Act was viewed as a measure for "readjusting productive acreage to market requirements," according to then Secretary of Agriculture Henry A. Wallace [10]. Despite Wallace's contention that the AAA was a "temporary measure," it has survived for 50 years.

While the AAA and succeeding "farm bills" were controlling production and supporting prices, research and education simultaneously were advancing productivity through technological innovation. Thus opposing forces were at work. Farm programs were designed to control the agricultural plant and support farm prices under the assumption that a temporary excess capacity existed, while R and D activities increased productivity and added to capacity.

Agricultural productivity has increased at an annual rate of over 3 percent per year since the late 1930s. Massive internal adjustments were required in agriculture to accommodate technological advances and the accompanying excess capacity. As has been noted by Dr. Sundquist, farms have become fewer, larger and more specialized. Farmers increased output per unit of land, the government controlled resource, and reduced per unit costs. Capital was substituted for labor at a rapid rate and often became fixed in the specialized
agricultural activity to which it was committed. Farms became larger to justify technological innovation and increase total income. The result was increased resource concentration and fewer farms. Capital intensification further aggravated the excess capacity and resource fixity problem and led to depressed prices and low returns. Farm programs designed to support farm prices and bolster returns created a vicious cycle. To meet domestic goals, farm prices were supported at levels above world market prices and, for all practical purposes, U.S. agricultural products were priced out of world markets. The U.S. price umbrella also encouraged expansion of production in less efficient and/or undeveloped regions.

Until the early 1970s, coping with excess capacity was the major emphasis of U.S. farm policy. After a brief experiment with a more market oriented policy during the 1970s, higher support and target prices and production controls have been resurrected.

The reason for this brief review of the circumstances that led to the AAA is threefold: (1) the economic environment of agriculture in the 1920s and 1930s was not unlike the situation today; (2) with minor modifications, virtually every farm program now in effect originated in the 1930s (except for research, education and regulation). and almost all of the programs that began in the 1930s are still in effect and (3) the prescriptions offered to solve agricultural problems today are similar to those offered in the 1930s.
NEW ERA FOR AGRICULTURE?

Some feel that the events of the 1970s signaled a new era of periodic surpluses and deficits for U.S. agriculture [6]. Others claim that the 1970s were simply an interruption in the long-term trend of chronic excess farm capacity. Which is correct? Arguments can be made on both sides. However, the policy chosen would be quite different depending on the scenario accepted by the developers of farm legislation.

The events of the 1970s were the result of world crop failures, new trade policies, changes in international exchange rates and in domestic agricultural policies. The results of these changes were quite drastic and have been well documented. Agriculture turned outward. Within a few years the market for agricultural products lost its primary dependence on a domestic market protected by high price supports, acreage controls and government held stocks, and became a market characterized by heavy international participation and increased instability.

As in the 1920s, exports accounted for about one-third of the market for agricultural commodities in the mid-1970s. U.S. farm income doubled within three years and the potential for rising real farm prices seemed greater than ever before. The results stimulated farm consolidation, increased production and capitalization in the sector. During the 1970s total output expanded by 30 percent, output per unit of labor almost doubled, and output per acre increased by about 30
percent. Expanded output and increased productivity were closely tied to an increased dependence on nonfarm inputs and borrowed capital. Inflation and the energy crisis continued to raise the prices of those inputs to which the sector found itself addicted. The links between agriculture, the general economy and economic policy became critical and the results threatened the survival of the farming sector. This came as a surprise to many threatened farmers and agribusinessmen and to some policy makers.

For the first time in over 40 years, farmers were getting their signals from the market rather than government farm programs. Policy makers welcomed the decreased government involvement and the improved publicity for government and agriculture. Target and support prices were used to protect against downside risk. Price and income problems that recurred during the decade were viewed as aberrations, not as a long-term trend. Stopgap measures were used to shore up the sector in the face of these "temporary problems."

Droughts exacerbated the situation by the beginning of the 1980s and producers and policy makers began to doubt that the "new era" was anything different. Increasing production costs, declining farm income, unfavorable weather and unstable export markets combined to produce a situation in agriculture of crisis proportions. Farmers petitioned their old friend, "The Government," for help. Policy makers responded with a resurrection of the policy tools used in the past: price supports and production controls.
The PIK (Payment in Kind) program was initiated to provide a stopgap mechanism to deal with a situation characterized by weak demand and ballooning stocks. PIK was viewed as a mechanism for thwarting the auctioneer on some farms and for dealing with the current surplus problem. PIK was intended as a method for dealing with an emergency and was not designed to deal with long-run industry problems. Does this sound familiar? Some of the same concerns undergirded the Agricultural Adjustment Act of 1933.

Agriculture and food policy in the 1980s can best be described as crisis intervention. Government costs for the PIK program almost matched net income to agriculture in 1983. While there is little doubt that the PIK program benefited farm income, bad publicity and political costs may well outweigh the benefits as the time approaches for developing the 1985 legislation.

Production Capacity and Markets

Recent studies have indicated that the global balance between cereal production and population will remain tenuous for several years, indicating local vulnerability to annual shortfalls from weather vagaries, wars, or mistakes in policy [9]. Competition in international markets will intensify among major exporters. Yet, exports from North America are expected to double by the year 2000 [7]. Such projections raise major questions about U. S. agricultural capacity. Studies by Economic Perspectives, Inc. suggest a 1.8 percent annual increase in production during the rest of this century
with most of the increase coming from new technology-induced yield increases.

Land and water issues will intensify as agricultural production and technological development continue. To a large extent, however, technological change will determine future supply-demand balances and the pressure on land and water resources. A major breakthrough in yield increasing technology could significantly alter supply-demand projections. Although predicting the direction of technological development is hazardous at best, most scientists indicate that future development will be concentrated in biological/physical areas which are output increasing but size neutral.

Stability, or its absence, is another issue relating to capacity. Past agricultural policies promoted stability which permitted longer planning horizons and promoted investment. The result was increased capacity. Expansion in foreign markets, inflation, dependence on off-farm inputs, and high capitalization rates have destabilized farm product and input markets. Farm programs have not offset these destabilizing influences. Instability can create inefficiencies in private investment decisions. There is a real question as to which costs are greater -- the private costs of poor decisions under instability or the public costs of maintaining an "acceptable" level of stability? Experience has taught us that too much stability can lead to an over-commitment of resources and excess capacity. More research is needed to better assess the public and private costs of instability.
Structural Changes

Modern U.S. agriculture is a product of more than a century of technological revolution, internal adjustments and institutional changes. Production agriculture is a declining industry in the pure sense, i.e., consumers spend a declining share of their income on food. However, broadly defined, the food production, processing and distribution system is a large and growing industry.

Recent studies reveal that less than 5 percent of U.S. farms account for over 50 percent of total cash receipts and 87 percent of net farm income. Twelve percent of U.S. farms account for almost 70 percent of cash receipts and nearly all net farm income. The two smallest sales classes accounted for 72 percent of farms but less than 13 percent of total cash farm receipts and had negative net farm incomes in 1981. Net farm income is much more volatile for the largest 5 percent of farms than for the smaller 72 percent. The bimodal distribution of farms contains a significant message for policy makers. The problems of the two groups are different and require different policies.

New Forces Affecting Agriculture

It has been argued almost since the enactment of the AAA 50 years ago that national and international politics and policies, weather, wars, and monetary policy all have more profound impacts on agriculture than domestic farm programs. Recent experience with high interest rates, escalating input prices, fluctuating exchange rates,
embargoes, trade policy and tax policy gives credence to this argument. Each class of events has had significant impacts on agriculture. Yet, in a recent article Rasmussen [10] argued that the situation in agriculture improved little following enactment of the AAA until the outbreak of World War II.

It recently has been argued that the influence of exchange rates on exports and of monetary policy on price/cost stability is more important to the health of agriculture than agricultural policy per se [13]. In fact, Schuh [13] contended that the major problem facing agriculture is that commodity programs operate counter to the best interest of both agriculture and the nation. He maintained that commodity programs were designed to operate in an economic system that was significantly different from the current system. The Schuh argument hinges on the fact that current agricultural policy fails to take account of changes in the U.S. economy, the international economy, and in the way the U.S. economy relates to the rest of the world. Schuh also argued that the assumption of a highly inelastic aggregate demand for agricultural commodities no longer holds, particularly for major export commodities. A recent analysis by Tweeten [14] supports the Schuh position. If the demand for agricultural commodities is elastic, Schuh's argument holds and agricultural policies which support prices and restrict production reduce, rather than increase, farm income. This may have been the situation during much of the past 50 years although the lack of reliable data precludes a definitive analysis.
Other "new" forces affecting agriculture and agricultural policy include: changing goals for the agricultural sector, resource use and environmental concerns, international trade and the U.S. balance of payments, food diplomacy, and last but not least, the diminishing political clout of agriculture in the halls of Congress. New entrants into the agricultural policy arena have brought new ideas and political clout to influence the "not so invisible hand" that guided the agricultural sector.

While still among the goals, income and price supports, income stability and equitable resource returns for agriculture no longer enjoy "north-star" status as guides for agricultural policy and industry performance. Urban society and its political representatives are disavowing the agrarian philosophy. There is less concern than formerly with the agrarian life-style or the "family farm concept" and more emphasis on a reasonably priced and reliable food supply. That some farmers are going bankrupt and that the industry must go through wrenching adjustments likely will be viewed as normal adjustments to changing economic conditions. Tradeoffs will be required to enact any agricultural policy.

New problems facing the agricultural sector will include: a dependence on world markets; competition for natural, nonrenewable resources; environmental tradeoffs; increased sensitivity to macro-economic linkages; increased uncertainty; and in general, a greater dependence upon the performance of and conditions and policies affecting other sectors.
Summary: What Have We Learned?

By way of a summary, I will list some of the lessons (questions) embedded in the preceding discussion.

Policy formulated in the U.S. to address farm problems has been and still is plagued by: (1) an assumption that the problems were transitory and (2) by a tendency to formulate policy and programs to short-run problems [2, 3]. The result has been 50 years of farm and food policy designed to solve temporary problems or short-run "emergencies." Yet, the problems continue. Whether past farm policy receives a passing or a failing grade, the important question is whether we have learned the lessons provided through 50 years of sector intervention. While the problems may change and become more complex and the goals for the sector may change, experience has been a useful tutor, if we learn the lessons offered.

Lesson I. When agricultural policy is implemented, it reflects the current technological, political, and economic climate. Conversely, new policy initiatives take a long time to enact and implement. However, conditions change more quickly now than they formerly did. The question that remains is whether it is possible to devise a long-range agricultural policy with sufficient flexibility to deal with short-term problems.

Lesson II. Agricultural policies are compromises, both within and between agriculture and other interest groups. As farmers become fewer and larger, will it be possible to forge effective compromises, or will future policy be based on the vestiges of current programs?
Lesson III. Agricultural policy has focused at least as much on symptoms as on underlying problems. The debates over dairy policy serve to illustrate. Relief from unfavorable economic conditions — rather than reform becomes the perpetual rallying cry [4].

Lesson IV. Agricultural programs directed toward perceived problems often have far-reaching and contradictory impacts. The structure and capacity effects of price and income supports and the development of farm productivity through research and education illustrate the dilemma.

Lesson V. Vested interest groups are responsible for the creation of policy. But agricultural policy, once implemented, creates new vested interest groups that seek to maintain programs even after the need for them has expired. For example, current policy is an accumulation of commodity programs designed to protect and support market positions of vested interests rather than to promote sector adjustment. Such programs promote inefficient resource allocation among commodities and regions.

Lesson VI. The bimodal size and income distribution of farms suggests that different resource situations lead to different problems. A single program cannot address the problems of diverse groups.

Lesson VII. Operators of large farms have been the primary beneficiaries of past price support and income enhancement programs [5].
Lesson VIII. Export expansion is not and is not likely to become a panacea for solving the "farm problem." Recent experiences have taught many lessons about export markets, currency exchange rates, trade policy, embargoes, and the like.

Lesson IX. The U.S. agriculture sector is highly interrelated with other sectors of the national economy and with the international economy. Changes in national and international policy or conditions have far reaching impacts on agriculture. These impacts often are far greater than those of domestic agricultural policy.

Lesson X. Sound analysis of conditions and interrelationships is mandatory to avoid serious mistakes in policy. Concerns expressed about monetary policies prior to enactment of AAA and recent evidence on the price elasticity of demand for agricultural products illustrate the point.

Lesson XI. Market intervention comes at a cost. Often both public and private costs are involved. One of the most critical questions to be addressed in formulating food and agricultural policy is "who bears the cost?" In the absence of an equitable distribution of costs, either the policy will be in jeopardy, or the agricultural sector will be required to make unacceptable adjustments.

Lesson XII. Finally, within the spectrum of available policy alternatives, given a democratic society and a modified free enterprise system, the number actually tried has been small. Most "new" proposals are simply rehashes of what has been tried before, without
proper assessment of the consequences of the earlier experience [4]. PIK is an example in point.

Serious mistakes in policy, whether due to poor analysis of alternatives and their consequences or to the undue influence of vested interests, could seriously impede attainment of long-run objectives and create severe internal adjustment problems -- problems that could jeopardize the stability and viability of the agricultural sector [11].

Attempts to address current farm problems with the policy tools of the past could well be doomed to failure [12]. Agriculture has changed, markets have changed, interdependencies have changed. Policies and programs also must be changed!!
REFERENCES


11. Robinson, B. H. "The Agricultural Policy Environment in 1983: Where We Are and How We Got Here?" Published in Farm and Food Policy: Critical Issues for Southern Agriculture,


The South Carolina Agricultural Experiment Station is a cooperative program financed from federal and state funds. It is the policy of the Experiment Station to comply fully with the regulations of Title VI, the Civil Rights Act of 1964. Complaints may be filed with the Director, S. C. Agricultural Experiment Station, Clemson University, Clemson, S. C. 29631.