A New Sheet Of Music

How Kennedy's Farm Adviser Has Changed His Tune About Commodity Policy And Why

by Willard W. Cochrane

The displeasure with present-day farm policy is apparent wherever you go—among farmers, urban consumers and taxpayers, politicians and policy-oriented economists. They're all unhappy with farm policy in general and with the commodity programs in particular.

This is particularly true with respect to agricultural economists of my generation—many of whom were once strong supporters of the commodity programs. They now feel those programs no longer serve their intended purpose—namely, to provide income support and protection to all farmers.

Speaking specifically for myself, I have become so disenchanted with the commodity programs, as they operate in the 1980's, that I'm now convinced we should do away with those programs completely. In fact, they should be eliminated immediately.

Why I've Changed My Thinking

Why has my position changed so drastically since I was policy adviser to President John F. Kennedy and Secretary of Agriculture Orville Freeman? Certainly not because the food and agricultural sector has become more stable. The same basic forces—that is, the interactions between a severely inelastic aggregate demand for farm food products and unpredictable shifts in aggregate supply—are generating instability in the 1980's that were at work from 1900 to 1980. And with the integration of the U.S. farm economy into the world economy, that instability has become sharper, wider and more unpredictable.

However, I would eliminate the commodity programs—immediately—for three important and inter-related reasons.

First, the structure of farming has changed substantially over the past 40 years. Through a massive decline in the total number of farms and the concentration of productive resources into the hands of fewer and fewer and larger and larger farms, 12 percent of U.S. farmers now produce and sell about 70 percent of the total national farm product. There are some 300,000 farmers, each of whom grosses over $100,000 per year, in this grouping.

It should come as no surprise then to learn that these large farmers benefit most from commodity programs by receiving some 45 percent of direct government payments for participating in the programs.

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The indirect income benefits from these programs to the large farmers are far more important than the direct government payments for participating in the programs. Recent studies have shown that income benefits of the commodity programs in the 1980's approximate $6 to $7 billion per year because market prices are held above their free market equilibrium levels through such devices as acreage controls, commodity additions to the Farmer-Owned Reserve and commodity take-overs under the loan program. Since 300,000 large farmers produce and sell 70 percent of the total farm products, it is reasonable to deduce that those same farmers receive some 70 percent of such income benefits.

I see no reason why I or other urban income earners should be called upon to pay taxes and higher-than-equilibrium prices on farm food products to provide an income subsidy to these large farmers. And these are large farms—controlling, on the average, assets that were valued in 1983 prices at over $1.5 million per farm.

Farmers on a Treadmill

My second reason for wanting to eliminate commodity program is to me more important than the first. Any innovator who adopts a new practice which reduces his cost structure will, as a result, either reduce his losses or increase his profits. But as more and more farmers adopt the practice, total supplies are increased and the gains of the early adopters are eroded away under a free market system through falling prices in the competitive process.

This is the familiar Treadmill Theory.

But how do the gains of the early

Willard Cochrane is Professor Emeritus, University of Minnesota.
adapters and those that follow get competed away where the commodity programs hold market prices above free market equilibrium prices. Not by falling market prices—the commodity programs were designed to prevent just such an unpleasant experience. With price-supporting commodity programs in place, the early-bird innovators who adopt a cost-reducing practice, and those who follow, see their profit positions maintained. Thus they seek to expand their farming operations and increase their total profits.

But with a fixed land base, these innovative operators can expand their operations only by acquiring land from their neighbors. This they do by using their favorable profit position to bid land away, through purchasing or renting, from the less aggressive, less capable farmers in their local areas. The early adapters thus become larger operators, and the total number of farmers declines in a situation of rapid technological, managerial and commercial advances coupled with price and income support under the commodity programs.

The competitive end result of a nonprofit position for the early adapters is not avoided, however. As the competition for scarce land increases, it drives up land prices for the early adapters as well as for everyone else.

In this competitive process the early adapters become large operators and wealthy land owners, and their less capable neighbors fall by the wayside. Borrowing the term from my friend, Phil Raup at the University of Minnesota, I have described this whole process under the shelter of the commodity programs as a cannibalistic process.

In a situation of rapid and important technological, managerial and commercial advances, the early adapters of those practices will have an important advantage over their laggard neighbors in expanding their operations with or without the commodity programs. But the commodity programs provide a perfect protective cover for expansion, since it is not until a significant number of operators actually expand their operations that land prices begin to rise and the profit position of the early adapters is eroded away.

By that time many early adapters will have already become large operators. Thus, we see that the commodity programs developed originally to support and protect the incomes of all farmers have become a vehicle for doing in the laggard farmer.

In this connection it is not my position that roadblocks should be placed in the way of aggressive, innovative farm operators. But neither do I believe that all of American society should be required to pay in one way or another for the now very expensive commodity programs which help concentrate productive farm resources into the hands of fewer and fewer and larger and larger farmers.

A Catch-22 Situation

Thirdly, the benefits from each commodity program level are quickly bid into higher land values through the dynamic and competitive process described above. And these higher land values become increased costs which must be met in succeeding production periods.

The increased price of land, as a cost, thus forms the basis of an argument to increase program benefits in succeeding years. Benefits must rise, so the argument goes, to enable "average" farmers to break even and stay in business.

The commodity programs, coupled with rapid and significant technological, managerial and commercial advances, thus have created a Catch-22 situation with a built-in self-propelling dynamic for further increasing farm program benefits and hence farm program costs.

As a result, commodity program expenditures for supporting farm prices and incomes rose to almost $19 billion in fiscal 1983 (with another $10 billion of commodities for PIK payments). They declined to a "mere" $7 billion in fiscal 1984 and rebounded to $18 billion in fiscal 1985. Rising land values in a situation involving substantial commodity program benefits, coupled with rapid and significant technological, managerial and commercial advances, constitute a real phenomenon. But the concept of an average or typical farmer is a fiction.

What we have had in American agriculture for 30 to 40 years is a relatively small group of innovative, aggressive farmers who, at the existing level of price and income support, have made good to excellent profits and have used those strong profit positions to expand their operations by acquiring the land and other productive assets of their less capable neighbors.

Increasing price and income supports to assist "average" farmers who are in financial difficulties has, in reality, improved the profit position of the innovative, aggressive farmers. This, in turn, has increased the innovative, aggressive farmers' capacity to cannibalize the very farmers that the higher price and income support were supposed to help.

Meanwhile, many, if not most, farm politicians, farm leaders and farm economists have been standing on the sidelines—wringing their hands over the demise of the family farm. It is time to stop this foolishness. It is time to get rid of the commodity programs!

The Obstacles

It might seem wise, in light of the substantial commodity program benefits that now flow to the farm sector, to phase out the commodity programs gradually, say over a 5-year period. This phase-out would give farmers an opportunity to make financial and production adjustments to an uneven decline in farm prices, the loss of government payments and an almost certain decline in land values.

In a rational world that would be the best solution. But, unfortunately, we don't live in a rational world.

The commodity programs are held in the vice-like grip of two closely related groups: the commodity trade associations that represent farmer-productiv-
ers in Washington, D.C., and their corresponding commodity subcommittees of the House and Senate Agricultural Committees.

These two groups are controlled, or influenced if you prefer, by the same constituents, namely, the large, affluent producers who get 70 percent of commodity program benefits. Consequently, these two groups work as a team to achieve the legislative goals of their large, affluent producer constituents.

Over the years the two groups working together hand in glove have learned how to obtain the most that is attainable in the legislative process for their producer constituents. Hence, they are not about to acquiesce in any action that would terminate the commodity programs either immediately or gradually.

The Myths That Bind Us

Buttressing the power politics which protect and support the commodity programs on Capitol Hill are two beliefs widely held by the American public. These beliefs are deeply imbedded in the conventional political wisdom of the nation.

The first belief holds that there is an average or typical farmer of moderate size and moderate means who does not receive a fair return for his labor, management and capital invested, and that the commodity programs are necessary to help that farmer earn a fair return.

The second belief holds that, if this average or typical farmer should fail in the absence of commodity programs, his productive resources would go out of production, supplies would be reduced and food prices would rise.

Neither of these beliefs are grounded in reality as of 1985 and have not been for many years. They are myths. But they are myths with the force of reality, because they are accepted as the truth by much of American society.

Today, we have fewer than 300,000 large farm operators each of whom gross over $100,000 per year. Many of these farmers have become wealthy landowners. Some of them are innovative, aggressive operators who are prospering and expanding the size of their operations in the mid 1980's. Some portion of them will go out of business in 1985-86 as the result of bad investment decisions made in the late 1970's and early 1980's.

Below this class in size are nearly 400,000 farm operators who gross between $40,000 and $99,000 per year. A few of these operators are making it financially and moving up in size. But many are failing and going out of business each year, and most are struggling to survive with the aid of off-farm employment.

Then there are nearly 1.5 million "farmers" who gross less than $40,000 per year off the land. These are farmers in name only; most of their net income comes from working full-time off the farm.

In summary, there is no such thing as an average or typical farmer in the 1980's, and the earnings of these farm families range from huge down to the poverty level.

With regard to the second belief, when a farmer fails and goes out of business, his productive assets do not stand idle. His land will be quickly acquired through purchasing or renting by an aggressive neighboring farmer who is seeking to expand his operation. The livestock and equipment will be purchased at a farm sale by thrifty neighbors looking for good buys.

In all likelihood the land acquired by the aggressive neighbor will be incorporated into a more efficient operation than the one from which it came, be farmed more intensively than it was previously, and turn out a greater total product. In the usual case, the demise of a struggling farmer and the reorganization of his assets among his neighbors will increase the total supply of farm products, not diminish them. Our conclusion, then, is that commodity programs will not be terminated easily or readily. Substantial obstacles stand in the way: erroneous beliefs about the structure of farming and the behavior of farmers, a powerful coalition of forces at the Congressional level working to protect and strengthen the commodity programs, and fallacious analyses regarding the consequences of the programs in the dynamic farm economy.

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President John F. Kennedy signs into law a bill to cut grain surpluses and increase farmers' income during a ceremony at the White House August 8, 1961. Left to right are: James G. Patton, president of the National Farmers Union; Representative Carl Albert, of Oklahoma; Senator James O. Eastland, Mississippi; Senator Spessard Holland, Florida; Senator Olin D. Johnston, South Carolina; Representative Harold D. Cooley, North Carolina; Vice President Lyndon B. Johnson; Senator Hubert H. Humphrey, Minnesota; Representative W. R. Poage, Texas; Senator Allen J. Ellender, Louisiana; Secretary of Agriculture Orville L. Freeman; Owen Staley, of the National Farmers Organization; Senator George Aiken, Vermont; House Speaker Sam Rayburn, Texas; Carl Bruns, whose head shows just above Rayburn's, of the National Association of Wheat Growers; Senator Mike Mansfield, Montana; and Harry Caldwell, chairman of the National Agricultural Advisory Commission.

Can It Be Done?

Then what could terminate the commodity programs? In my judgment, it will require an urban revolt against farm legislation or some crisis such as the current budget deficit to terminate the commodity programs. It can be hoped that the deficit crisis in combination with an urban revolt will eventually produce a farm bill minus the commodity programs in 1985. (This article was written in September, 1985).

But such a development seems unlikely since urban dissatisfaction with the commodity programs is far from a white heat, and the deficit crisis is being overwhelmed by the farm crisis. It should further be recognized that an urban revolt in Congress, if and when it occurs, is not likely to produce a gradual, orderly phase-out of the commodity programs.

That revolt could be hastened up, however, by disseminating the right information in the right places. That, of course, is one purpose of this essay.

I admit that the essay will have little or no influence on those people in Washington (administration officials, legislators and lobbyists) who presently control and manage the commodity programs or on the large farmers who are the principal program beneficiaries.

But this article might help sway three groups who have mistakenly believed that commodity programs serve to keep small to medium-sized farmers in business:

—Those few farm leaders who are genuinely interested in keeping as many farmers on the land as possible.

—Congressional leaders who really want to reduce government expenditures.

—Those urban leaders in Congress and within the Administration who would like to lead a revolt against commodity programs in spite of the conventional political wisdom.

Is Now The Time?

If you accept my arguments regarding the need to eliminate the commodity programs, you might reasonably question whether now is the time to take such drastic action. After all, the farm economy is depressed and many farmers are going out of business. Would not the complete elimination of commodity programs now put an additional and severe burden on our already hard-pressed farmers?

The answer to that question is "yes". The farm sector and the farmers in it would lose both the direct and indirect benefits flowing from the commodity programs. And that action alone would probably push a few more farmers over the brink and into business failure.

The farmers who seem destined to fail over the next two years made wrong investment decisions in the late 1970's and early 1980's. They bet that inflation would continue, farm exports would remain high, farm product prices would soar and the real rate of interest would remain close to zero.

With this expectation they mortgaged their existing assets, borrowed all the money they could and expanded their operations by buying very high-priced land and expensive modern machinery. Farmers, large and small, turned speculators in the late 1970's.

Their expectations were not realized. Inflation was tamed, exports declined, farm prices declined modestly and the real rate of interest soared. Now these farmers cannot meet their loan payments, and they are losing—or are in danger of losing—their entire operations to their creditors.

Continuing the commodity programs at their present level of benefits will not save those farmers who made wrong investment decisions during the 1970's. They cannot make it financially at the 1985 level of farm prices and the interest rates they are obliged to pay.

And if by some miracle the level of commodity program benefits could be raised enough to save those farmers making wrong investment decisions, that level of benefits would create a bonanza for that small percentage of farmers who are currently prospering.
It would further cost American taxpayers and consumers many, many billions of dollars in the form of direct payments to farmers and increased food prices.

Further, and in line with the arguments of this essay, it would create the incentive and the profit position for the prospering farmers to buy out their less prosperous neighbors who were and are just barely surviving economically.

**What's Needed Now**

What the farmers about to go out of business need is not a continuance of the commodity programs. What they need is a credit program that would refinance them at much lower rates of interest and more favorable repayment terms than were a part of their original loans.

But this raises an important set of questions. In a reasonably free economic society such as ours, should the government be expected to bail out each and every business person who made a wrong investment decision? And if the answer is "no" as a general proposition, why should the government be expected to do this for farmers?

I am inclined to doubt that the government should assume the responsibility of bailing out those farmers who made bad investment decisions in the late 1970's and early 1980's unless it can be shown that the government caused their investment decisions to turn sour.

In the case of the farmers who are about to go broke as a result of investment decisions made back in the 1970's, the situation is somewhat ambiguous. They were not advised by the government to expand their operations, although they may have received such free advice in their local coffee shops.

But those farmers are suffering now from effective public policies to curb inflation and ineffective public policies which have resulted in an overvalued dollar and a decline in farm product exports.

Thus, the government's responsibility in this case is debatable. And it has been debated and will continue to be debated. It is my guess that the government will assume a part of the responsibility, but will take the wrong corrective action.

The current farm depression and the imminent danger of many thousands of farmers failing will be used as an excuse in Congress to maintain commodity program benefits at or near recent levels in spite of the national deficit crisis.

In such an event the federal deficit will not be reduced by as much as would be desirable, and the current strong incentive for the large, innovative, aggressive farmers who made the right investment decisions to gobble up their less-able neighbors will remain—and the resource concentration process in agriculture can be expected to continue and perhaps speed up.

**Government Intervention Still Needed**

Some of you who have known me for decades may be saying "the old codger is becoming conservative in his old age." That is not the case. I remain an unreconstructed New Deal Democrat. The ideal farm economy, in my view, is one with many, many relatively small family producing units, where the monopolistic elements in the distribution systems are at a minimum; where those farmers who produce abundantly and efficiently are rewarded with a fair and stable return; and where consumers are assured of an adequate, healthful food supply, fairly distributed.

But such an economic world requires direction and intervention from the governing body (as with the National Football League) to make the economic game reasonably efficient and tolerably acceptable to all participants (producers, middlemen and consumers).

There are some large, difficult problems in the food and agricultural sector that are beyond the capacity of a single farmer—a group of farmers or—the affected consumer groups to cope with. Hence, there is a need to take collective action at the state or federal level to deal with these problems.

Thus, I still see the need for governmental intervention in the food and agricultural sector in numerous ways. I will tick off a few of them. Each of them merits separate articles in this magazine.

1. Supporting agricultural research.
2. Providing food assistance to the poor and the down-trodden at home and abroad.
3. Protecting the consumer through food inspection and regulation.
4. Protecting and conserving this nation's soil and water resources.
5. Expanding farm exports by coping with the overvalued dollar problem and reducing foreign trade barriers.
6. Operating a grain reserve program with the capacity to dampen world grain price fluctuations and thereby help stabilize the U.S. grain/livestock economy.
7. Targeting medium-sized farmers (those grossing $40,000 to $100,000 per year) for special assistance. This could take various forms, such as management assistance, subsidized production credit, and plans and credit to modernize and possibly expand the operation's size.
8. Possibly developing a special program to help farmers, large and small, who are caught in the current credit crunch to refinance their farming operations and survive.

So I would not walk away from the food and agricultural sector and leave it and its participants to swing in the unpredictable breezes of the free market. The production and distribution of food in every civilized nation is considered too important to be left to the unseen hand of Adam Smith.

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