Obituary for a Farm Program

by Don Paarlberg

In 1933 the Congress passed an act setting up the Agricultural Adjustment Administration (AAA), which spawned a number of subsequent acts, all bearing resemblance to the parent. All of these acts made substantial payments to farmers for reducing their farming operations. In 1996 the Congress passed what has been called the Freedom to Farm Act, which killed the old Agricultural Adjustment Act and its offspring, setting up a new kind of farm program.

I write this obituary with some trepidation. It is not clear that the alleged corpse has really expired; it may resurrect itself and start walking around, to the embarrassment of myself and others who pronounced it dead.

The Great Depression was the defining event of twentieth century agriculture. From 1929 to 1932, prices received by farmers fell 56 percent. Gross farm income in the United States fell 54 percent. Net farm income fell from $6.3 billion to $1.9 billion (Paarlberg 1997, p. 30). According to Sherman Johnson of the U.S. Department of Agriculture, a market quotation in his native South Dakota read: "Shelled corn, No. 2, 4¢ per bushel; No. 3, 3¢; No. 4, 2¢. Ear corn, 3¢ less." A price 3¢ less than 2¢ is less than zero. Farmers would not respect a market that quoted a negative price.

The stress in agriculture exceeded anything that is comprehensible to people of the present day. Iowa farmers threatened to hang a federal judge who issued legal orders for farm foreclosures. Shotguns appeared at foreclosure proceedings. Some foreclosed farms were purchased for $1 at auction by rebellious neighbors who then returned the farms to the original owners. Milk was dumped. Slaughter houses were picketed.

On our Indiana farm, we sold hogs for $3.45 per cwt before they were ready for market to raise cash needed to pay the taxes. Our bank failed, with our earnings in it. We had bought our farm for $150 an acre, paying $75 in cash and giving a mortgage for the balance. When the price of farmland was reduced by half, our entire equity was wiped out.

Something had to be done. The situation was desperate. What to do? Farmers knew that, other things equal, a larger supply would sell for a lower price. They reasoned that with prices low, supply must be excessive. So came the government effort to reduce the supply to increase the price. It was not a time for careful analyses. Had the disaster been carefully analyzed, we would have found no surplus; farm production during the Great Depression was essentially the same as it had been before. We would have found that the supply of money was down by one-third from what it had been. The problem was not a surplus of farm products, it was a dearth of money.

Apprehension spread through the economy like a virus. President Franklin Roosevelt thus diagnosed the problem: "We have nothing to fear but fear itself." The trouble was that the Federal Reserve Board had refused to supply the lubricant needed to grease the wheels of trade, and the vehicle ground to a near halt. With money scarce, the price of commodities had to fall. The problem was by no means limited to agriculture. Prices fell for nonfarm goods as well as for farm products, for articles that were scarce as well as for products that were abundant. The Great Depression was worldwide. From 1929 to 1932, fueled by fear and transmitted through the exchange rate and through trade, basic commodity prices changed by the following amounts (Warren and Pearson, 1937):

Netherlands	–53%
United States	–52%
Canada	–45%
Belgium	–45%
France	–38%
Germany	–36%
Italy	–35%
England	–34%
Sweden	–31%
Australia	–26%
Finland	–21%
New Zealand	–21%
Spain	–6%
Mexico	–6%

Starved for money, the New York stock market fell to 16 percent of its earlier level. Brokers jumped from windows of tall New York buildings. The credit system collapsed, the money supply shrank, prices fell, farmers failed, factories shut down, jobs disappeared, banks went into receivership, mortgages were foreclosed, bankruptcies multiplied, equities vanished, tax revenues shriveled, and the incumbent administration was voted out of office. The financial people accepted the idea of agricultural surplus as the cause of the Great Depression. This shifted blame from themselves, where it belonged, to others, who didn't deserve it.

Farmers had little understanding of the mysteries of central banking. They abstracted from the money side of the price equation. They accepted the prevailing diagnosis—surplus. It was something they could understand. Politicians were glad to endorse a proposal that had farmer support.

The failure during the Great Depression was a failure of diagnosis. If a diagnosis is in error, the prescription is unlikely to be successful. So we embarked on a policy of limiting supply to increase price and paid farmers for cutting back their operations. Six million little pigs were slaughtered and made into fertilizer, despite hunger in the cities. Mules plowed down every third row of cotton and, from long habit, refused to walk on the cotton rows as needed to plow them under, exhibiting—so the critics said—more common sense than the architects of the farm programs.

The prevailing opinion was that all of agriculture was included in the big commodity programs. Not so. Included were corn, wheat, cotton, rice, peanuts, tobacco, sugar, and dairy products. Excluded were fruits, vegetables, poultry, hogs, and cattle. Whether a given product was in or out of the program depended on its suitability for storage and on the political clout possessed by its advocates. When the big commodity program was at its height, the favored products accounted for 20 percent of net farm income yet received 75 percent of the government agricultural outlay and generated about 90 percent of the public controversy (Paarlberg 1964, p. 23).

The crop-control initiative gave farmers a role in working out their preferred solution to the farm problem. They were put on committees by the thousands, and drew pay for their labors. They went to work establishing production bases for particular farms. They elected officers and went to meetings. They made fervent speeches. Government officials came out and listened. There were enough government officials to do this. During the term of Henry A. Wallace as secretary of agriculture, employment in the USDA went from 27,000 to 98,000. Government checks began to flow. Checks went for the mortgage payment, to pay the taxes, and to pay the doctor. Payments were based on the volume of production; hence, the biggest checks went to the larger farmers who, of course, were the architects of the program. On every hand was evidence that the government cared.

The Great Depression dragged on until it was bailed out by World War II. But the mood changed for the better on American farms. The enormous value of this change in mood was not appreciated by agricultural economists who disregarded political matters and looked only at cold statistics. Whatever may have been the economic attributes of the commodity program, they were a master stroke politically.

The emergency programs of the New Deal, agricultural and other, may have averted widespread national disaster. In Germany and Italy, governments were overthrown. As the many government initiatives began to take hold and as the mood changed from deep pessimism to cautious optimism, economic conditions—though still perilous—began to improve. Of course, when the Great Depression passed, farmers were no longer in a desperate position and that particular rationale for the program had lost its validity. But the euphoria generated by the early experience carried on for decades.

The big commodity programs continued after the Depression was over. They continued as agriculture was transformed from its status as traditional family farms, for which the programs were rationalized, to the new industrialized status. The prevailing rule was invoked: Whatever the circumstance, a political gain, once achieved, becomes an entitlement.

The fundamental facts of economics were lost in the farm-program battle. These are that a higher price will (1) call forth a larger supply and (2) reduce the quantity taken off the market.

People may argue as to whether there was an authentic surplus when the program was initiated. But there is no denying the fact that a surplus, created by the program, developed after the programs were begun. Various efforts were taken to cope with this surplus—tighter production controls, reduced acreage allotments, food donation at home and abroad, and making food, like potatoes, into nonfood items like cattle feed. We were like the sorcerer's apprentice who had given the command to bring water but had forgotten the command to stop.

Overlooked was the fact that price supports and restricted agricultural production increased the cost of food. It is a statistical fact that the producers of food, on average, have greater net worth than the consumers of food—in fact, about four times as much. Thus, the commodity programs were regressive, transferring purchasing power from those who were poorer to those who were better off. Realistically, the program transferred buying power from those who had less political power to those who had more. A farmer or a farm politician will deny this fact with his last breath.

Farmers generally consider the land grant colleges to be their special advocates. So they expected the colleges to endorse their program to reduce the supply of farm products. This was contrary to the mission the land grant colleges had accepted from the beginning: to make two blades of grass grow where only one had grown before. Many of the people at the land grant colleges accepted the philosophy of limiting production, at least rhetorically. But some did not, incurring the displeasure of farmers and farm politicians.

Arguments favoring price supports and production control were repeated over and over, each having its pervasive flavor. Opposed arguments were voiced with equal vigor and with equal conviction. (These arguments are examined in more depth in my 1980 book, *Farm and Food Policy Issues of the 1980s*.)

By 1996, dissatisfaction with the big commodity programs had reached a stage at which change was needed. The question was whether we should tinker with the programs or buy our way out. The Congress decided to buy our way out.

The Agricultural Act of 1996

The legislation first known as Freedom to Farm and subsequently known as FAIR involved two revolutionary changes. First, farm program payments, long tied to farmer compliance with limitations on output, were decoupled from such performance. Second, a schedule of declining fixed payments was put in place, falling to zero by the year 2002.

For some years the program had involved deficiency payments. A price target was set and if the market price fell below that level, all farmers who had

complied with the program received payments equal to the shortfall of the market below the target price.

In 1996, as the program was being considered in Congress, there came a series of events that suddenly boosted farm prices above anticipated levels, so that deficiency payments would be low or nonexistent. Farmers and their lobbyists saw that if a series of fixed payments were put in place, dissociated from compliance with production controls, farm incomes would be very strong, better than by staying with the old system. So, abruptly, the door was closed on sixty-three years of history.

What of the fact that payments were scheduled to decline each year and go to zero by the year 2002? With typical heavy political discount for the future, the farm lobby said, in effect: "We'll deal with that later." They did. When farm prices and farm incomes fell in 1998, Congress moved up payment that had been scheduled for a later year. Also in 1998, in the face of falling farm income, Congress passed a multi-billion-dollar bill to aid farmers. Significantly, Congress did not return to the old program of reducing production. It used income supplements instead.

The farm lobby insisted on, and received, a major but little-understood victory. When the FAIR Act expires in 2002, we are scheduled, by law, to return to permanent farm legislation, the Agricultural Act of 1949. This Act, which by then will be more than fifty years out of date, is so antiquated and unworkable that new legislation will be needed to replace it. Thus, the farm lobby has assurance that when the FAIR Act dies, farm legislation will not disappear like the Titanic. There will be need to replace it. Farm legislation will have an assured place on the agenda. Those who sought to phase out the farm programs fought hard on this issue but lost.

The question now is whether the farm lobby, equipped with the threat of an unworkable situation in the year 2002, will have the power to enact new legislation favorable to farmers, possibly based on the old pre-1996 model, or possibly to modify the FAIR Act they have passed.

There are two schools of thought on this issue. One says that, at great cost, we bought our way out of these programs and we will stay on schedule and will be free of them when the FAIR Act expires. If this occurs, advocates say, the FAIR Act will be worth all that it cost. The other school of thinking says that if agriculture experiences a substantial decline in income (which it did in 1998), we will be right back into price supports and supply controls as we were before.

My view, perhaps influenced more by hope than by objective analysis, is that the FAIR Act will stick; that farmers, having been bought, will stay bought; and that production control, the key element of the big commodity programs, will expire. The reasoning behind this view is as follows:

1. We are highly unlikely to have an economic disaster with such dimensions as that which gave birth to the programs during the Great Depression. We have learned a thing or two since that terrible decade. When the stock market took a sharp fall in 1987, the Federal Reserve rushed in with new credit to stop the hemorrhage and prevent the recurrence of the earlier experience. With the present gyrations of the stock market, the Federal Reserve Bank is ready and willing to provide the credit needed to avert a financial collapse such as the ones we had in 1920 and 1929. When I sit down to do my serious worrying, I do not worry about a repetition of the disaster of the 1930s.

2. Farmers now constitute less than 2 percent of the population compared with 23 percent as recently as 1940. With loss of numbers goes loss of political power.

3. New agricultural issues are replacing the old fight about the commodity programs. Environmental questions, consumer concerns, equity issues, and trade matters are of increasing importance. These concerns will take the place of the old farm program.

4. The public will see that the new payments require no particular performance on the part of farmers and in this respect are on a par with welfare payments. The image of the farmer as a stalwart, hard-working, deserving entrepreneur will experience damage.

5. The voting public is learning that farm programs are not intended to save the family farm, which originally was their declared intent. Nor can they do so. Their purpose is to increase the incomes of industrialized agriculture.

Seemingly immutable institutions can change. Slavery was abolished. The Soviet Union collapsed. It may not be too much to hope that the old farm program of production controls will expire.

Did we cross a farm-policy watershed in 1996? I think so. ■

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■ For more information

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