Staff Papers Series

STAFF PAPER P85-1 JANUARY 1985

THE POLITICS OF FARM POLICY:

PROSPECTS FOR A 'MARKET ORIENTED' AGRICULTURE

Carlisle Ford Runge

Department of Agricultural and Applied Economics

University of Minnesota
Institute of Agriculture, Forestry and Home Economics
St. Paul, Minnesota 55108

THE POLITICS OF FARM POLICY:

PROSPECTS FOR A 'MARKET ORIENTED' AGRICULTURE

Carlisle Ford Runge

January 1985

THE POLITICS OF FARM POLICY:
PROSPECTS FOR A 'MARKET ORIENTED' AGRICULTURE*

Carlisle Ford Runge**

In April of this year I argued that instability in farm prices and incomes, together with rapidly declining cropland prices, would soon lead to a financial crisis in agriculture.[1/] As the Federal Reserve data indicated at that time, and as subsequent surveys by the Minnesota Department of Agriculture confirmed, this financial crisis is not restricted to technologically "marginal" farmers. It affects some of the largest and most technologically sophisticated operators, many of whom are highly leveraged and, therefore, particularly vulnerable to rapid declines in their equity base. It also affects farm wholesalers, and most ominously, private farm-lenders. The forces that I outlined then are now, more than ever, setting the scene for consideration of the 1985 Farm Bill.

Today, I would like to review these forces, which are driving the demands for change in farm policy. I want then to discuss the particular changes offered by the administration, and the political factors likely to affect the administration's farm program proposals. Finally, I will propose what I think are politically realistic solutions to the current farm crisis.

---

*A paper presented to a conference on "The 1985 Farm Bill: Politics and Agricultural Markets," December 18, 1984.

**Assistant Professor, Department of Agricultural and Applied Economics and Adjunct, Hubert H. Humphrey Institute of Public Affairs. He has served as a staff member of the House Committee on Agriculture and as a legislative aide in the U.S. Senate.

1/ C. Ford Runge, "Instability and Structural Change in Minnesota Agriculture," a paper delivered to the Spring 1984 Agricultural Policy Conference, "Getting Ready for the 1985 Farm Bill," April 16, 1984.

1. Sources of Crisis

In a recent backhanded defense of the family farm, John Block observed that corporations could never be expected to take the place of family farmers. His reason? No corporation would be foolish enough to bear the risks. These risks arise from instability in farm prices and income, instability that we calculate has increased on the order of 200 percent or more from the period 1962-1971 to the period 1971-1983. Riskiness in farm income is illustrated in Figure 1, which shows the difference between the two periods I just mentioned. The farm economy since the 1970's increasingly resembles a financial roller coaster, in which the good times have been better, and the bad times comparatively worse than ever before. Adding to instability in incomes and prices is the instability of integrated capital markets. Prior to 1979, fixed ceilings on interest rates applied to all deposit instruments that rural banks could readily market to their customers, and the cost of loanable funds changed little. Today, the market for agricultural credit is increasingly integrated with the national and international credit market. When combined with increasing instability in farm income and higher capital costs credit takes on added importance to carry producers through seasonal or longer troughs in income and prices. But while credit can help see farmers through troubled times, too much credit taken on in good times can make hard times harder to survive. Instability in prices and incomes increases the exposure of farmers in the credit market and instability in the credit market magnifies instability in prices and incomes. Since the end of 1978, the prime rate has changed 112 times, compared with 143 times in 31 years between 1947 and the beginning of 1979. From 1934 to 1947, there was no change at all in the prime.[2/]

[2/]New York Times, 12/12/84, p. 51.

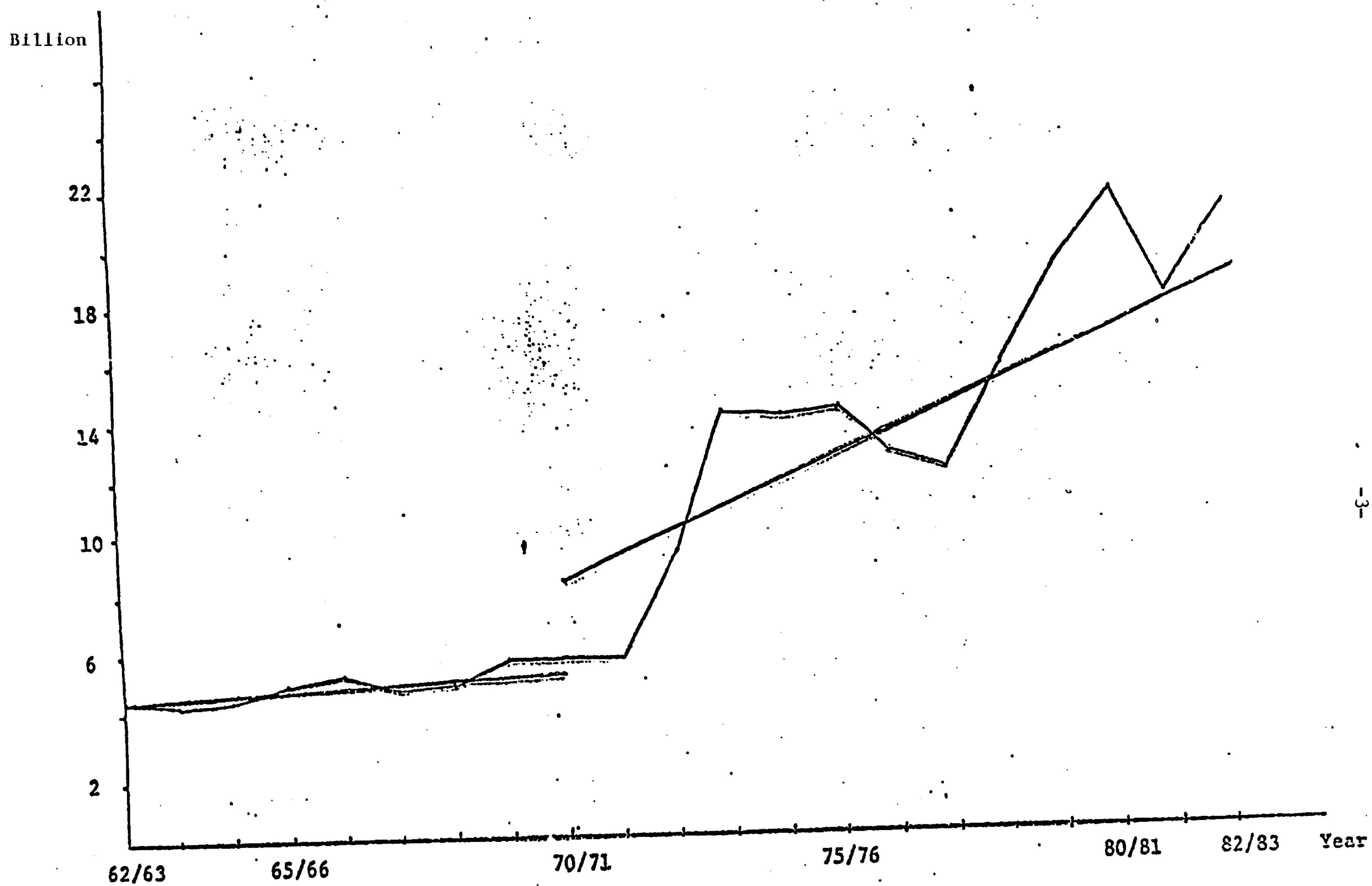

FIGURE 1. Gross Farm Revenue from U.S. Corn Sales With Linear Trends Computed Over 1962/63 Through 1970/71 and 1971/72 Through 1982/83.

This increased exposure to credit market conditions is occurring just as the United States faces the cost of financing the largest deficit in recorded history, a deficit that must be paid for largely through the sale of securities. These Treasury securities must find buyers despite the huge supply that must be marketed. The resulting upward pressure on interest rates has meant exceptionally high real rates after accounting for low current levels of inflation. These rates have also made these securities attractive to foreign buyers, who have helped to finance the deficit thus far. But foreign demand for dollar denominated assets has also put continuing upward pressure on the dollar, one reason that farm exports have been choked off since 1980. This had led in turn to lower domestic prices and income. Finally, this vicious circle has led to declines in cropland prices, eroding the equity base on which farmers borrowed in the first place. John Block was right about the risks of farming, and he too, has suffered financial losses from an overleveraged operation.

What Secretary Block does not often emphasize is that the current crisis has been building at least since he began his own leveraging in the mid-70's, and that the risks faced by farmers have been made worse by some farmers' own behavior, aided and abetted by government policy. In support of this view, consider the proportion of farm customers loaned up to their debt limit, compared with a year earlier, from 1970 through 1983. This percentage is reported in Table 1 and shown in Figure 2. As the figure indicates, based on bank reports to the Minneapolis Federal Reserve, a definite trend existed in the number of banks reporting a higher proportion of farm customers loaned up to their debt limit over time. The impact on major farm lenders only too happy to provide loans, often assisted by so-called FmHA "emer-

TABLE 1

Proportion of Farm Customers Loaned
Up to Their Debt Limit, Compared with a
Year Earlier

Year	Percentage of Banks Reporting (quarterly average) Lower	Same	Higher	Index[a]
1970	6	74	20	214
1971	4	73	23	219
1972	12	79	9	224
1973	34	64	2	168
1974	30	56	14	184
1975	10	54	36	226
1976	5	60	35	230
1977	1	46	53	252
1978	13	57	30	217
1979	21	60	19	198
1980	4	54	42	238
1981	6	62	32	226
1982	2	44	54	252
1983	3	58	39	236

a = A score of 300 indicates that 100% of banks reporting felt that a higher proportion of farm customers were loaned up to their debt limit compared with a year earlier. A score of 200 indicates that 100% felt that the same proportion were in this situation. A score of 100 indicates that 100% felt that a lower proportion were in this situation.

Source: Ninth Federal Reserve District-Federal Reserve Bank of Minneapolis, Agricultural Finance Databook, Division of Research and Statistics, Board of Governors of the Federal Reserve System, December 1983 (Quarterly Series), p. 44.

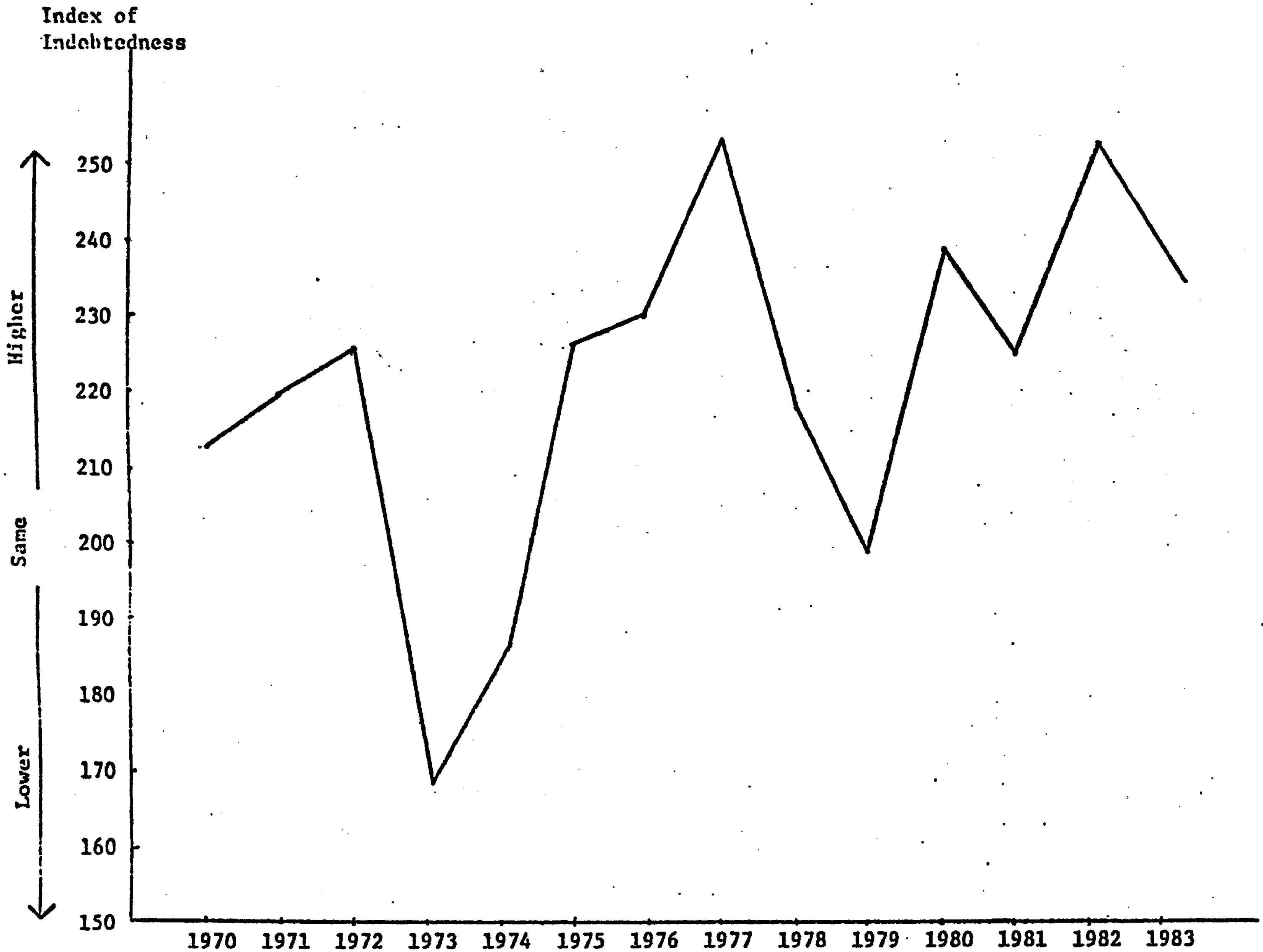

FIGURE 2. Ninth Federal Reserve District Bankers' Reports on Proportion of Farm Customers Loaned Up to their Debt Limit Compared with a Year Earlier (1970-1983)

gency" measures, has been serious. The survival of some agriculturally oriented banking operations may now be in doubt. In short, the farmers affected by the current crisis are big enough, and numerous enough, to take others with them. These, then, are the forces setting the scene for consideration of the 1985 Farm Bill, which are driving the demand for change.

2. The Administration's Proposals

Although specific proposals for farm programs are only beginning to emerge from the administration, the basic flavor and some of the specifics of their farm policy are already evident. Before outlining the general features likely to be presented, let me stress that farm legislation alone is too narrow a focus for farm policy. As is obvious from the above discussion the forces affecting American agriculture are both domestic and international, monetary and fiscal. Because agricultural policy is increasingly integrated with national and international economic policy, it is wrong to look at it in isolation. In the short time I have, however, I would like to focus primarily on only one, overwhelmingly important issue outside the farm bill itself, and that is the budget deficit. Virtually all of the administrations proposals for change can be translated into the following terms: save money by cutting spending. To do so, it will be the strategy of the Administration to set various interests inside and out of agriculture off against each other so that each will be forced to cut their own deal with David Stockman via the White House. By this strategy, Stockman's priorities rise in importance; John Block's fall.

The question then becomes, what are David Stockman's priorities for agricultural programs? In general, the answer is simple: get rid of them --

all of them if possible, most if feasible. Is a completely market oriented agriculture politically feasible in 1985? Probably not, but the main outlines of a modified market approach are now emerging, many of which, I would argue, hold promise for the future of the agricultural sector -- <u>if</u> they can clear the Congress.

Two key elements characterize the market approach. It is designed both to reduce program costs and to stabilize the impact of world demand on U.S. markets while making U.S. exports more competitive. These elements are reflected in four program goals. The first of these is the elimination, if possible, of target prices and deficiency payments and the development of a system of loan rates for corn, wheat and possibly even dairy based on a five year moving average similar to soybeans. Ideally, the administration would like to eliminate minimum non-recourse loan levels, which have helped to undercut U.S. export competitiveness and have been enormously costly. The basic concept favored is non-recourse loans for all commodities at 70 percent of a moving average of recent market prices. The idea is to transform the loan from a price-support tool to a vehicle for financing stocks until they can be sold.

A second goal of the market oriented approach is a farmer-owned reserve policy that serves to stabilize prices and, therefore, income without directly supporting them. To do this, trigger prices would be eliminated and farmers would be paid to store through a bidding process, with lowest bids accepted first. A ceiling would be placed on the number of bushels covered by such storage assistance, set either as an absolute quantity or as a percentage of annual usage.

A third goal of the program is that acreage set asides would be confined to only one crucial aspect of farm activity -- conservation. A paid diversion program would be established in which the government would purchase cropping rights in the same way that mineral rights are purchased, for a period of from 4-7 years. During this period, haying or grazing could continue unaffected. Like the farmer owned reserve, such a program would operate on a bid basis, allowing flexibility for farmers who seek to retire more of their lands from active cropping as they themselves get older and closer to retirement. This proposal, I feel, has great potential, and I will return to it in a moment.

The fourth goal of a market oriented approach is to provide adjustment assistance to middle income farmers who are neither big enough to rake off the large benefits of current programs nor small enough to rely primarily on off farm income. This adjustment assistance must focus primarily on credit rescheduling and relief, together with a phased approach to the elimination of targets and the lowering of loan rates. For example, loan rates may not be lowered to 70 percent right away, but may begin at 100 percent and work downward over 5 years. In addition to these programs, trade policy must be reexamined and foreign market creation must take a high priority. Expanded PL-480 assistance, negotiated agreements with the EEC over subsidy policies, together with lowered support levels, can lead to recovered export market share.

The essential logic behind this overall program is that it will cost less, helping to lower expenditures and, therefore, reduce spending. However, only if other areas of the budget are also cut back can deficit reductions of the magnitude necessary occur to lower interest rates and the value of the dollar. Without these other cuts, a market oriented agriculture can achieve nothing, and may well make farmers worse off.

3. Can It Happen?

For any of these goals to be achieved, they must pass the Congress, Mike Synar, Congressman from Oklahoma, recently asked a Cub Scout Troop in his home town of Muskogee what the difference was between the Cub Scouts and the U.S. Congress. According to witnesses actually present, one boy raised his hand and said, "We have adult supervision." Whether Congress can be expected to pass a farm bill providing for long-term stability in prices and incomes for American agriculture is an open question, a question made more open by a variety of internal problems afflicting Congress itself.

The first of these is the subcommittee system, resulting from reforms begun in the early and mid-70's to eliminate the seniority system and make the Congress more "democratic" (with a small d). Back in 1964, when seniority was in full sway, their were 47 meaningful chairmanships in the House and Senate. In 1984, 326 chairmanships were available. Today, 202 of Congress's 535 members -- or 38 percent -- are in charge of something.[3/] As a result, no one is in charge of anything. The expansion of subcommittees has increased Congress's workload and reduced its capacity to concentrate for a sustained period on any single set of issues such as farm policy.

In 1970, there was an average of 23 committee meetings a day in Congress; today the average is 37. With the trend toward government "in the sunshine," the number of closed committee hearings dropped from 35 percent in 1960 to 7 percent in 1975. Rather than government in the sunshine, what we now have is government in the glare of television cameras, in which junior chairmen of insignificant subcommittees hold hearings designed

---

3/ Gregg Easterbrook, "What's Wrong with Congress," The Atlantic Monthly (September 1984):57-84.

to puff up minor issues and themselves to make news back home. And on television, what cannot be said in 20 seconds or less isn't worth saying, making policy analysis of complex proposals such as agricultural legislation more difficult than decrying the "crisis" in general and photogenic terms.

These changes in subcommittees have led to overlapping and contradictory authority. But they have had a deeper, more serious effect. The breakdown of the seniority system and the proliferation of subcommittees has created many more opportunities for lobbyists to "get to" individual members and put the touch on a particular piece of legislation. There are 6,500 registered lobbyists in Washington, or 12 for every Congressman, not including trade association officers, lawyers, or liaison officials of corporations. Altogether, these lobbyists are estimated at 20,000, or 37 for every Congressman. Lobbyists are so thick in Washington that they often crowd inside the main House and Senate chamber doors where photographers are prohibited to give confused Congressmen "thumbs up" or "thumbs down" signs to inform their decisions on role call votes.

In agriculture, changing demography accompanied by the changing committee structure in Congress has led to the smaller and smaller role of agricultural producers in all congressional districts. The most agricultural congressional district in the country is Minnesota's 2nd, which has only 18 percent of its population listed as full-time farmers. The decline of producers has been accompanied by the increasing influence of commodity specific or trade specific agribusiness lobbies. These lobbies have in turn formed political action committees, or PAC's. In 1981-82, 133 agricultural PAC's donated $3.9 million to Senate and House candidates according to Federal Election Commission data. This compares with $2.3 million by the National Association of Realtors and $2.1 million by the American Medical Association, and does not include food processors, grocery chains, food retailers, and international agribusiness firms. The capacity of lobbyists and PAC's to target their efforts on individual issues and Congressmen has meant a declining role for the general farm organizations such as the Farm Bureau, NFU, NFO and Grange, whose purpose is to represent a broad cross-section of interests. Instead, commodity groups such as the Wheat Growers and agribusiness interests such as the fertilizer lobby have grown in importance. These groups increasingly favor a program of market oriented agriculture such as the one discussed above. Hence, while the influence of farm producers is dwindling, the influence of commodity groups and agribusiness is not, and they seem to be in general agreement with the administration on the need for a new market orientation.

On the one hand, this new array of forces suggests that major reforms in farm legislation will get bogged down and may never occur. On the other hand, they suggest that the balance of power has shifted strongly toward commodity groups and agribusiness, who may be able to pursuade Congressmen from non-farm districts (which is most of them) that a "market oriented agriculture" is a good thing, especially in light of budget deficits and the need for reduced spending. Of course, not all commodity groups agree with what I have called a market oriented approach. I conclude, based on my own analysis, that if omnibus farm legislation occurs, it will definitely shift in the direction of market oriented policies, which are favored by the increasingly influential commodity and agribusiness interests, even though differences between them exist.

In order to be passed, however, this legislation must provide attractive features for both producing area representatives and non-agriculturalists. Budget reducing cuts in farm program expenditures cannot be accomplished unless clear attention is given to the farm financial crisis in the form of debt relief and rescheduling, and I predict that this will be a part of the package. Nor can it occur without something for non-agriculturalists who don't know much about the price of corn or beans and whose constituents really don't care as long as food prices stay down. For these Congressmen, perhaps the most important aspect of new farm legislation will be conservation provisions, allowing them to respond to increasingly influential environmental interest groups, and the broad support by non-agriculturalists for renewed programs of environmental quality. Indeed, I would argue that targeted agricultural conservation programs, perhaps tied to agricultural credit relief, may be the linchpin of successful farm legislation in 1985.

I do not wish to suggest that a market oriented approach can be forced on producers. Yet, a recent questionnaire[4/] indicated that although a majority favored continuing farm supports at current levels, a majority of those questioned in Wisconsin and Maryland opposed them and support was weak in states with fewer large recipients such as Michigan, Idaho, and Washington. In 10 of 17 states included in the survey, a majority of farmers agreed that loan rates for price supported commodities should be based on a percentage of the average market price for the past 3 to 5 years, as called for in a market based program. With respect to

---

[4/] "U.S. Farmers' View on Agricultural and Food Policy: A Seventeen State Composite Report," North Central Regional Extension Publication 227, December 1984.

reserve policy, the most frequent choice in all states by farmers in all sales categories was to limit the reserve based on a percentage of previous year's use. Although support for acreage diversion programs was strong in general, the strongest support of all came for programs of soil conservation, confirming the hypothesis that the conservation issue may serve as a rallying point for agriculturalists and non-agriculturalists alike. A majority of farmers in every state surveyed -- from 57 to 71 percent -- agreed with the recommendation that farmers should be required to follow recommended soil conservation practices to qualify for farm price support benefits. Respondents in every state also favored targeting soil conservation funds to those states with the most severe erosion problems. This response was true of all sizes and types of farmer questioned. Unsurprisingly, farmers favored debt rescheduling and reliefs, although they were not generally in favor of moratoriums on foreclosures. Finally, farmers supported revised programs to promote foreign trade by a variety of means, including promoting lower trade barriers, expanded food aid, and other market development plans. Hence, the evidence suggests that the politics of a market oriented program of farm policy, despite the difficulties of congressional decision making, may be more feasible than has been previously supposed. Both farm and non-farm constituencies may come to favor it. It can happen in 1985.