THE FEDERAL GOVERNMENT IN FARM COMMODITY MARKETS: RECENT REFORM EFFORTS IN A LONG-TERM CONTEXT

by

Bruce L. Gardner

Department of Agricultural and Resource Economics
University of Maryland
College Park, Maryland 20742

Working Paper 95-10

Contribution No. 9109
of the Maryland Agricultural Experiment Station

Presented at the Agricultural History Society Symposium on Twentieth Century Farm Policies, Archives II, College Park, MD, June 8, 1995.

Discussion of farm policy easily slips into a historical mode because of the 75-year span of public policy proposals and debate—from the post-War price crash of 1920 to the present—in basically similar terms. But in the heat of contemporary debate the historical perspective tends to be lost, especially when both the new President in 1993 and the Newt Congress in 1995 have invoked a mantra of "change". The historical perspective makes us ask: what is different, really; and what difference does it make?

I would like to discuss three intertwined topics in the history of farm policy: the political clout of farmers as an interest group, farmers' view of their own situation, and the evolution of farmers' economic well-being. Then I will address the implications for the 1995 legislative debate.

Competition at the Trough

At the 50th Anniversary Meetings of the American Farm Economics Association in 1960, it was stated that "we are now aware that the political strength of the farmer in Congress is on a perceptible, if not very measurable, decline" (Talbot, 1960, p. 1108). In his comprehensive review of U.S. farm policies in 1945-71, Brandow notes: "The great decline in the proportion of farmers in the total population and election reform giving the rural and city voter equal influences in electing legislators have much diminished farmers' political power." (Brandow, 1977, p. 235). In discussing reasons for expecting more market-oriented farm policy, Hardin (1978) thought that the most important "lies in the political decline of agriculture. Loss of numbers, loss of overrepresentation, and loss of strategic congressional leverage were combined with the emergence of other interests — consumers and environmentalists ..." (p. 9). The percentage of the U.S. population with farm residence declined from 30 percent in 1920 to 1.8

percent in 1992. And the percentage of the nonfarm population who had rural backgrounds or maintained economic ties with farming declined also.

In addition, political scientists have emphasized a decline in the power of the remaining agricultural presence in Congress. The "one-man, one-vote" ruling of the Supreme Court in 1962, by restricting states' authority to establish congressional districts, sharply cut rural representation in Congress. Redistricting after the 1970 Census reduced "rural" districts in the House of Representatives from over 42 percent in 1966 to 30 percent in 1973 (Leman and Paarlberg, 1988, p. 34). Moreover, the Congressional committee reforms of the 1960s, by eliminating longstanding fiefdoms of committee chairs, are said to have weakened agriculture's position.

Further diminishing agriculture's influence is the rise of non-traditional interest groups as players in agricultural policy deliberations (Barton, 1976; Browne, 1988). The 1970s were the high-water mark of the "New Politics of Food" (Hadwiger and Browne) in which farm commodity interests were thought no longer to dominate agricultural policy. Don Paarlberg, in 1980, took the long view: "For a hundred years, farmers took the initiative in shaping farm policy. But in the 1980s they will be largely on the defensive, and this will require a different strategy" (p. 1).

These factors all add up to what the New York Times calls the "long, slow erosion of farmers' political clout in Washington" (July 25, 1994, p. 1).

There is one major reason for skepticism about stories of agriculture's political decline: by the best measures available, the long-term trend of governmental support of agriculture has continued to increase! Figure 1 shows real budget outlays of the USDA's Commodity Credit Corporation (CCC), for FY 1934-1994 (zero before 1934). This is a fairly comprehensive

measure of the Federal government's spending to support farm income. It includes CCC's net receipts in buying and selling commodities (the negative values in some early years result from commodity sales) and payments to farmers under all the commodity programs. But it excludes the Conservation Reserve Program, which if included increase outlays in recent years by about $1.8 billion annually. "Real" means the dollar values are all converted to the value of a dollar in a base year (1987), so that effects of general inflation are removed. This is important because the price level — measured either by the GNP deflator or consumer price index — went up by a factor of more than 10 between 1934 and 1994. Despite substantial short-term fluctuations, including a decline by more than one-half in outlays between 1986 and 1994, there is an upward trend in support for agriculture throughout the period as a whole.

The increase is all the more striking when coupled with the decline in farm numbers. Outlays per farm averaged about $5,000 per farm in 1989-94, in 1987 dollars, compared to about $2,000 in 1955-65 (Figure 2).

Agricultural interests may be gloomy about losing political influence, but if so they are, in Liberace's immortal phrase, crying all the way to the bank. To explore further the dissonance between political perception and budgetary facts, let us consider the evolution of opinion about farm economics in more detail.

Pride and Petulance

From the time of Jefferson's agrarian sentiments, farmers have been seen as honest, hard-working citizens, and the fruits of their efforts as a (sometimes even the), foundation of the Nation's prosperity. At the same time, ever since farmers began to rely on commercial markets as outlets for their products, some farmers have indulged themselves in populist victimology. If

it wasn't the railroads or the meat packers it was the futures markets, bankers, or government bureaucrats who oppressed them.

There have been, however, some notable trends in rural populist views. Railroads and other marketing middlemen don't receive the sustained opprobrium today they once did. Foreign competitors, most notably Western Europe but also Asian importers and even Canada and Mexico have reaped U.S. producers' ire in the 1990s. USDA data indicate that farm households now have higher income and wealth than nonfarm households, on average. But farmers argue that "The decrease in the income disparity between farmers and others in society could never have been accomplished without including off-farm income. In fact, the price and income program direction of the 1985 and 1990 Farm Bills left producers with no choice but to rely on off-farm income as a means of economic support." (Swenson, 1995, p. 13).

U.S. political figures find it necessary to echo the belief that farmers are ill rewarded for their efforts and deserve support from government. A change in politically acceptable language has occurred, nonetheless. In 1908, Secretary of Agriculture James Wilson introduced his assessment of the economic situation by stating: "Billions upon billions the farmer has again piled his wealth," and as part of a 12-year economic review noted that "The farmers of the mortgage-ridden Kansas of former days have stuffed the banks of that State full of money ..." (USDA, 1908, pp. 9, 152).

In the most notable recent peacetime commodity boom, 1972-74, Secretary of Agriculture Earl Butz was known as a blunt-speaking man, but he did not highlight farmers' money-stuffing propensities.

The closest approximations to anti-farmer political acts in recent years were the grain/ oilseed export embargoes of 1973-75 and 1980, President Reagan's veto of a farm debt relief bill

in 1985, environmental provisions of the 1985 and 1990 Farm Act's ("swampbuster", conservation compliance, pesticide recordkeeping), reductions in support prices and deficiency payments in the 1985 and 1990 Acts, and provisions in the FY 1994 Agricultural Appropriation Act which began a phase-out of funds for the honey and wool programs.

In none of these cases was there any appreciable anti-farmer rhetoric. Indeed the embargoes were accompanied by steps, greatly elaborated in the 1980 case, intended to ensure that farmers did not suffer adverse economic consequences. Nonetheless, farmers reacted so negatively, and politicians were so sensitive to that reaction, that even 12 years later, in the 1992 campaign, politicians were going out of their way to denounce embargoes.

Nonetheless, many ex-USDA officials and other experts remain convinced that USDA should take a broader view of its mandate than just promoting farm interests, and have tended to see the winds blowing this way. In a panel assessing priorities for the new Clinton Administration in late 1992, one panelist stated that "Nonfarm interests increasingly are exerting more influence over national priorities related to food and agriculture" (Daft, p. 34), and another opined that "New secretaries of agriculture often are told that the office is charged primarily with defending agricultural program benefits. However, the job likely will be much broader under a Clinton administration" (Penn, p. 37). Now we know how little this was true. Secretary Glickman says President Clinton has asked one thing of him, which he was glad to carry out: "to be an advocate for agriculture" (USDA, 1995, p. iii).

In short, farmers have so far maintained their political clout very well, and still use it in largely the traditional ways. However, many farmers no longer share the populist anger at their economic situation that has served so well in the political arena. A 1993 USDA survey asked farmers if they were satisfied or dissatisfied with their standard of living. Only 8.4 percent said

they were dissatisfied (6.5 percent "somewhat" and 1.9 percent "very" dissatisfied) (Morehart, et al, p. 3). Granted, 36.9 percent were dissatisfied with farming as a source of income; nonetheless, this survey does not fit with a picture of a farm community as a seething cauldron of discontent.

Farm Income and Farm Policy

Let us now turn to the facts. How have farmers actually been faring economically? And what difference have farm policies made? In considering the answers to these questions, I would like to note a contrast between historians and economists. My impression is that historians have been too quick to assert conclusions about the effects of policies, e.g., that the New Deal and subsequent farm programs saved farmers economically.[5] Economists have been more inclined to ask for data-based evidence on such a matter — to develop econometric tests of hypotheses and be skeptical of nonquantified claims. On the other hand, economists tend to accept without much questioning the data available on economic status, while historians have been more skeptical. A historian would be more likely to have started this paragraph: Let us now turn to the "facts".

With respect to farm income data, questions are surely in order, especially about the period prior to 1950 when the Population Census began to ask direct questions about household income. For earlier years the only systematically collected national data were those of the Census of Agriculture and related USDA reports. These data sources are quite complete and skillfully developed for commodity output and prices, for expenditures on the main inputs purchased by farmers, and for the number of persons on farms and land in farms. But farm households' net income has to be calculated from these data, which omit crucial capital,

inventory, depreciation, and farm-level price data. Moreover, until the mid 1930s there is no information on farm household income from off-farm sources.

J.D. Black and T.W. Schultz were among early users and critics of USDA attempts to compare farm and nonfarm incomes. They found plenty of problems but Schultz (1945), especially, emphasized that whether one considered wage rates in agriculture, earnings of hired farm workers, or incomes of farmers, people in the nonfarm sector fared much better than farmers in the 1920s and 1930s. H. Thomas Johnson (1985), however, questions the perceived 1920s scenario. Alston and Hatton (1991) find farm wage rates almost as high as nonfarm wages in the 1920s, but falling sharply in the 1930s. Both studies argue against the long-accepted idea of agricultural depression in the 1920s. They point to regional peculiarities, the South undoubtedly being poor and rural, and in-kind wages being very important.

Figure 3 plots some of the key data used. The USDA data are farm/nonfarm per capita income measures, before 1934 excluding off-farm income of farmers. Schultz (1945) and Johnson (1985) have income comparisons even less favorable to farmers than USDA's data indicate. However, Johnson emphasizes the upward trend in farm/nonfarm income during the decade of the 1920s (which all income comparisons show). While farm income did recover from the disastrous 1920/21 plunge, farm income remained very low throughout the 1920s by either pre-WWI or post-WWII standards.

One might expect that data problems would be much less today, and in many respects they are. But serious questions remain. Black (1932) is optimistic about how much can be learned from relatively sparse farm-level survey data (not withstanding his general skepticism about USDA's income measurement). We now have much larger samples and more uniform survey instruments in the Farm Costs and Return Surveys of USDA. Nonetheless, measurement

issues remain. USDA estimates net income from farming per farm household at about $5,000 per farm in 1989-94. At the same time, sector-wide estimates indicate aggregate net farm income of about $40 billion annually, or $20,000 per farm. It looks like USDA's surveys are missing about three-fourths of farm income! Without going further into this issue here, I want simply to indicate that historians' probing of data is still very much needed.

The effects of farm policies on farm income is at the analytical center of the 1995 farm bill debate. Senator Lugar, among others, has proposed what amounts to a phase-out of farm commodity support programs. The main argument against such reforms is their expected negative effect on farm income. Both USDA and independent economists, notably the Food and Agricultural Policy Research Institute, have estimated that a reduction of $1 billion in deficiency payments would reduce net farm income on the order of $1 billion. Since Federal farm spending now averages $8-10 billion annually, it is easy to see how a phaseout of farm programs could leave farm income 25 percent below current levels. And since the programs concentrate on crops that make up about 1/3 of farm revenues, the effects on the producers of those crops would be much greater. Yet at the same time, many farm policy experts believe farm programs do very little for farm income in the long run beyond raising land prices. Here are several views:

> Over the long period 1946-70, net farm income measured on a per acre basis for the United States held almost constant, but the value of farm land increased from $66 to $174 per acre. The ultimate gainer from a net income increase in agriculture, whether resulting from an increase in demand, a farm technological advance, or a farm program, is the land owner. Any income gain tends to get capitalized into the limiting input, land, through the competitive process. And that is where the income benefits of the farm programs had to come to rest (Cochrane and Ryan, 1976, p. 371).

> In formulating realistic policies, it is well to recognize that commodity programs do not raise the net income of farm people over the long run (Tweeten, 1989, p. 419).

> A major degree of agricultural protection contributes little or nothing to the long-run solution of the farm income problem ... high prices alone are meaningless as a long-run farm-income measure (Johnson, 1991, p. 215).

The analytical foundation of this widely shared view is aptly summarized by the assertion that income gains "get capitalized into the limiting input, land" (Cochrane and Ryan). The rental value of land increases and this increases the net income of farmers who own land (so the Tweeten quotation overstates the point). Johnson expands the analysis to say that farm labor returns will also increase to the extent labor is not perfectly elastic in supply to agriculture in the long run.

Yet economists who model the effects of one- to five-year farm bills generally agree that higher support levels increase net farm income. In evaluating alternatives for the 1985 farm bill, Galston (1985, pp. 139-40), reported estimates that a move to a free-market policy, as compared to a continuation of the programs in place, would cause U.S. farm commodity prices to fall 9 percent, and this would reduce net farm income by 25 percent ($6 billion) on average in 1986-89. Stanley Johnson et al. (1985) estimated that for 1986-90 a market-oriented policy that caused the prices of basic agricultural commodities to fall by 15-20 percent would cause net farm income to fall 30 percent (pp. 171-2). A comparable analysis in 1995 estimates that in 1996-2000 a policy that eliminated $6.1 billion annually in payments to producers would cause net farm income to fall $6.9 billion annually, or by 16 percent (Meyers and Smith, 1995). These are quite large effects.

The most plausible way of reconciling these large net income effects with the earlier quotations is that the numerical estimates, even projections for a 5-year period, are largely short-run effects that would not persist. But similar results would have been obtained for practically any 5 years since 1933. So are we to say that farm programs generated substantial short-run

gains in each of the last 60 years, but little significant long-run gains? This doesn't make sense because all those short-run gains have been received and spent. It's too late to wipe out the 1950s gains in the 1990s. The proper long-run comparison is between the current situation and what the current situation would be if there had been no farm programs since 1933.

To carry out this exploration in counterfactual economic history, I postulate a "net income function" for agriculture:

$$(1) \qquad y_t = y^*(p_t, w_t; z_t)$$

where y_t is net farm income in year t, p_t is a vector of product prices, $\hat{w}_t$ are input prices, and z_t are exogenous factors, including policies, which influence farm income.

Because the policy variables in z_t typically influence p_t and sometimes w_t (as in the cases of input restrictions or subsidies), it is difficult to identify separately the effect of z_t and (non-policy determinants of) p_t. In order to identify the z_t effects, exogenous determinants of p_t and w_t are used. These variables are:

1) Macroeconomic variables:
   - i) rate of growth of real GNP as a business cycle indicator
   - ii) rate of inflation (CPI growth)
   - iii) a dummy variable for the commodity boom years of World War I, World War II, and 1973-74.
2) A representative non-farm real wage rate, the weekly earnings of workers in manufacturing and retail trade.
3) The USDA total factor productivity index.

The representation of agricultural policies requires drastic simplification. Legislation and regulation have established hundreds of policy instruments — market support prices, target prices

for determining deficiency payments, acreage set asides, government commodity purchases, export subsidy payments, export credit guarantees, disaster payments, commodity storage payments. And the instruments used and commodities covered have changed over time.

Attempts to simplify the representation of these policies have gone so far as to reduce all of U.S. farm policy to a scalar for each year — the "producer subsidy equivalent" or "aggregate measure of support." But these measures combine too many disparate items in too arbitrary a fashion. This paper boils the policies down to three primary types of intervention, and ignores all others. Four indicators are used as elements of z_t:

1) A dummy variable = 1 from the introduction of the New Deal, 1933, and = 0 before 1933.

2) Aggregate payments received by farmers from all programs.

3) Acreage idled under set-aside, conservation reserve, or other related programs.

4) The (constant-dollar) value of commodity stocks acquired by the Commodity Credit Corporation, the federal government's price support arm.

The generalized quadratic is used as a flexible function form for estimating equation (1). Suppressing interaction terms on the macroeconomic instruments, the estimated equation is:

$$(2) \qquad y_t = \alpha + \sum_{i=1}^{5} \beta_i x_{it} + \sum_{j=1}^{4} \gamma_j z_j + \sum_{j=2}^{4} \sum_{k=2,\, k \le j} \gamma_{ij} z_i z_j + \varepsilon_t$$

where the x_i are the five instruments listed above, the z_1 are the farm policy variables (z_1, the post-1933 dummy, is not included in the $z_i z_j$ variables because the cross products $z_1 z_j$ are collinear with z_j). The results are shown in Table 1.

The hypothesis that the 10 policy variables are jointly not significantly different from zero cannot be rejected at even the 10 percent level: $F(10, 64) = 1.1$. But this test is hard to pass

Table 1. Regression explaining U.S. real net farm income, 1911-1990

equation(2) parameter	description of variable	estimated parameter	"t" ratio
α	Intercept	12513	9.3
β_1	Commodity boom years	8846	7.2
β_2	Inflation rate	12481	1.4
β_3	GNP growth rate	8158	1.2
β_4	Productivity	-72.4	-1.9
β_5	Index of WN	59.0	1.5
γ_1	= 1 after 1932	2162	1.3
γ_2	government payments	-30.3	-0.0
γ_3	acreage diverted	-3.58	-0.4
γ_4	government purchases	-692	-0.8
γ_{23}	interaction term	11	1.4
γ_{24}	"	757	1.0
γ_{34}	"	-4.37	-1.2
γ_{22}	squared term	-1063	-1.0
γ_{33}	"	-.031	-1.5
γ_{44}	"	447	-1.1

$R^2 = .66$

Dependent variable mean: 13,585 million (1967 dollars).

because the specification loses numerator degrees of freedom needlessly by including so many highly correlated variables. The estimated effect on farm income each year is:

$$\hat{G}_t = \sum_i \hat{\gamma}_i z_{it} + \sum_i \sum_{j \le i} \hat{\gamma}_{ij} z_i z_j \quad (3)$$

The mean value of $\hat{G}_t$ is 1,128, meaning that on average the farm programs are estimated to increase net farm income by \$1.128 billion (in 1967 dollars), or about 8 percent of mean net farm income.

U.S. net farm income has been fairly constant in real terms. In 1910-14 it averaged \$13.8 billion and in 1987-90 \$12.4 billion. In between real net farm income reached a low of \$4.8 billion in 1983 (\$5.0 billion in 1932) and a high of \$25.8 billion in 1923. The regression trend decline of \$16 million (0.1 percent) per year is not significantly different from zero ($t = 0.7$). The R^2 of .66 in Table 1 is lower than in typical regressions explaining economic time series, and the lack of trend in the dependent variable is probably the main reason. The up-side of this situation is that we have to worry less than usual about spurious correlation of the dependent variable with trending right-hand-side variables.

The lack of a pronounced trend is misleading in that real income per capita was rising, even relative to incomes in the nonfarm sector. Did farm policy play a role in this development? Table 2 shows a regression using the same specification as equation (2) explaining real income per farm (USDA net farm income in 1967 dollars divided by the number of farms as estimated by USDA using the Bureau of the Census farm definition), and also a regression explaining farm household income from all sources as a percentage of nonfarm household income (as published by the Economic Research Service of USDA in Economic Indicators of the Farm Sector).

Note that the non-policy variables show different effects on the per-unit income measure. The non-farm wage rate is highly significant for farm income but is negative in sign, though not

Table 2. Regressions explaining income per farm, farm as percentage of nonfarm household income, and farm numbers, 1911-1990

equation(2) parameter	dependent variable	farm income per farm		farm/nonfarm income		farm numbers	
α	Intercept	-.69	(2.1)[a]	12.9	(2.4)[a]	9584	(94)[a]
β_1	Commodity boom years	1.79	(6.0)	20.8	(4.3)	307	(3.3)
β_2	Inflation rate	.56	(0.3)	91.9	(2.6)	-2011	(3.0)
β_3	GNP growth rate	2.50	(1.6)	37.7	(1.5)	100	(0.2)
β_4	Productivity	.032	(3.6)	.84	(5.9)	-45	(16.1)
β_5	Index of WN	.020	(2.2)	-.02	(0.1)	-25	(8.6)
γ_1	= 1 after 1932	-.12	(0.3)	-15.4	(2.5)	824	(6.9)
γ_2	government payments	-.20	(0.4)	-9.3	(0.6)	115	(0.8)
γ_3	acreage diverted	-.31	(0.2)	-6.6	(0.2)	-346	(0.6)
γ_4	government purchases	-.19	(0.9)	-2.2	(0.7)	-71	(1.1)
γ_{23}	interaction term	3.30	(1.7)	50.4	(1.6)	555	(0.9)
γ_{24}	"	.22	(1.2)	3.1	(1.0)	86	(1.5)
γ_{34}	"	-1.4	(1.7)	-15.0	(1.1)	-494	(1.9)
γ_{22}	squared term	-.25	(1.0)	-3.0	(0.8)	-63	(0.8)
γ_{33}	"	-9.1	(1.9)	115	(1.5)	2131	(1.4)
γ_{44}	"	-.018	(0.2)	.91	(0.7)	-59	(2.0)

[a]t-ratio (absolute value)

R^2 = .84, .85, .99 (left to right)

Dependent variable means: $3.26 thousand ($1967), 73.2 percent, 4774 thousand farms.

significant, for farm/nonfarm income. This is expected because while a rise in nonfarm wage rates indicates improved labor market conditions for farm people, higher nonfarm wages are even better for nonfarm people. The effect of the total factor productivity variable changes from a negative effect on aggregate farm income to a positive effect on per capita farm income, and on farm relative to nonfarm income.

The policy effects are different, too, although this is difficult to see given the varying signs and low significance of the individual policy variables. Aggregating farm policy effects as in equation (3) indicates that on average in 1933-90, policies reduced income per farm by $500.

These results raise the question of how policies influenced farm numbers. A regression explaining farm numbers is shown as the right-hand column of Table 2. The effects of policies shown imply that policies on average in 1933-90 kept the number of farms 723,000 higher than it would have been without the policies. Thus, the finding is that farm policies kept farmers in business and this increased aggregate U.S. farm income but reduced the average farmer's income.

The 1995 Farm Bill Debate

A summary of the preceding findings is:

1. The commercial farm population has been transformed from a low-income group to a relatively high-income group over the past 60 years.
2. Federal farm commodity programs had little to do with this transformation.
3. Farm interests have retained sufficient political influence, and focused that influence on income redistribution in their favor, to the extent that real government expenditures per farm have remained on an upward trend.

The current Congressional debate on the 1995 farm bill is a test of whether trend (3) can avoid being reversed in view of (1) and (2). The deficiency payment cuts of 1985 and 1990 may be taken as evidence that the trend has already been reversed. However, the reductions in actual outlays since 1985 (see figure 1) have been more a matter of improving commodity markets than government budget cutting. It is particularly striking that the reductions of 1990 amounted to much less than Congress claimed at the time. Table 3 shows (a) projected "baseline" CCC spending, i.e., spending forecast maintaining existing policies before the 1990 reforms, (b) projected CCC spending after the 1990 reforms, and (c) actual 1981-95 CCC spending. The projected savings were not achieved; and, more strikingly, CCC spending exceeded even the pre-reform baseline!

What about the 1995 debate? Several factors increase the likelihood that the clash of trends (1) to (3) will lead to reforms toward a demise of farm commodity programs. The first is an evolving disinclination of nonfarm opinion leaders to support farm interests. A legacy of the 1930s was a heartfelt sympathy for farm interests on the part of intellectuals and the media. Tobacco Road, The Grapes of Wrath, Let Us Now Praise Famous Men, "The Plow that Broke the Plains," and many other articles, books, and films in a similar vein brought the farmers' problems of the 1930s vividly to life, and mobilized national sentiment, particularly among liberal and reform-minded people. It is striking how many of the administrators of agricultural programs of the 1930s (Rexford Tugwell, Henry Wallace, Alger Hiss, Jerome Frank) were all-purpose reformers and progressives. Their counterparts today are generally uninterested in agricultural policy, and, to the extent they are interested, quite skeptical. Indeed, in 1995 we have public policy institutions ranging from the Heritage Foundation to the Progressive Policy Foundation declaring the desirability of ending commodity programs as we know them. In its analysis of

Table 3. Projected and actual CCC spending, 1991-95

Fiscal Year	Pre-reform[1] Projection	Post-reform Projection	Actual
	----------billion dollars----------		
1991	8.6	7.1	10.1
1992	11.5	8.3	9.7
1993	11.0	8.7	16.0
1994	10.5	8.2	10.3
1995	9.9	7.4	10.5[2]
5-year total	52	40	57
5-year savings		12	-5

[1]Reforms are the policy changes included in the 1990 Omnibus Budget Reconciliation Act and the Food, Agriculture, Conservation, and Trade Act of 1990.

[2]Estimate by author.

Source: Congressional Budget Office data, as used in Wright and Gardner (1995), p. 79.

the income distributional effects of the Republicans' House seven-year budget-balancing resolution, the Washington Post found farm program cuts the most, and almost only, progressive element of the proposal, and both the Post and the New York Times have consistently editorialized against commodity programs in 1990s.

A second factor working against farm programs is a weakening of practical political coalition partners. Urban representatives and environmental interests have been valuable allies of farm commodity programs since the 1960s, in exchange for farm interests supporting food assistance and environmental protection provisions in farm bills. But this coalition is weakening under pressures for budgetary stringency and regulatory relief. Agribusiness, which has been neutral or supportive of commodity interests in the past (particularly of "high-value" export promotion and subsidies for "new uses" of farm products), has in 1994/95 developed a more unified opposition to key elements of commodity programs, particularly supply management as linked to deficiency payments.

A third and perhaps most important factor is increasing disenchantment with commodity programs by farm groups themselves. In 1990 most of the dairy industry wanted a supply management program in the farm bill, but disagreement within the industry prevented any legislation from being enacted. Similar efforts failed each year since then. Meanwhile the milk support price has fallen 23 percent (from $13.10 to $10.10 per hundred pounds) over the past 10 years and USDA dairy support outlays have declined from about $3 billion to $200 million annually. The underlying problems are (i) the West and Southwest are able to prosper at substantially lower milk price than the traditional dairy states of the upper Midwest and Northeast, and see no need to curtail production for the sake of higher prices, and (ii) the upper Midwest believes the marketing order system keeps Wisconsin/Minnesota prices low relative to

surrounding states, particular the Southeast, by keeping milk prices artificially high in those "fringe" areas by limiting the geographical movement of milk. The impasse is such that Congressman Gunderson of Wisconsin has switched from being an ardent defender of the federal dairy programs to advocating abandonment of the price support system, and much of the dairy industry agrees.

More broadly, a fairly consistent 35 to 40 percent of farmers, in some polls approaching a majority, state a preference for ending federal price supports generally. Many appear to follow Congressman Roberts, the House Agriculture Committee Chairman, in the idea that giving up commodity programs would be a reasonable exchange for the government easing up on price-support assessments, environmental regulations, capital gains and estate taxes, and health care expense deductibility in income taxes.

These factors don't mean an end to farm programs in 1995, but they do indicate the best prospects in 60 years to place the farm commodity policy on a glide path to laissez faire. That is, shocking as it may seem, by 2005 we may see grains, cotton, sugar, peanuts, milk, and tobacco treated in the way cattle, chickens, hogs, eggs, soybeans, hay, grapes, tomatoes, and a hundred minor crops already are today.

References

Alston, Lee J. and T.J. Hatton. "The Earnings Gap Between Agricultural and Manufacturing Laborers, 1925-1941," Jour. of Econ. History 51(1991):83-99.

Barton, Weldon. "Coalition-Building in the U.S. House of Representatives: Agricultural Legislation in 1973." In James E. Anderson, ed., *Cases in Public Policy*, New York: Praeger, 1976, pp. 141-162.

Black, J.D. "Farm Business Surveys as Sources of Data of Agricultural Income," in John D. Black, ed. Research in Agricultural Income. New York: Social Science Research Council, June 1933, pp. 78-83.

Brandow, G.E. "Policy for Commercial Agriculture, 1945-71," L. Martin, ed. A Survey of Agricultural Economics, Vol. 1, Minneapolis: University of Minnesota Press, 1977, pp. 209-92.

Browne, William P. Private Interests, Public Policy, and American Agriculture, Lawrence: University Press of Kansas, 1988.

Cochrane, Willard, and Mary Ryan. American Farm Policy, 1948-1973, Minneapolis: University of Minnesota Press, 1976.

Conrad, David E. The Forgotten Farmers: The Story of Sharecroppers in the New Deal, Urbana: University of Illinois Press, 1965.

Daft, Lynn M. "Daft's USDA 'To Do' List," Choices, 4th Quarter, 1992, pp. 34, 38.

Galbraith, John Kenneth. A Life in Our Times, New York: Ballantine, 1982.

Galston, William A. A Tough Row to Hoe: The 1985 Farm Bill and Beyond, Lanham: Hamilton Press, 1985.

Gardner, Bruce L. "Optimal Regulation of Ethanol and Other New Uses of Farm Products," working paper, University of Maryland, 1995.

Hadwiger, Don F. and William P. Browne, ed. The New Politics of Food, Lexington, Mass.: Lexington Books, 1978.

Hardin, Charles M. "Agricultural Price Policy: The Political Role of Bureaucracy," in D.F. Hadwiger and W.P. Browne, eds., The New Politics of Food, Lexington, Mass.: Lexington Books, 1978, pp. 7-14.

Johnson, D. Gale. World Agriculture in Disarray, New York: St. Martin's Press, 1991.

Johnson, Stanley R., Womack, Abner W., Meyers, William H., Young, Robert E. II, and Brandt, Jon. "Options for the 1985 Farm Bill," in B.L. Gardner, ed., U.S. Agricultural Policy: The 1985 Farm Legislature, Washington, D.C.: American Enterprise Institute, 1985, pp. 119-173.

Johnson, H. Thomas. Agricultural Depression in the 1920s: Economic Fact or Statistical Artifact? New York: Garland, 1985.

Leman, C.K., and R.L. Paarlberg. "The Continued Political Power of Agricultural Interests," in R.J. Hildreth et al., eds. Agriculture and Rural Areas Approaching the 21st Century, Ames: Iowa State Univ. Press, 1988, pp. 32-60.

Meyers, W., and D. Smith. "FAPRI Examination of Farm Bill Alternatives," mimeo, Iowa State University, May 1995.

Morehart, M., J. Jenkins, J. Ryan, and S. Bentley. "Financial Performance Issues Confronting U.S. Agriculture," in USDA Agricultural Outlook Forum, Proceeding, USDA, WAOB, April 1995, pp. 148-159.

Paarlberg, Don. Farm and Food Policy, Lincoln: Univ. of Nebraska Press, 1980.

Penn, J.B. "Penn's USDA 'To Do' List," Choices, 4th Quarter, 1992, p. 37.

Schultz, Theodore W. Agriculture in an Unstable Economy, New York: McGraw-Hill, 1945.

Shoemaker, Robbin, Margot Anderson, and James Hrubovcak. "U.S. Farm Programs and Agricultural Resources," USDA-ERS, Agr. Inf. Bul. No. 614, Sept. 1990.

Swenson, Leland. "Additional Comment" in Price and Income Stability, National Center for Food and Agricultural Policy, Washington, D.C., March 1995.

Talbot, Ross B. "The Past is Prologue: What are the Prospects," Journal of Farm Economics 42(1960):1107-13.

Tweeten, Luther. Farm Policy Analysis. Boulder, Colo.: Westview Press, 1989.

U.S. Department of Agriculture, "Report of the Secretary," in Yearbook of the Department of Agriculture, U.S. Government Printing Office, 1908.

————. Embargoes, Surplus Disposal, and U.S. Agriculture, Economic Research Service, Agr. Econ. Report No. 564, 1986.

————. 1995 Farm Bill: Guidance of the Administration, Administration's Farm Bill Proposal, 1995.

Wright, Brian D. and Bruce L. Gardner. Reforming Agricultural Commodity Policy, Washington D.C.: American Enterprise Institute, 1995.

Footnotes

1. Talbot also held himself hostage to the future by saying: "Whoever the next President may be it is practically a certain conclusion that he will take a dynamic and positive role in the area of farm policy" (p. 1112). Little did he know that the next President had already revealed his profound indifference about agriculture to John Kenneth Galbraith: "I don't want to hear about agriculture from anyone but you, Ken," said Senator Kennedy. "And I don't much want to hear about it from you either." (Galbraith, 1982, p. 357.)

2. CCC outlays also exclude fuel-ethanol subsidies worth about $500 million annually, but there is some question about how much of this constitutes a gain to farmers rather than ethanol manufacturers. Nonetheless, corn producers are convinced ethanol promotion is good for them, I believe rightly (Gardner, 1995).

3. In the bashing of Japan's "closed markets" it is often unrecognized that Japan in 1994 imported almost $10 billion in U.S. farm products, a fourth of all U.S. agricultural exports.

4. In 1986 Secretary of Agriculture Lyng made a point of expressly repudiating a set of studies published by his own Economic Research Service which opened by stating "Embargoes did not cause the farm issue of the 1980s ...". (USDA 1986, Abstract).

5. Price supports "made it possible for farmers to invest in fertilizer, machinery, hybrid seed stock and other technology with, weather apart, a solid assurance of return. Thus they enormously enhanced such investment and nourished an increase in output per farm worker that much exceeded the productivity gain in industry. Nevertheless the support prices had never ceased to be a source of distress to economists, who preferred their free market faith to practical achievement" (Galbraith, 1982, p. 356). I grant this is weak

support of my "impression". Still, note that Galbraith opposes this view to that of economists. (This is not to deny that he could be right.)

6. This estimate suggests that an average each $5 of farm-program payments increases net farm income by $1, a quite low efficiency of results. It is noteworthy that a recent ERS long-run study, using a completely different method of analysis — simulation of 1980s conditions in a computable general equilibrium model — estimate that removing $4 of farm-program payments causes net farm income to decline $1. (Shoemaker, Anderson, and Hrubovcak, p. 7.)

7. The Food Security Act of 1985 reduced target prices for wheat, feed grains, cotton, and rice by 10 percent over 5 years. Since deficiency payments are the difference between target prices and market prices, this reduced payments. The Omnibus Budget Reconciliation Act of 1990 made 15 percent of farmers' established base acres for these crops ineligible for payments.

8. The role of such people in practical policy-making is well described in Conrad (1965).

9. The Post estimated the percentage of the cuts borne by the upper 22% and lower 40% of U.S. families, respectively, as follows: food stamps, 1%, 89%; job training, 1%, 85%; welfare (AFDC), 5%, 80%; child nutrition, 5%, 82%; medicaid 37%, 34%; student loans, 13%, 50%; mass transit, 18%, 39%; farm subsidies, 54%, 14%. "Farm subsidies" is the only enumerated item which is progressive in the sense that the high-income group loses more per family than the low-income group. (Washington Post, Monday, May 29, 1995, p. A12.)

Figure 1. Real CCC Budget Outlays

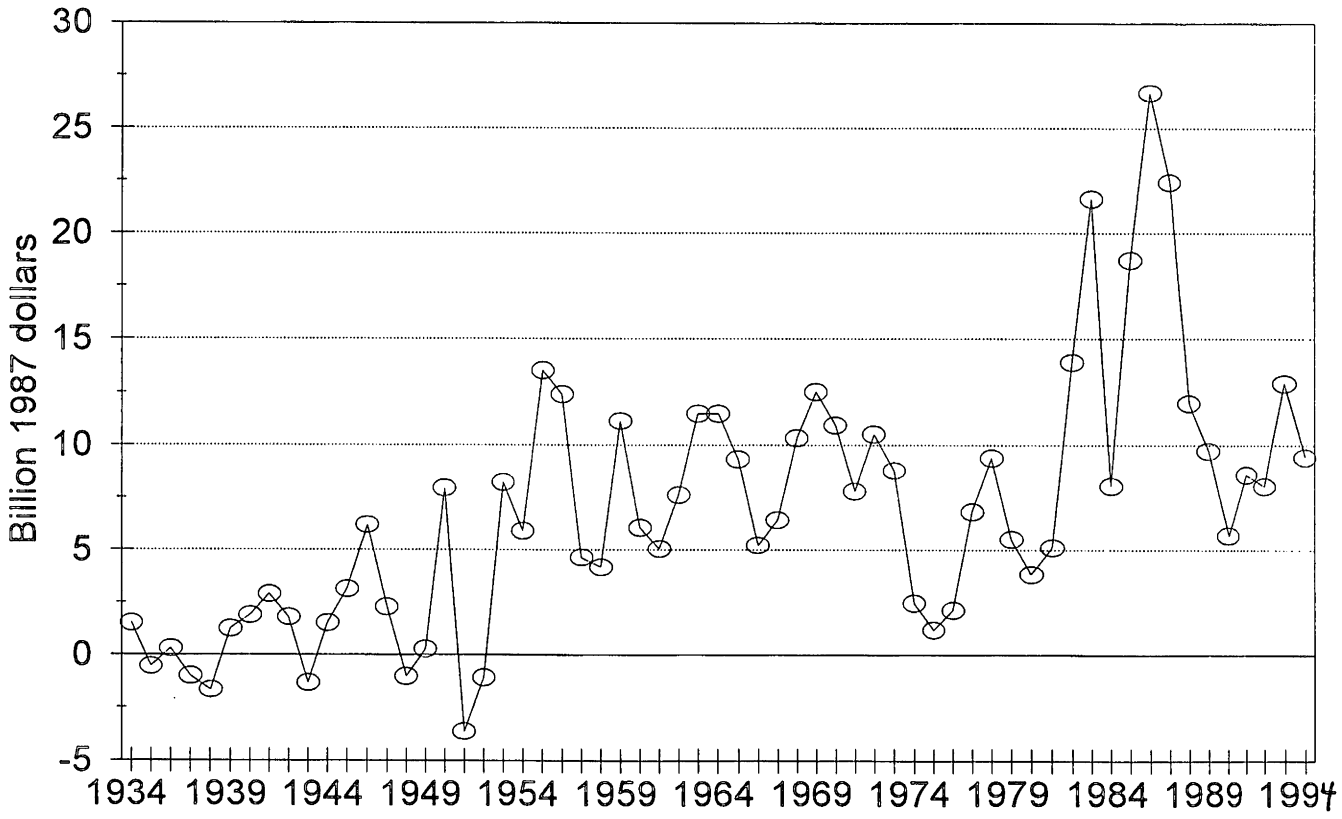

Figure 2. Real CCC Outlays per Farm

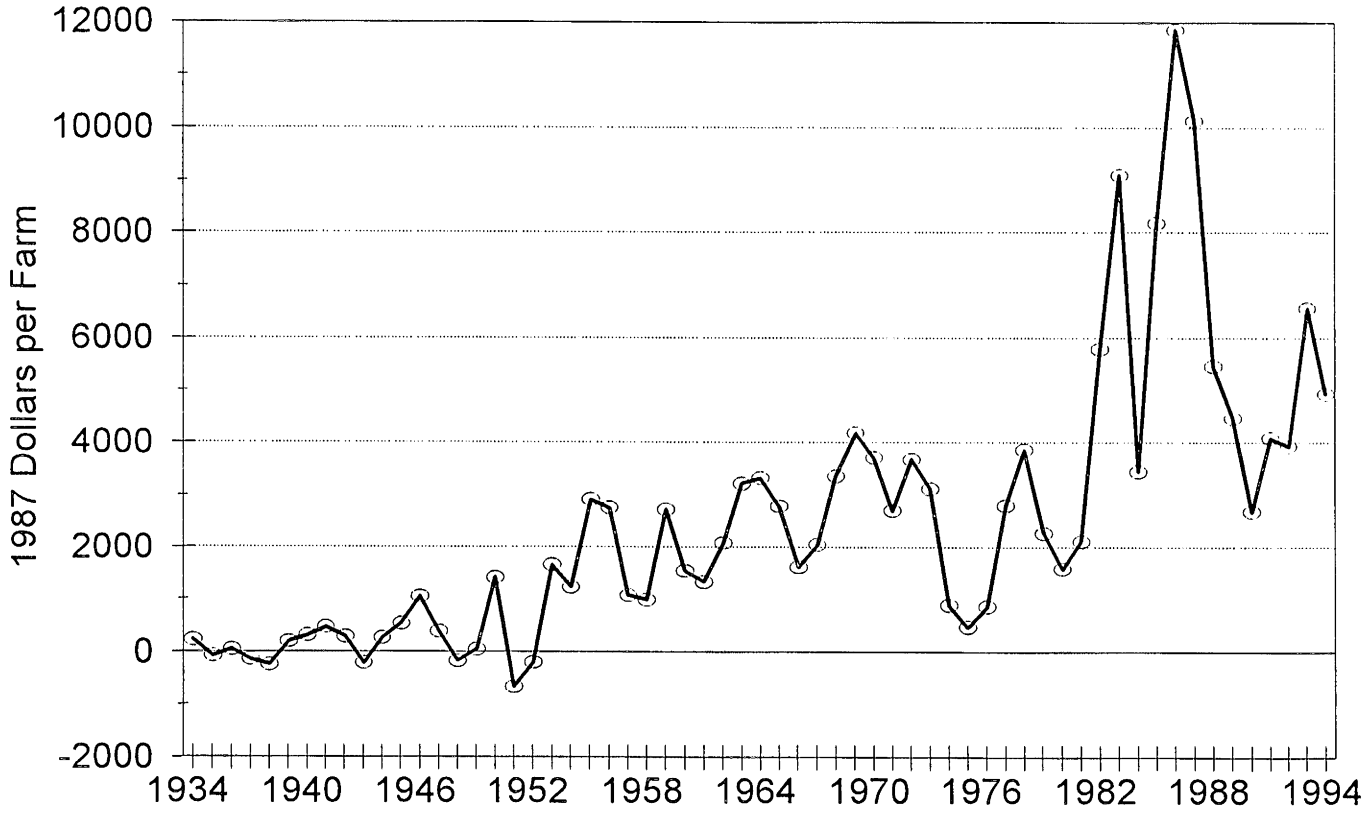

Figure 3. Farm/Nonfarm Income Ratio