AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

34033

THE NEED TO RETHINK AGRICULTURAL POLICY IN GENERAL
AND TO PERFORM SOME RADICAL SURGERY
ON COMMODITY PROGRAMS IN PARTICULAR

By

Willard W. Cochrane

Invited Paper Presented at the AAEA Meetings, Ames, Iowa, August 1985.

1985

Policies and programs

THE NEED TO RETHINK AGRICULTURAL POLICY IN GENERAL
AND TO PERFORM SOME RADICAL SURGERY
ON COMMODITY PROGRAMS IN PARTICULAR*

By

Willard W. Cochrane**

I

There were some 6.8 million farmers in the United States in 1935^{1/}; this was the highwater mark for the number of farms in the United States. Of this total there were a good number of small low-production farms in the South -- one-mule share-cropper farms -- and a good number of small subsistence farms in Appalachia and the cut-over regions of the Lake States. At the other end of the size scale there were some very large farms -- often of the corporate type -- in California, south Texas and along the Mississippi Delta. But the overwhelming number of farms in the United States in the mid-1930's were moderate sized family farms. In the Midwest these farms tended to run between 100 and 200 acres in size. In the typical case the family provided the labor and the management of the farming operation, and had some equity in it.

This was a period of deep, dark depression. The price of wheat to farmers averaged 37 cents per bushel in 1932, and the price of corn averaged 29 cents per bushel in that same year. Although in the decade of the 1930's a good number of farmers lost their farms to their creditors -- to the local bank or to the insurance company, the physical farms involved were quickly taken over by the same families or other families as renters. Thus, the total number of farms in operation in the 1930's held reasonably constant over the decade, rising modestly

in number in the first half of the decade and falling modestly in the second half.

The decade of the 1940's was a period of great prosperity for American farmers. The surplus labor on farms poured out of rural areas to find more productive, higher paying jobs in the nonfarm sector. Farmers paid off their debts and some of them began to adopt the new and improved technologies in spite of wartime shortages. As a result farm output increased, resource productivity increased and the number of farms declined by some 600,000 over the decade.

As farmers viewed the future in 1950, that future looked bright. Farm prices were good, farmers were prosperous and the post war technological revolution was in full swing. But the situation had turned sour for many farmers by 1953. Farm prices began to sag in 1952, had fallen by over 20 percent by 1955 and rode on the level of price support for the remainder of the decade. And, as might be expected, the total input of conventional resources declined modestly over the decade. In spite of the general farm price decline and no increase in conventional inputs, farm output increased approximately 20 percent and resource productivity increased almost 23 percent over the decade. In this economic context the total number of farms in the United States declined by over 1.5 million.

The great restructuring of American farming was well underway. The number of farms in the United States had declined by over 25 percent in one decade. And the concentration of the productive resources of farming into a relatively few very large farms was taking place. In 1960 there were only 23,000 farms grossing over \$100,000 per year, but those

23,000 farms produced and sold 17 percent of the total farm product of the nation.

Development of the farm sector slowed down in the 1960's but the pattern of development remained unchanged. Farm product prices rode, for the most part, on the level of price supports. The employment of conventional resources did not increase in the farm sector, but farmers continued to adopt new and improved technologies. The result was the farm output increased 12 percent and resource productivity increased 14 percent over the decade.

The restructuring process did not, however, slow down. Another million farmers and their farms fell by the wayside in the 1960's, or 24 percent of the total. By 1970, with little or no price inflation over the previous decade, there were 53,000 farms grossing over \$100,000 per year. These 53,000 farms produced and sold almost 34 percent of the national farm product. The resource concentration process was gathering steam.

The development picture changes in the 1970's. The process of adopting new practices by farmers widened to include new and improved managerial and commercial practices as well as new technologies. Prices received by crop farmers more than doubled between 1970 and 1974, and prices received by all farmers increased by more than 70 percent over the same period. Farm prices leveled off during the period 1974-77 and then shot up again in 1978-79. Conventional resources employed in farming increased by over 8 percent. And the value of farm land which had been rising by 3 to 7 percent per year from 1950 to 1970, rose by some 211 percent between 1970 and 1979.

In this favorable economic climate farm output increased by 32 percent in the 1970's and resource productivity increased by 22 percent. The restructuring of farming, it might be guessed, would have been halted by this burst of farm prosperity. But it was not. The total number of farms declined by 519,000 during the decade of the 1970's, or by another 18 percent. Aided by considerable price inflation the number of farms grossing over \$200,000 per year had increased to 98,000 by 1979 and the number of farms grossing between \$100,000 and \$199,999 had increased to 165,000. These very large farms and moderately large farms comprised just about 11 percent of all farms. But they produced and sold some 66 percent of total farm output.

Farmers have fallen on hard times once again in the 1980's. But this last farm depression is a strange one. Farm product prices have leveled off but not fallen; nominal interest charges to farmers are high -- ranging from 12 to 15 percent -- and the price of farm land has fallen importantly. In this economic context it is estimated that between 10 to 15 percent of American farmers will fail in 1985 and 1986. These farmers -- many large ones and many more middle sized ones -- made the wrong investment decisions in the late 1970's and early 1980's. They bet that farm prices would continue to soar and that real interest rates would continue near a zero rate; based on that expectation, they mortgaged their existing assets to purchase high priced land, expensive machinery and costly facilities. Now they are in danger of losing their entire operations because product prices did not continue to rise, but real interest rates rose dramatically.

At the other end of the financial scale, some 40 percent of all farmers have low debt to asset ratios and are in a safe financial condition. The aggressive farmers in a strong financial position will certainly expand the size of their operations whenever they are able to get their costs down through innovative acts, and land rental rates and land prices fall to levels consistent with present product price levels and interest rates.

We thus have a farming structure in 1985 as different from that in 1935 as day is from night. We have in 1985 nearly 110,000 farmers grossing over \$200,000 per year, or some 4.5 percent of all farmers, who produce and sell 47.5 percent of the total farm product. Many of these are wealthy landowners; some portion are aggressive, innovative operators still seeking to expand the size of their operations; and a few are going under from over-leveraging themselves in the late 1970's and early 1980's. We have about 180,000 farmers grossing between \$100,000 and \$199,999 who constitute 7.5 percent of all farmers and produce and sell some 19 percent of the total farm product. Many in this group are also aggressive, innovative farmers seeking to expand, and some are in danger of losing their entire operations as the result of bad investment decisions in the late 1970's and early 1980's.

Next we have a middle grouping of farm operators grossing between \$40,000 and \$99,999. There are close to 400,000 farmers in this middle grouping in 1985 or about 16 percent of the total number. These farmers produce and sell about 20 percent of the total national farm product. A few of these farmers are making it financially and expanding the size of their operations; a good number will be failing and going out-of-

business in 1985-86; and most are struggling to survive economically with the husband often working part-time in some local off-farm job and the wife often working full-time in a local processing or manufacturing plant. In fact, the off-farm income of the average family in this economic grouping exceeds their net farm income.

Lastly, we have a small farm grouping grossing between \$1,000 and \$39,999. Well over one and a half million families are to be found in this grouping, or over 70 percent of all farmers. But these one and a half million small farmers produce and sell only 13 percent of the total national farm product. The families in this grouping live on the land, are defined as 'farmers' but, in fact, do little farming. The husband or wife or both regularly commute to a nearby town or city and work in a blue-collar job or in the service trades or as a professional. Hence, the farm provides only a minor fraction of the income of these families.

Two points become clear from the above description of the changing structure of farming as of 1985. First there is no longer any such thing as a typical family farm. Second, the restructuring of the farm sector continues at a rapid pace in the direction of fewer and fewer and larger and larger farms.

II

The developments described above did not take place in a policy or political vacuum. They were directed and misdirected by political actions and policy decisions over the entire period.

Franklin D. Roosevelt became President of the United States on March 4, 1933. Under the leadership of his newly appointed Secretary of Agriculture, Henry A. Wallace, and with the help of such economists as

John D. Black, M.L. Wilson, Howard Tolley and Rex Tugell along with many less well-known bureaucrats in the U.S.D.A., the Agricultural Act of 1933 was concocted, rushed through a willing Congress and enacted into law on May 12, 1933. Title II of that Act, known as the Emergency Farm Mortgage Act, provided for refinancing farm mortgages held by private banks and other mortgagees, the reduction of the rate of interest on all Land Bank Loans, the extension of time on obligations, the creation of a fund to be used by the Land Bank Commissioner to make rescue loans and numerous other credit provisions. The credit provisions of this Act saved thousands of farmers from losing their farms in 1933 and 1934 through foreclosure proceedings.

Title I of the Agricultural Act of 1933 created the Agricultural Adjustment Administration (the AAA), and authorized a wide range of activities designed to raise the level of farm prices. It also authorized the levying of processing taxes to pay for these price enhancing activities. The central thrust of the AAA programs was, however, the reduction of production in the basic crops through the control of crop acreages on individual farms. Such reductions in production, it was hoped, would push up prices in the market place. For complying with the approved reduction in crop acreages farmers received benefit payments.

Appraisals of the operation of the AAA in the period 1933-36 reached two general conclusions. First, the production control features of the AAA were unsuccessful for the most part. Farmers in the 1930's found ways to circumvent the acreage control programs by contracting their poorest acres to the government and by raising non-controlled crops on the controlled acres so that the total production of each

participating farm was reduced little if at all. Second, the benefit payments to farmers were of incalculable help to participating farmers to purchase food, feed and supplies and to pay their taxes when they had no other money income at all. Thus, farmers and their organizations were highly supportive of the AAA program in the 1933-35 period.

Following the passage of the Agricultural Act of 1933 the operational features of the price and income support programs of this nation have undergone revision and modification at least once a year and sometimes several times a year through administrative rulings, scheduled changes in the legislation and new legislation in each year from 1933 to 1985. The interested reader can become familiar with the salient features of these programs from several published sources that are cited in the note section.^{2/} In this paper we can take note of only the mountain peaks of farm policies and programs.

In 1936 in the *Hoosac Mills* case the Supreme Court found that the use of processing taxes on the commodities involved to finance the control of their production was unconstitutional. In response to that decision the Congress hurriedly passed emergency legislation in 1936 -- the Soil Conservation and Domestic Allotment Act, which dropped the processing tax feature and shifted the emphasis of the overall program from price enhancement to income protection and resource conservation. Under the 1936 legislation the government paid farmers to take acres out of the production of "soil depleting" crops (e.g. cotton, corn and wheat) and to plant those acres to "soil conserving" legumes and grasses.

New permanent farm legislation was enacted in 1938. The Agricultural Adjustment Act of 1938 reaffirmed the soil conserving emphasis of

the 1936 Act and provided for the first time a comprehensive program of price and income support based on the constitutional authority given to Congress to regulate interstate and foreign commerce. This Act institutionalized the procedures for supporting commodity prices. It redefined the concept of parity prices which had been defined for the first time in the Marketing Agreement Act of 1937. It established new and more flexible procedures for establishing acreage allotments on individual farms for corn, cotton, rice, tobacco and wheat. It provided for the use of marketing quotas for producers of corn, wheat and cotton, and it set forth the rules under which market quotas could be imposed by the Secretary of Agriculture. It specified the conditions under which non-recourse loans should be used in supporting commodity prices. All of these features were to be orchestrated into an operational concept of an Ever-Normal Granary Plan as espoused by Secretary Wallace with the purpose of protecting the needs and interests of both producers and consumers.

World War II turned the farm policy issues upside down. Strong wartime demands, first from abroad and then at home, pushed farm product prices upward in 1941 and kept them on the rise through 1948. To ensure that our allies would get the food supplies that they desperately needed, that our armed forces could satisfy their food requirements without difficulty and that each American citizen would receive his or her fair share of the domestic food supply at a reasonable price, all manner of wartime agencies and programs were brought into being to allocate scarce food supplies and control food prices. Despite the usual cheating by some unscrupulous individuals and the usual bureaucratic

bungling, it was perceived at the time, and by pundits that came later, that these wartime agencies and programs did a reasonably effective job. Certainly no one was suggesting in 1943 that the food allocation job be turned over to the free market.

But two policy issues relating directly to the agricultural sector need to be noted. Farmers, their leaders and agricultural economists were unanimous in their fear, and one might say obsessed by the fear, that farm prices would fall dramatically following the end of World War II as they had following the end of World War I. The first policy consequence of this fear was that administrators of war food programs were determined to come out of the war with little or no reserve food stocks; they pursued a "bare shelf" food stocking policy. This put the United States in a weak position to feed the hungry and destitute of Europe and Asia at the end of the war. But it did contribute to the maintaining of high farm prices in the years immediately following the war. As a second consequence Congress passed legislation in 1942 which guaranteed that the six basic commodities and 14 other commodities, the so-called Steagall commodities, would be supported at 90 percent of parity for at least two years following the end of hostilities. Since farm and food prices continued to soar after the war, this program provision never became operational.

Wartime price support legislation expired December 31, 1948. Thus, the farm policy debate began in 1947 preparatory to the passage of new farm legislation in 1948.^{3/} This debate had many sides and nuances, but in a broad way the participants may be grouped into two camps. The

principal policy goal of the first camp was to lower the level of price supports on farm commodities and thereby reduce the extent of government intervention in the farm economy. The overriding policy goal of the second camp was to maintain a high level of farm price support as a means of protecting and supporting farm incomes, and this camp would accept whatever programs of government intervention were required to implement the price support objective.

The struggle which ensued in the Congress produced a curious compromise. It was an agricultural act with two distinct parts. Title I of the Agricultural Act of 1948 continued price supports for the 1949 marketing year at 90 percent of parity. Title II instituted a concept of flexible price supports in which the level of price support for the basic commodities in 1950 and thereafter would be set at 75 percent of parity for a normal supply, with price support adjustment downward as the supply exceeded the defined normal and upward as the supply fell below normal. Most agricultural economists were ecstatic with Title II of the compromise. But their high hopes for the future were dashed in late 1949 when the Congress extended the level of price support for the basic commodities at 90 percent of parity through 1950. In the Defense Production Acts of 1950, 1951 and 1952 the Congress extended the level of price support for the basics at 90 percent of parity for each year up through 1953. Clearly the high-price-support camp won the policy battles in the post-World-War II years.

President Eisenhower appointed Ezra Taft Benson to be Secretary of Agriculture in 1953. Secretary Benson believed that government intervention in the economy was wrong on both moral and economic grounds and

he was determined to move to a system of flexible price supports as soon as possible. Secretary Benson won a limited victory in August 1954, with the passage of the Agricultural Act of 1954. That Act authorized the use of flexible price supports for the basic commodities ranging from 82.5 percent of parity to 90 percent in 1955, and from 75 percent of parity to 90 percent in 1956 and thereafter.

The Benson strategy of lowering loan levels could not succeed, because Congress would not give him the authority to lower price supports to the very low levels that were required to turn off the increased flow of farm output. And farmers, of course, did not want the Secretary to reduce the levels of price support to such a degree, because, in their view, the cure would be far worse than the disease. So farm output increased, farm prices rode on the price support programs and stocks accumulated in government hands. By the end of 1960, stocks amounting to more than eight billion dollars were stored in government bins.

One more policy idea that was developed in this period needs to be noted. It was the idea of disposing of surplus agricultural products abroad, primarily in the less developed world, through sales for nonconvertible foreign currency and other concessional means. This idea was enacted into law in the Agricultural Trade Development and Assistance Act of 1954; this act became better known as P.L. 480. Following the passage of P.L. 480, exports under various governmental programs rose to a value of 1.9 billion dollars in 1957 and they averaged well over a billion dollars per year from 1955 to 1973. In sum, P.L. 480 became a powerful mechanism for expanding the total demand for American farm

products and may well have saved American farmers and their programs from complete disaster in the late 1950's.

Orville L. Freeman became Secretary of Agriculture in the Kennedy-Johnson Administrations. Secretary Freeman and his lieutenants believed that farm output could be reduced and farm prices could be pushed up in the market place through the use of mandatory production controls. But they soon discovered that farmers and their Congressional representatives were as strongly opposed to mandatory production control, with only modest price goals, as they were opposed to lowering the level of price support. Perhaps they were more strongly opposed. Further, the White House was adamantly opposed to any production control program that might raise food prices significantly. So the Freeman team, just as the Wallace team 30 years earlier, turned to a system of voluntary production controls to deal with the surplus problem. Each farmer was offered a payment to participate in the program and to hold some percentage of his crop acres idle.

By 1964 the Freeman team had observed that commercial exports of all grains were expanding and that the high domestic price of cotton was dampening exports and encouraging the use of synthetics. Thus, the administration turned away from production control as the modus operandi for dealing with the joint problems of farm surplus and low farm incomes and thereafter would focus on expanding exports as a solution to those problems. Working from this changed policy position, the Administration with support from a somewhat reluctant Congress effected a basic compromise in the Food and Agricultural Act of 1965. The basic elements of this 1965 compromise were the following:

1. Levels of farm price support, commodity by commodity, were lowered to world market levels. Thus, the price support mechanism was transformed into a price-stabilization mechanism rather than an income-enhancing mechanism.
2. Farm incomes would be supported, when they were to be supported, through the use of income deficiency and/or land retirement payments. But payments would be made to farmers only if they participated in the authorized production control program for that crop year.
3. Storage and surplus disposal programs would be continued (a) to deal with surplus situations not dealt with under Point 2 above, and (b) to deal with future food shortages at home and abroad.

This compromise did not make any of the contending interests happy, but it was accepted and it held without any change for five years. And with only modest changes, it held throughout the 1970's.

It is also important to note that Secretary Freeman initiated the Food Stamp Plan and pushed all kinds of domestic food programs, supported and expanded the coverage of P.L. 480 programs initiated in the Eisenhower Administration, and sought to expand commercial trade through the Kennedy round of trade negotiations.

The Agricultural Acts of 1970, 1973 and 1977 held to the basic strategy of the Act of 1965. But each added a new wrinkle or two. The Act of 1970 authorized the set-aside provision which gave individual farmers greater flexibility in their farming operations, but further weakened an already weak control mechanism. The Act of 1973 developed

the concept of target prices for computing deficiency payments to farmers; this Act really institutionalized the deficiency payment system. The Act of 1977 authorized the creation of the farmer owned grain reserve program, and directed the Secretary to use cost of production data in setting target prices.

The most important action having implications for farm policy in the 1970's was not taken by the federal government; it was the greatly increased foreign demand for American farm products. Agricultural commodity exports increased in value from 7.7 billion dollars in 1971 to 17.7 billion dollars in 1973 and on to 41 billion dollars by 1980. As a result, farm prices soared in 1973; American farmers were the beneficiaries of the greatest peacetime increase in farm prices in history. In this context the crop commodity programs became almost nonoperational in 1974-76, as world market forces drove domestic crop prices far above the support and target price for those commodities. One important policy problem in the late 1970's was to establish new higher loan rates and target prices in relation to a turbulent world market that would give domestic producers reasonable price security but not deplete the U.S. Treasury. Secretary Bergland was reasonably successful in this endeavor but he did not get much help from Congress which was intent on pushing loan rates and target prices to high levels in the late 1970's.

The Agriculture and Food Act of 1981 was passed by the Congress and signed by President Reagan in December 1981. It contained all the major elements of the farm programs of the 1970's: target prices and deficiency payments, nonrecourse loans to support prices, the set-aside provision and direct acreage reduction programs for controlling

production, the continuance of the farmer owned grain reserve, an extension of the P.L. 480 program and an extension of the Food Stamp Plan. It also called for an annual increase in target prices. In the face of stiff opposition from the Reagan Administration, the Congress saved the entire price and support mechanism for farmers and even provided a modest increase in income support.

A combination of good weather and weak controls in 1982, a repeat of the 1950's, produced record breaking crops. Also, thanks to Congress, loan rates and target prices increased in 1982. These developments caused Commodity Credit Corporation (CCC) inventories and loans outstanding to soar in 1982-83 to heights never before experienced. Confronted with these developments the Administration embarked upon a very large and very costly production control program in 1983, in which it was hoped that PIK payments would help hold down the money costs of the program. Perhaps they did, but not counting those PIK payments, the net money costs of price support and related activities in fiscal 1983 amounted to nearly 19 billion dollars. And the net money costs of price support and related activities for fiscal 1985 is estimated to approximate 15 billion dollars.

It is important to note that prior to the Reagan Administration going back to 1961, the net money costs of price and income support, never exceeded 5.6 billion dollars in one year. And in 18 of those 20 years net costs never exceeded 4 billion dollars. Clearly under the Reagan Administration the cost of price and income support for farmers is out of control.

Looking back over 50 years of farm price and income policies and programs, it would seem that the more things changed the more they stayed the same. The design and operation of the programs by individual commodities has never changed. Price support and deficiency payments have always been and continue to be effectuated on a per unit basis of the commodity; thus the more units of a commodity that a farmer produces, the more he benefits from the programs. The nonrecourse loan concept was forged in the 1930's and remains in 1985 the principal mechanism for supporting the price of storable commodities. Production control from 1933 to the present day has been effectuated through voluntary acreage restrictions -- a weak form of production control that renders the control features of the commodity programs ineffective and inefficient. Finally, the commodity programs over the past 50 years have worked well in periods of strong export demand and worked poorly in periods of weak export demand when programs became dependent on slippery acreage controls to limited supplies. Secretaries Wallace, Benson and Freeman were confronted with the same problems in managing the commodity programs that now confront Secretary Block. But some Secretaries coped with these problems more effectively than others.

III

From the historical perspective of the previous sections, let me now address directly the declarative points in the title of this paper. In the pure theory of the Treadmill the early-bird adopter of an important, new and improved technology reaps a profit for his innovative act since this cost structure falls as the result of that act but the price of the commodity does not. As more and more farmers adopt that technology the supplies of that commodity begin to increase and the price

begins to decline. After a widespread adoption of that new technology a new equilibrium solution is reached with adopters back in a no profit situation and the price of the commodity is at a new, lower level.

But both the process and the results change in the theory of the Treadmill when government supports the returns to the commodity either through a price supporting action or the use of deficiency payments.^{4/} Following the adoption of an important, new and improved technology in the government price support situation, as more and more producers adopt that technology, the supply of the commodity increases but its price does not fall. Price does not fall because the support program keeps it from falling. In this situation the unit profits of the early adopters are maintained. The early and aggressive adopters find this most satisfying, so they seek to expand their operations in order to increase their total profits. This they can do if their unit costs do not rise and their unit costs will not rise, at least for a while, if their long run planning curve is flat, as all evidence suggests in the case.^{5/} So the aggressive early adopters now take those actions necessary to expand their operations, namely, acquire more land.

But where are these aggressive early adopters to find the land to pursue this course of action? There is no free, unused land lying around in settled farming communities to be picked up. They must purchase, or lease, that land from their neighbors. And what neighbors are likely candidates for disposing of their land? Most likely our aggressive operator will purchase it or lease it from some farmer in financial difficulty -- some farmer going out-of-business or a farmer about to go

out-of-business -- or from a credit agency that has foreclosed on some land.

Continuing our analysis of the Treadmill with government and income support, as more and more farmers adopt the new technology, supplies of the commodity increase but its price does not fall. In this happy situation it follows that more and more farmers will attempt to expand their operations. Thus, a point is reached when the competition for the scarce input, land, forces the price of land to rise. So finally we get another equilibrium, no-profit solution for the producers of the commodity. But this time we get it with rising land prices.

In this new solution we have fewer farmers, some farmers who have become larger operators than before the adoption process began, no decline in the product price level and higher land prices. It is also the case that, although those farmers with the expanded operations are back in a no-profit situation, they are richer than when the process began for the reason that all of their land holdings have increased in value.

I submit that the results of this analysis are in accord with the historical record. And most importantly we gain an understanding of how the price and income support programs in the context of rapid and widespread technological advance have been used by the aggressive early adopters to do in the laggard farmers of the community. The very programs that were supposed to save the moderate sized family farmer have contributed to his demise.

The analysis is not, however, complete. The cost structures of the early adopter as well as all other farmers have been raised as the result of rising land values. Thus it can be argued, and often is, that

to help farmers whose costs structures have risen to a level that makes their operation unprofitable, the level of price and income support must be raised. And if the argument is accepted, as it has been many times over the past 50 years, the stage is set for the treadmill to start turning again as new and improved technologies come onto the scene.

So it turns out that the level of price and income support in a situation of rapid and widespread technological advance has an internal dynamic of its own. Rising land values which result in rising cost structures make it necessary to increase the levels of benefits in the support programs; but via the Treadmill such an increase in benefits leads to, or results in, another upward movement in land values. Thus, we have an explanation for the never ending pressure to raise the level of price and income support in the commodity programs.

This Treadmill process, with price and income supports, which has resulted in farm business cannibalism, resource concentration and rising land values, has been aided and abetted by a set of federal tax policies that have created incentives for certain farmers to expand the size of their operations and to bring tax shelter-seeking-investors into farming. These tax features range from allowing large deductions for land-clearing and soil and water conservation costs, including drainage, to the shortening of the depreciation period for animal facilities, to fast write-offs for expensive machinery, to lucrative tax deferral shelters. Farmers with little or no income get little or no benefits from such tax features. But large farmers in the high income brackets gain a competitive edge from tax shelters and tax breaks which they then use to bid productive resources away from their less successful brethren. Tax

policies in farming compliment the Treadmill process to produce fewer farmers, larger farms and rising asset values.^{6/}

IV

It is time to draw some policy conclusions. The price and income support programs probably held farm product prices above their equilibrium levels by 15 to 20 percent between 1953 and 1965. Following the Act of 1965 it is difficult to make any generalizations about the effect of the commodity programs on farm product prices; in the period of very strong export demand during the early 1970's they probably had no effect; during the late 1970's they probably exerted a modest upward pressure; and during the 1980's the programs have held prices of the grains and cotton well above their equilibrium levels. Thus, the commodity programs have, over extended periods, forced consumers to pay somewhat higher prices for food than would have been the case without the programs.

Since 1953, producers of the basic commodities have received land retirement payments in most years and, since 1961, producers of certain basic commodities have received income support payments in most years. Government costs of supporting commodity prices and making payments of one kind or another to producers ranged between 2 and 4 billion dollars in most years between 1961 and 1980, and as noted in Section II have soared to between 10 and 20 billion dollars in the 1980's.

So the programs have cost the American taxpayers and consumers a sizeable amount. How much has been hotly debated since 1953. It has been argued many times by many people that this is the price we had to pay to protect farmers in general from going through the economic wringer. I made such arguments in the 1950's and 1960's. But the

programs have not kept millions of farmers from failing and going out-of-business. This is clear from Section I of this paper. And the programs have not kept most of the productive resources from being concentrated in the hands of a relatively few very large farmers. This, too, is clear from Section I.

The analysis in Section III further makes clear that the commodity programs, supposedly designed to help all farmers, have in fact, contributed to the demise of the laggard farmers and to the farm expansion of the aggressive early adopters of new and improved technologies. This is not to say that rapid and widespread farm technological advance, without the commodity programs, would not have led to some resource concentration. The early adopter always has an advantage over the laggard farmer. But it is to argue that the programs provided the early adopters the perfect price or income shelter, or cover, under which to expand their operations. And they did expand. With a fixed land base that expansion could only take place at the expense of some other group of farmers in the community. It typically took place at the expense of moderate sized, laggard farm operators. We have experienced farm business cannibalism in the United States since the end of World War II.

Finally, the price and income support programs in combination with rapid and widespread technological advance in farming via the Treadmill argument operates to create a continuing pressure to raise the level of benefits in the programs. The competitive dynamic of the Treadmill means that increased program benefits get bid into higher land values, hence into higher cost structures, with the need to once again increase the level of benefits.

For all of these reasons I conclude that we should eliminate the price and income support features of the commodity programs as quickly as possible.

In a rational world we should perhaps phase out these price and income benefits over a five or six year period. This would give producers the opportunity to adjust to the lower product prices and reduced income payments. But we don't live in a rational world. The commodity pressure groups in Washington, dominated by the large commercial farmers, are going to fight any reduction in the level of benefits, gradual or otherwise. Buttressing such pressure group political action are at least two firmly held beliefs by the body politic regarding farming and farmers. They are: (1) A reduction in the level of benefits will destroy the moderate sized farmer and (2) his destruction will imperil the nation's food supply. The fact that the moderate sized family farmer has almost ceased to exist and the reality that our nation has the greatest surplus of food of any nation in the world and must export about one third of its total production to avoid economic disaster seems to have little effect on the national mythology regarding American agriculture.

I for one will take the elimination of the commodity programs whenever we can get it -- either all at once or gradually. But I am inclined to guess that the termination of the commodity programs will come in some sort of an urban revolt against the programs -- perhaps this year, perhaps 10 or 20 years down the road. And this revolt will come when the excesses of the commodity pressure groups cause urban legislators to forget or reject their erroneous beliefs about the structure and behavior of the farm sector.

V

Because arguments have been presented in these pages that the federally sponsored commodity programs should be discontinued, it does not follow that all government programs in agriculture should be discontinued or that government action to deal with some of the difficult problems in food and agriculture should not be undertaken. There are difficult problems in the farm sector, some that have been around a long time, some that are new, that are beyond the capacity of a single farmer or a group of farmers to cope with successfully. If government at the relevant level does not intervene in an effective manner with respect to these problems, whole communities, regional areas and even the nation may be hurt needlessly in the future.

Thus, I am not arguing for a laissez-faire farm policy. I am trying to challenge political decision makers, farm leaders and policy oriented economists to focus on the critical problems of the food and agricultural sector rather than on commodities. More specifically I am suggesting that policy oriented agricultural economists should get off the commodity analysis kick and spend more time defining, describing and analyzing those problems, as well as suggesting alternative policy approaches to them.

Now, what are these difficult problems that I have been referring to? I will list ten problems relating to the food and agricultural sector. This is not necessarily an all inclusive list and the problems are not listed in any particular priority. The list is as follows:

1. The current farm credit crisis
2. The economic survival of some 400,000 moderate sized family farms
3. The impact of the over-valued dollar on farm exports
4. Barriers to trade ranging from the restrictive policies of most state trading nations to quantitative controls to old-fashioned tariffs
5. The price and income instability problem -- the propensity for farm prices and incomes to swing up and down, widely and sharply, in an unpredictable fashion
6. Widespread soil erosion
7. The depletion of underground water sources and the pollution of those sources with toxic wastes
8. The importation and management of foreign workers to undertake stoop labor
9. Federal taxing policies that contribute to unneeded output expansion and resource concentration in farming
10. Hunger and malnutrition both at home and abroad

Even an exploratory discussion of these ten problems would require another paper or perhaps a set of papers. But I will make a few general comments regarding these problems and solutions to them, as they relate to the principal, but negative, policy recommendation of this paper. Then I will discuss briefly the first two problem areas listed, because some people will argue that the elimination of the price and income support programs will exacerbate those problems.

Any reasonable solutions to problems 3, 4 and 10 should expand the demand for American farm products and ease the process of adjusting to a

situation with no price and income support for the commodities. Solutions to problems 6 and 7 that might involve the retirement of 20 to 30 million acres of land that should not be cultivated, and the pursuit of more conservative, sane irrigation policies and practices, should slow the rate of aggregate output expansion modestly and ease the transition to the absence of commodity programs. A reasonable solution to problem 9 should also dampen the rate of aggregate output expansion and ease the transition to an agriculture without commodity programs. Further, the above points illustrate the inter-relations of most of the above problems and their solutions -- inter-relations that must be taken into account in dealing with those problems. Finally, a word of caution with respect to these inter-relations: each problem area should be dealt with primarily in terms of its own impacts and consequences, not as a backdoor approach to raising farm income.

Turning now specifically to problem area number one, the farm credit crisis. Those farmers destined to fail in 1985 and 1986 or that are, on the brink of failure, made the wrong investment decisions in the late 1970's and early 1980's. They purchased high priced land and expensive machinery with borrowed funds at low real rates of interest betting that farm product prices would soar in the 1980's as the result of expanding exports and worldwide price inflation and that real rates of interest would remain low. Their expectations were not realized. Farm prices leveled off as inflation in the United States was tamed, farm exports declined modestly, and real rates of interest soared.

Maintaining the present level of farm prices by means of the commodity programs will not save these farmers. They require either much higher product prices or a restructuring of their debts on much easier

terms. The first approach through increased benefits in the commodity programs is out of the question in 1985. The Reagan Administration is giving them a small piece of what they need in the way of debt restructuring. What they want and what they need is a full scale restructuring of their debts with easier terms along the lines the New Deal provided farmers in 1933. But does society through the federal government owe these farmers such a full scale debt restructuring? Mr. Stockman says 'No'. In the sense of personal responsibility he is correct. They speculated and guessed wrong. But in a social sense, unless these speculators are rescued, the current crisis could turn into a credit panic with disastrous consequences for the entire farm credit system and important farming regions.

The 400,000 moderate sized family farmers struggling to survive represent a different kind of problem. These farmers have been slow to adopt new managerial, commercial and technological practices. Hence, they have been slow to get their cost structures down. As a result, they are continually in financial difficulty, except in periods of rapidly rising farm prices. Maintaining the present level of price and income support helps them some, but it helps their large, aggressive neighbors a lot more. And raising the level of price and income support to assist these struggling farmers would create a profit bonanza for the large, aggressive farmers. Either way the support programs provide a price and income shelter under which the large, aggressive farmers can expand the size of their operations by gobbling up their struggling moderate sized neighbors. And either way a few more of our 400,000 fall by the wayside.

The moderate sized family farmer struggling to survive needs two things: (1) long-run managerial guidance and (2) subsidized credit. These farm families need guidance in adopting the right practices at the right time and in using them effectively once they are adopted. Such families need subsidized credit to compete with their aggressive neighbors, who know how to obtain favorable financial deals, in acquiring and operating modern, productive, but often expensive, physical inputs. Some might argue that government should not be doing these kinds of things. But I do not agree. Providing guidance and special credit to the weak and struggling is one way of making the competitive game tolerable. It is comparable to letting the team with the worst win record in the National Football League draft first in the search for player talent. It is a way of saving a high proportion of the 400,000 and maintaining a high degree of competition in the production of the nation's food supply.

In sum, I am not arguing to get government out of agriculture as a general ideological proposition. I am arguing to get government out of agriculture where it is helping one group of farmers do in another group. I am arguing to keep government in agriculture where it operates to make the competitive game of farming more fair to all concerned, hence, a more acceptable game for all concerned.

FOOTNOTES

*Professor William Meyers of Iowa State University and Professor Abner Womack of the University of Missouri assisted me in the preparation of this paper by providing information and data, by reading the paper and making specific suggestions for improving it and by brainstorming the arguments with me. But responsibility for the arguments presented and any errors of fact or logic rests with the author alone.

**Professor Emeritus, University of Minnesota.

- 1/ All the numbers and estimates presented in this section are taken from regularly published USDA materials.
- 2/ Benedict, Murray R., Farm Policies of the United States, 1970-1950, The Twentieth Century Fund, New York, 1953, Chapter 11-19; Willard W. Cochrane and Mary E. Ryan, American Farm Policy, 1948-1973, University of Minnesota Press, Minneapolis, 1976; Wayne D. Rasmussen and Gladys L. Baker, History of Price-Support and Adjustment Programs, 1933 through 1984, Agriculture Information Bulletin No. 485, USDA, Washington, D.C., Dec. 1984; James Johnson, et al, Provisions of the Agricultural and Food Act of 1981, Staff Report No. AGES811228, ERS, USDA, Washington, D.C., Jan., 1982.
- 3/ This discussion of the post World War II debate over the level of price support and much that follows in this section was taken from my article "Agricultural Policy in the United States -- A Long View" in the Benjamin H. Hibbard Memorial Lecture Series, Dept. of Agric. Econ., University of Wisconsin, Madison, April 13, 1984.
- 4/ For a full treatment of the economics of this Treadmill argument see The Development of American Agriculture: A Historical Analysis by this writer, The University of Minnesota Press, Minneapolis, 1979, Chapter 19.

- 5/ It may even decline if the pecuniary effects are taken into account. But this does not change the argument. In fact, if the long-run planning curve is downsloping, that should intensify the expansionary efforts of the more aggressive farmers.
- 6/ For a good popular discussion of this farm tax policy problem see "The Farmers are Victims of Plenty: Tax Laws Encourage Overproduction" by Ward Sinclair, The Washington Post, National Weekly Edition, Vol. 2, No. 24, April 15, 1985, pages 6-8.