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THE CRITICAL ISSUE FOR AGRICULTURE: SURVIVAL

Harold F. Breimyer

Agricultural economists who try to understand farm policy and even to aid in policy-making are roughly analogous to the spare fifth wheel on an automobile. Our availability is accepted and even sought. The prayer is that we will not be needed. To extend the analogy, economists and an extra tire are most likely to be resorted to where the going is rough.

So it is that economists experienced in policy are being called on to address once again the question of the appropriate role for government relative to the economic problems of U.S. agriculture. In my own case, having been exposed to policy debates as early as the McNary-Haugenism of the 1920s, it's at least a fifth exposure. But the pattern is intermittent. As recently as the mid-1970s, the prevailing attitude was that policy issues had been put to rest, as the "market" finally demonstrated its capacity to keep agriculture stable and prosperous. But in 1983, financial stress is widely felt, farmers and their leaders are apprehensive, and policy issues are raised once more.

Even though most agriculture and agribusiness has been realerted, a refrain sometimes heard is that conditions are different now than formerly. The ungrammatical line from Music Man comes to mind: "Things are different than they was." It is said that agriculture has become commercial, technological, and international. It is even hinted that today's farmers are smarter than their fathers. Well, perhaps so. But in my youth we bought and sold with dollars. We read USDA Farmers Bulletins and tried to follow their instructions. Agriculture is newly deep in foreign trade? Heavens! the colonists began to sell abroad soon after 1607.

Much more important, however, is how persistent are the basic features of U.S. agriculture. New technology does not eliminate them — it may in fact accentuate their effect. Now as before, agriculture is an essentially unstable industry. It is unstable because its productive processes are biological rather than mechanical. It is unstable because demand for farm products, here and worldwide, is essentially inelastic; that is, consumers are inhospitable toward a food shortage or surplus. Agriculture is unstable for the further reason that it is sensitive to a host of influences lying outside its orbit of control — influences ranging from the state of employment and consumer income, to the dollar exchange rate as influenced by Federal Reserve Board decisions, to trade policy agreements with the PRC, to whether snow falls in Siberia and rain in India. These and many other extraneous events can bear on agriculture.

But all these origins of instability draw their dramatic force from what economists call the organizational structure of agriculture. It's partly a matter that most farm products are sold into spot markets, which are noted for their volatility as compared with the more stable prices of industrial goods. This is, of course, the old plaint about farmers' being price takers and not price makers. I only add in the interest of honesty that farm product prices can be volatile upward, and not just downward.

Organizational structure refers also to the limited financial resources of individual farm proprietorships. Farmers' financial reserves are miniscule as contrasted with those of the conglomerate firms that now dominate the U.S. economy. If ordinary farmers are to survive the vicissitudes to which agriculture is subject, outside assistance may be essential.

Finally, though, organizational structure gets its biggest thrust from the historical fact that farm price and income programs for half a century have been couched in terms of defending the traditional proprietary structure, usually called the family farm. Some persons say the language is only a ploy, insincere. Certainly the past programs have probably worked more against the family farm than in favor of it. But it would be easy to be over skeptical. In any event, I must contend that 1) U.S. citizens and the Congress truly have intended that farm programs preserve something close to the traditional family farm, even if they have not acted too well on that intention; and 2) how any farm program affects one kind of farm or farmer relative to another is an important, even contentious, aspect of the making of farm policy.

GOALS FOR AGRICULTURAL POLICY

U.S. citizens are willing to spend tax dollars to smooth out the instability in agriculture primarily because they hold in high regard the small-unit proprietary make-up that is the cause of so much of it. I feel sure that programs will continue to be judged first of all according to how well they help farmers, rather than farming. It follows that if and when agriculture changes to another form, the farm programs as known in recent years will disappear from the scene. It follows too that insofar as the farming community fails to recognize these attitudes of citizens at large, it will invite both its own and the programs' demise.

This is not to say that other goals for agricultural policy fail to win public respect. Manifestly, citizens generally favor storage programs, especially for foodstuffs, as protection against a bad harvest year. Farm leaders in recent years have tried to win a hero's accolade for agriculture's big exports, on grounds that they help everyone by easing the imbalance in international payments. Farm product exports do have that desirable effect, but it would be farfetched to suggest that exporters move wheat abroad for any purpose other than making a dollar. The good effect on monetary balances is only incidental.

Occasionally a self-appointed orator shouts that if farmers are not treated right they will stop producing and we all will starve. Among all pro-program agruments this is, in 1983, the hardest to defend. Thus, the first reason U.S. citizens have been willing to help farmers is that they don't want to see them treated badly. A second reason, far down the scale, is the wish to bring more stability to the supply and price of food.

AGRICULTURE IN THE ECONOMY

Thus far, however, this is only half the story. To sketch the second half requires a moment of truth about the relation of the government to the economy generally. The illusion is that government does not play much of a role, that its only proper involvement is occasional trouble shooting. Moreover, it is often said that whenever government acts, it acts badly. However, no allegation is so absolutely false. Government in agriculture? Only from 1789 to this day! Government sets the terms of access to land, guarantees the integrity of contracts, builds roads and railroads, finances rural electric power, guarantees the solvency of livestock buyers, and erects a legal shield for farmers' marketing cooperatives. Since 1933 it has underpinned prices of many farm products, offered aid against crop disaster, and promoted exports. It has funded cooperative credit and directly offered FmHA credit. The list goes on and on.

Yet the second half of this account relates not so much to goverment and agriculture as to a three step sequence, government, the economy, and agriculture. In many respects the problems of agriculture in 1983 arise not so much within it as outside it, that is, in the serious malfunctioning of the general economy. To be sure, huge crops in 1982 made agriculture's economic problems worse than they would otherwise have been. But even in that regard, bumper crops contribute as much to government's problems (costly storage loans, large deficiency payments) as to farmers'. Definitely, 1982's crops would be much less of a burden if the U.S. economy were booming and exports zooming.

That is to say, the problems of agriculture today trace more to the state of the economy than at any time since the Great Depression of the 1930s. In virtually all of the other ups and downs in agriculture since World War II the origin lay primarily within agriculture itself. Not so in 1982-83, and the resemblance to the 1930s, to which I as a veteran can attest, is ominous. That similarity also carries the message that it would be difficult to resolve agriculture's problems of 1983 by means of farm programs alone. Farmers are not alone in their discomfort. In the non-farm economy, with its unemployment and reduced incomes, farmers can find many bosom buddies.

If government plays an instrumental role in agriculture, contradicting the popular opinion, it does so equally as much in the total economy, again in defiance of common belief. Like every other industrial nation, the United States charges central government with regulating and stabilizing the private part of the economy. I will not relate the many kinds of policy engaged in, nor all the actions of recent years that I have regarded as harmful. However, among the several unwise courses was the tight money policy initiated in October 1979. Another was the foolishly conceived supply-side tactics and huge tax reduction of 1981. The most far-reaching economic control device now manipulated by central government is the body of tax rules, made more intricate and partisan by the Tax Act of 1981. That law was reprehensible not only for throwing the government into a huge fiscal imbalance, but also for its patchwork of tax concessions that are so preferential to some economic activities and so damaging to others.

AGRICULTURE'S VULNERABILITY

Recent economic policies have hurt agriculture. The situation is that simple. Among clearest examples are tight money, and the shower of tax and other laws and administrative decisions that favor the rich at the expense of the rank and file of citizens. Even more damaging than the high interest rates farm borrowers have had to pay is the forced slowdown in business activity that has shrunk consumers' income and therefore their spending for food. Tight money has also contributed to an excessively high exchange rate for the dollar, damaging to export demand for our farm products. The point of these remarks on the state of the economy is that agriculture by and of itself cannot do much about the situation. Furthermore, although a more aggressive farm policy would help, it cannot yield great benefit in the absence of general economic recovery. More than that, farmers have not yet demonstrated their willingness to accept strict production control as a means to improve prices and incomes.

Let's face it: land retirement programs of recent years have been a weak reed. The retired acres programs of 1982 succeeded mainly in getting record harvests. Paid diversion for several crops in 1983 is an improvement, but it carries a high budget-cost tag. If farmers really want to control marketings without imposing a high cost on the federal treasury, they must vote mandatory controls on themselves.

Neither will agriculture's dilemma be resolved in the export arena. The idea, and promise, that aggressive negotiation with export buyers, more liberal credit financing, and/or a cut-price trade war will send export volumes ballooning is misleading. Admittedly, we should do all possible to ease trade restrictions and lower barriers, but the hard truth is that world wide conditions are depressed. We may find ourselves wrestling to restrain more protectionism, rather than achieving a major liberalization.

THE OPTIONS

Regretfully, these observations carry a pessimistic tone. Yet our nation has painted itself into a corner in national economic policy, and very nearly so in agricultural policy too. Nor are there any secrets as to the options in agricultural policy. They are known. The only question is which can and should be adopted.

It is necessary, though, to separate the portion of agriculture's troubles that arises from deflation of asset values and high interest rates, from that of low commodity prices. Farmers deeply in debt are heavily burdened indeed. But those are a fraction of all farmers. Some farmers, in fact, profited from the high interest rates of the 1979-82 era. The burden of heavy indebtedness is distinctive for the further reason that it cannot be relieved by means of commodity programs. It is simply impossible to push price supports high enough to do that. The only practical policy relative to debt burdens is to make very liberal credit available or place a moratorium on foreclosures. Any such relief would have to be given selectively. Farmers appear to look favorably on granting relief of that kind to the most deserving younger farmers. They are less charitable toward those they regard as big plungers.

Selective help to farmers of modest means would have the major side effect that it would help to defend the traditional entrepreneurial — family farm -- structure of agriculture. Makers of agricultural policy truly want to preserve that kind of agriculture even as they have failed pretty badly in taking hard steps to do so. Forced sale of many smaller farms would definitely speed the trend toward larger units and toward nonfarm landlordism. Only well-financed larger farmers and, even more often, high-tax-bracket non-farmers are in a position to buy the land parcels now being forced on the market.

With regard to land retirement, price supports, and deficiency payments, the options are simple. It's a matter primarily of how much money the federal government is willing to spend, and how it will spend it; and of how much collective self discipline farmers are willing to assume. The retired acres program of 1982 was not very effective and the loan rates in the Farmers Reserve program for grain were too high and target prices too low. The Reagan Administration has relied too much on commodity loans and not enough on deficiency payments. The real cruncher is whether or not voluntary acreage reduction programs can be effective. Such programs are self limiting, in two respects. First, farmers find ways to minimize the actual cutback in production that they make. This is the familiar "slippage." The second is the "free rider" behavior. To whatever extent farmers believe a program will be successful, some will gamble on staying out and planting a maximum acreage, hoping to cash in on the high prices that participating farmers bring about. The paid diversion program reduces free riderism, but does not stop it. And paid diversion is costly. The only sound conclusion is that if really effective production control is sought, it will be necessary to invoke mandatory programs. If two-thirds of all producers vote acreage allotments into force, all producers will be bound by them. And the last resort in supply control is quantity allotments, as now used for some commodities.

In summary, no easy respite can be promised from either the general economic depression that remains the number one source of agriculture's distress, or the dilemma in which we find ourselves in agricultural programs. It is not attractive, nor Christian, to hope for bad weather in 1983 so as to make life easier for makers of farm policy and for farmers. But we do know that growing seasons are highly variable and it would not be surprising if a bad year or two should be experienced. The last and only optimistic word relates to the longer future. Agriculture is apparently in better position for the long pull than are some other parts of the economy. The world needs our foodstuffs and we need to deliver them. But the question is, " How do we get from here to there?" I am not sure I know the answer, except that it begins with being honest about the nature of the problem.

Harold F. Breimyer is Professor of Agricultural Economics and Extension Economist, University of Missouri.