

Cato Institute Policy Analysis No. 27: The Farming of Washington: How U.S. Agricultural Policies Affect the American Farm

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Introduction

The American farm economy is characteristically described by journalists, farmers, and government officials as plunging headlong into disaster. Clearly, much of the agricultural community is facing severe economic problems, and government relief programs seem unable to significantly improve the situation. But as we shall see, not all farmers and ranchers are affected equally, and many, if not all, of the problems facing U.S. agriculture can be traced to ill-advised programs designed to improve the economics of farming, and to policy and propaganda which encouraged overly rapid farm operation expansion.

Farm programs are almost incredibly complex. All we can hope to do here is to offer an outline, and discuss some of the policy implications.

A market economy, in the absence of government guarantees at taxpayers expense, does not guarantee profits or business success. The supply of particular business services would normally equilibrate with demand, and in the process, resources would gravitate to their highest valued and most efficient uses. Even though there is a clear demand for farm products, supply seems to be out of balance with demand, prices are low, and many producers are deeply in debt, with cash flow problems.

Since the 1930s, a complex web of federal farm subsidy programs has been woven into place, to try to shield farmers from market instabilities and to try to guarantee some measure of economic continuity. These programs may have created more problems than they've solved, and one would be hardpressed to find any clear-cut, lasting benefits.

Farming as an Economic Activity

Agricultural production is not a stable economic activity. The biological production processes of agriculture are sensitive to environmental fluctuations. Large changes can occur unpredictably in many important physical and biological determinants: moisture, crop or livestock diseases, predation, insect infestations, temperature, etc. In addition, the biological production process itself incorporates inevitable lags. The result is what Gardner describes as "short and long-term quasi-cyclical behavior of prices and output."^[1]

Nevertheless, producers (and consumers) still respond to market conditions and prices in much the same way the participants in any other market respond. Producers are sensitive to changes in market prices; they increase production in response to higher prices and cut production if prices drop.^[2] Yet government policy assumes that agriculture is uniquely important to the economy and sufficiently unstable that normal market processes have to be supplemented

with various subsidies and guarantees. There are a multitude of reasons to question these assumptions and the often destructive public policy generated by proponents of intervention. Gardner sums up the problem: "There is normally only one price that does not result in either surpluses or shortages. Over and over again, government action with regard to agriculture has been undertaken out of dissatisfaction with prevailing market prices. And over and over again, these actions have come to grief because it has been found that the attempt to establish different prices has created either surpluses or shortages." [3] It seems, then, that agriculture is susceptible to distortions inevitably created by attempts to establish price controls. [4]

Economic Status of Farmers

Is it fair to say that the farm community as a whole is in poverty and on the brink of disaster? Even in these hard times, this is clearly not the case. Using debt load as the determinant, Secretary of Agriculture John Block has said that half of the nation's 2.43 million farm families have no debt at all. Another 25 percent (notably many livestock raisers) are "just getting along." Twenty percent are to some extent "hurting." And "five percent are in very serious trouble and may have to get out of agriculture." [5] Five percent of 2.43 million farms is 120,000. Overall, 12 percent of American farmers have debts exceeding 40 percent of their assets. [6]

In 1982, the national farm debt was almost \$200 billion; interest payments were \$22 billion, \$5.5 billion in excess of expected net farm income. In 1970, by way of comparison, farm debt was only \$53 billion, while net farm income was \$14.2 billion. [7] In 1979 total farm income peaked at \$26.7 billion. By 1982 reported farm income had decreased to about \$19 billion. [8] Considering the country as a whole and adjusting for inflation, \$19 billion approximately equals the net farm income during the Depression, and that comparison is often made. During the Depression, however, there were three times as many farmers to divide the income. [9]

After 12 years of gains, U.S. farm exports dropped to \$39.1 billion in 1982, down from a record \$43.8 billion in 1981. Further declines are expected in 1983. And, in 1982, the national average value of farmland declined for the first time since 1954, down 12 percent in places; another 8 percent decline is possible during 1983. [10]

Land values are important as loan collateral, and steadily inflating land prices enabled farmers to borrow to expand their operations, or to keep operating if their operations were marginal. The federal government's Farmers Home Administration (FmHA) is a refuge of last resort for farmers no longer able to qualify for loans from private sector and quasi-private sector institutions such as Federal Land Banks, Federal Intermediate Credit banks, and Production Credit Associations. The FmHA loan delinquency rate increased to 25 percent during 1982, double the 1979 rate. In 1982 7,997 farmers quit farming -- 3 percent of FmHA's borrowers -- 5,908 liquidated their holdings; 1,245 filed for bankruptcy; and 844 were foreclosed. [11]

For all farmers, including small "non-commercial" farmers, median 1978 income was \$15,300, as compared to \$17,700 for non-farm families. But underreporting is probably not uncommon among the self-employed. Also, farms receive favored income tax treatment. According to Gardner's estimate, "the average after-tax income of farm families is probably no less than the average income of non-farm families." Further, "commercial farmers and their families are not an economically deprived group. Their combined farm and off-farm incomes average more than twice the amount of the average income per family in the United States." [12] Considering after-tax income, the disparity is even greater. "Commercial farmers, those in the \$40,000 plus sales class, are in fact considerable capitalists, possessing a mean net worth, in farm and liquid assets, of \$500,000 per farm." [13]

In 1981, there were about 25,000 farms with sales in excess of \$500,000. This is one percent of the total number of farms, and this one percent generated 66.3 percent of all farm profits; the average profit for this group was \$518,635. At the same time, there were 1.7 million farms in the U.S. with sales below \$40,000 annually, and these farms lost an average of \$1,000 in 1981. Many of the farms in this group are small, part-time or "hobby" farms, and much of the family income is likely to come from off-farm jobs or businesses. [14] As we shall see, the trend is toward larger farms, apparently spurred by federal policy to consolidate.

Since farmers confront unstable market conditions and are susceptible to adverse environmental influences, they tend to accumulate more savings as a buffer against lean times, and over a lifetime can accumulate significant wealth. Returns of these savings contribute to family earnings. It is important to note that those farmers who tend to be on the

receiving end of commodity program subsidies are generally those in the commercial class. Consequently, there really is no justification for price support programs and other subsidies.[15]

There is a great deal of variation among farmers when one looks at their financial solvency, and naturally our attention is drawn to those in most difficulty. Hog producers, some beef cattle operations, producers of dairy products, fruits, vegetables, eggs, and turkeys are all doing well, and with the exception of the dairy industry, are getting along without subsidies. On the other hand, producers of cotton, rice, wheat, and corn tend to be in trouble, and all have long been heavily subsidized.[16]

The government trots out figures for the "average" cost of production and bases its subsidies on these calculations. This can be misleading:

Most wheat farmers say they are losing money. It costs an average of \$5.21 a bushel including land costs, according to government figures, to produce wheat that now sells for about \$3.50 at local elevators. The price-support loan rate is \$3.65 a bushel, and the government supplemental or 'deficiency' payments are available to farmers to bring their return up to \$4.30.

But some farmers without debt are not doing badly. For instance, Paul Humboldt, who farms near Wichita on land he owns and with equipment that has been paid for, figures his costs at about \$3.85 a bushel.[17]

Similarly, government experts claim it costs growers about \$2.90 to produce a bushel of corn which can be sold for \$2.48, or stored under loan for \$2.65. Deficiency payments sweeten the price to \$2.86. But: "Gary Wilcox of nearby Correctionville figures it costs him only about \$1.00 a bushel to produce corn because he has been frugal in machinery purchases and conservative about farm expansion and debts." [18]

Cattle ranchers Wayne and Jim Jenkins were interviewed about problems down on the farm, and voiced the sentiment that "Instead of farming their farms, these people are farming Washington." Wayne said: "I've got a friend down here who paid for his farm four times over with government checks." He said his neighbors "tell the government to get out of farming" then "complain about other people living on welfare." "Other farmers call for an end to government 'overregulation' and in the same breath demand the government provide better price supports, storage loans, and disaster payments." [19]

One Illinois farmer adept at farming Washington's programs "plowed under 250 acres of corn worth roughly \$60,000, to qualify at the last minute for price support programs. He calculated that supports would yield him \$115,000 more in total income than selling the 250 acres of grain." [20]

Jim Jenkins went on to observe, "You go into the (local) general feed store where they sit around complaining, and then you see how much new farm equipment they've bought. We have farmers all around us going broke and wondering why. The problem is, they don't even try to pencil their costs out." The Jenkins ranch "turns over 'a comfortable profit' without accepting any government payments." [21] It's said that several years ago in Utah the Woolgrower's Association passed four resolutions:

1. Increase tariffs on imported wool.
2. Increase government funded predator control.
3. Increase wool price supports.
4. Get government out of agriculture.[22]

Farm Commodity Programs

There are about 10 major commodity groups and at least 100 minor ones, with separate laws for each.[23] Various commodity price supports are in place for 27 farm products.[24]

1982 farm price supports for major commodity groups included:

\$2.7 billion for wheat supports

\$5.4 billion for corn
\$2.4 billion for dairy products
\$443 million for tobacco
\$153 million for peanuts
\$38 million for honey

Smaller programs contributed about \$500 million, for a total of about \$11.9 billion.[25]

In 1983 the USDA estimates federal commodity support programs will reach a record \$21.8 billion, or some \$10 billion higher than in 1982, the previous record, and this estimate does not include Payment-in-Kind (PIK) cost overruns. 1982 price supports were three times 1981 levels, yet the economic slump facing farmers seems to be unaffected.[26]

Market Support Prices

Legislators believe that if the market price for a particular product is too low to satisfy constituents, all that need be done is to legislate a higher price. Of course this results in a surplus if consumers are unwilling to buy the same amount of the product at a higher price. Since the 1930s, variants of this scheme have been part of U.S. farm policy. Such a rationale creates demands for "parity" prices. If market support prices create an excess supply, the government buys the excess with money extracted from the taxpayers. The market support price acts as a price floor; prices are free to exceed the minimum price established by legislative fiat.[27][28]

Massive, complex programs have evolved to support grain prices. With grain (and cotton) it wasn't enough to guarantee a price floor for producers through a simple price support mechanism. In an attempt to remove farmers from the normal market risks faced by any legitimate businessman, the government established "nonrecourse" loan programs during the 1930s for several commodities. Such programs are still in effect for cotton and grains.

They allow farmers to put their grain "under loan." They receive the market support price from the Commodity Credit Corporation (CCC) immediately, while the government pays for storing the grain. If the market price should rise above the support price, the farmer can buy back his grain for the original support price plus interest based on the government's cost of borrowing money (a cheap source of credit compared to commercial sources). However, if the price remains below the support level, the farmer can decide not to repay his "loan," and the CCC must accept the grain in lieu of payment. The farmer must then pay storage costs, but no interest charges.[29]

These programs have resulted in huge artificial surpluses, and in recent years the loan rate has been decreased in real terms to encourage demand, since loan programs, in effect, establish price floors which discourage demand.

Target Prices and Direct "Deficiency" Payments

Direct payments to farmers from the government have to some extent superseded the nonrecourse loan programs. These direct payments are linked to target prices supposedly based on an average estimated cost of production. Deficiency payments bring the price farmers get for their product up to the target price level, yet allow the market to clear at a lower price, thus encouraging demand.[30] The taxpayers make up the difference, once again on the losing side of a negative sum transfer game. In 1982, the deficiency payment for wheat was about 50¢ per bushel, to meet the target price of \$4.05 per bushel. The target price is scheduled to increase to \$4.30 in 1983.[31] Since a price guarantee is involved, output is encouraged, resulting in lower market prices. The problem is not solved; the costs are simply shifted more directly onto the public sector. Since the loan programs are still in effect and tend to provide a price floor as the market price equilibrates with the loan rate, deficiency payments may be based on the difference between the loan rate and the target price.[32]

Supply Management

Since the deficiency payments and loan programs encourage the production of farm products in excess of demand, and also the accumulation of large government-owned stocks, policymakers began to look at ways of limiting production. One approach was supply management, which, as with the other programs, has varied with different commodities and

has changed over time.

Tobacco, for instance, is governed by quotas, or exclusive government-granted rights to market tobacco, which impose rigid supply controls.[33] Thus, the government has created a rather blatant supply cartel, which serves to line the pockets of powerful special interests that maintain strong incentives to influence pork barrel politicians.

Highly cartelized controls were also established for peanut production. The controls specified that peanut production in excess of regulatory edict had to be sold at reduced levels. The 1981 farm bill partially eliminated acreage allotments but increased price supports. Now, farmers without allotments can grow "additional" peanuts, which may be exported or sold domestically in years when domestic demand exceeds the quota. These additional peanuts qualify for the lower of two price support loans. The poundage quota system remains in effect. Quota peanuts are covered by price support loans of \$550 a ton (for the 1982 crop), up from \$455 a ton in 1981.[34]

Grain production accounts for the largest supply-management program. In 1978 and 1979 this included set-aside programs for wheat, corn, barley, and grain sorghums.

The set-aside program for wheat specified that in order to be eligible for deficiency payments, CCC loans, or free crop insurance, a farmer had to set aside 20 percent of his normal wheat acreage, and supposedly let it lie fallow. In practice, farmers tend to select their least productive land for set-aside, which minimizes the effect on production. Gardner estimates that although two-thirds of all wheat acreage was enrolled in the set-aside program in 1978, the result was only about a 4 percent reduction in output for the year.[35]

The PIK Program

The Payment-in-Kind program is government's attempt to escape the consequences of its policies. PIK has been described by President Reagan as "highly innovative." It is a recycled New Deal program widely used during the 1960s to reduce government-owned grain and cotton stockpiles.[36] Essentially PIK is a land-idling incentive program. To be eligible, a farmer must first participate in existing acreage reduction programs, under which commodity aid is granted only if farmers agree to reduce acreage planted by 10 to 20 percent. Under PIK, farmers can idle an additional 10 to 30 percent of their land, and receive certificates redeemable in government-stored grain or cotton. The amount would be proportional to the normal harvest for those acres (80 to 95 percent of "normal" harvest would be given to farmers under the program), and would save them the expense of planting and harvesting.[37]

The idea is to generate smaller crops in 1984, reduce the surplus, and perhaps raise market prices, supposedly saving \$3 billion to \$5 billion over the next three years in commodity supports.[38] Ironically, by artificially raising commodity prices, the government generates huge surpluses, which it has been obligated to buy and store or subsidize farmers to store. Now, with PIK, the government proposes to return to farmers commodities it has already purchased from them once, at inflated prices, and allow them to sell it again (but not to the government).

Under PIK, if a farmer has grain stored under government loan, those stocks would be given back to the farmer, essentially forgiving the loan. Otherwise, payment would come directly from government-owned stocks.[39]

This sounds like a sensible stop-gap measure to deal with misguided interventionist policies. Unfortunately, the Department of Agriculture underestimated how many farmers would sign up for PIK, and the government is now having to buy grain to meet the demand since its CCC stockpiles of corn, sorghums, and wheat are exhausted. Originally, USDA analysts expected a 23 to 24 percent sign-up rate for PIK, but 36.5 percent of wheat farmers and 43 percent of corn farmers signed up, doubling the original USDA estimate of the number of acres idled to 82 million, a third of the normal grain acreage. Corn, sorghums, and wheat stocks are currently being purchased from farmers who have those grains under CCC price support loan programs (the farmer-held reserves). Wheat reserves privately held under CCC loans total 1.1 billion bushels. To the extent that grain has to be purchased, the projected \$3-5 billion in savings will vanish.[40]

Part of the problem has been an unequal regional distribution of stockpiled grain: Some areas historically have had low levels of participation in grain reserve programs.[41] Then in January of this year, an Egyptian wheat deal was approved for the sale of 40 million bushels of CCC wheat, which will deplete CCC stocks. And of the 185 million

bushels of CCC wheat, 147 million bushels are committed to a pool for international aid.[42] One report summed up the situation:

In January, the USDA estimated that the PIK program would reduce the 1983 wheat harvest by 265 million bushels, or about 10 percent. That would require more than 200 million bushels of in-kind wheat payments from the CCC to farmers -- 200 million bushels the CCC doesn't have.[43]

If the actual reduction is twice this estimate, 400 million bushels would be required. An additional pitfall with the PIK program is that when large amounts of land are taken out of production, sales of fertilizer, fuel, seed, and machinery will slump severely, and sales have already been hurt by low farm incomes.[44]

Recent estimates of the total cost of PIK to taxpayers range from \$9-12 billion. The market value of the commodities to be given away during 1983 (according to USDA estimates which heavily discount the value of these commodities) will be between \$7-9 billion. These commodities have been listed as CCC assets, which will have to be made up with future congressional appropriations. Other estimates of the market value range between \$10-12 billion, but considerable uncertainty clouds all the projections.[45]

Other Subsidy Programs

Another subsidy is found in export programs. One example was cited earlier this year: "Mr. Reagan said...that he will boost to \$250 million this year from \$100 million last year a credit-subsidy program intended to make U.S. farm exports more attractive overseas." [46] The reason cited was that this subsidy is needed to counter European subsidies, not unlike trying to stop the arms race by expanding it.

A variety of other subsidy programs fall under the heading of taxpayer-funded insurance programs. Under the Agriculture and Consumer Protection Act of 1975 (as modified in 1977), farmers are eligible to receive disaster payments in the event of crop losses. Producers of corn, wheat, grain sorghum, and barley receive payments for any crop yields less than 60 percent of their "normal" yield. Another program provides assistance if farmers are unable to plant their crops due to drought or flood or other natural disasters. Dairymen and beekeepers also receive free insurance from the taxpayers. There is also a program which subsidizes livestock feed in drought-stricken areas -- the Emergency Feed program -- which paid out \$170 million in 1978.[47]

And then we have emergency disaster loans for producers in designated drought areas and "economic emergency" loans administered by the Farmers Home Administration. In 1979 these loan programs transferred about \$6 billion to affected producers. Loan programs administered by the government tend to encourage risky or ill-advised management. Land in drought-prone country is plowed under for dry-land farming, risking crop losses and severe wind erosion. Bees are frequently left next to fields due to be sprayed with insecticides.[48]

Gardner summed up the problem:

There are areas in which crop failure is not the exception but the rule, and free insurance encourages overexpansion into these areas. Also, in marginal areas, producers can choose among crops and different varieties of the same crop which vary in their degree of resistance to drought. For example, corn is more susceptible to lack of water than is grain sorghum; but if all goes well, corn is a more profitable crop. The availability of free insurance against crop failure encourages producers in marginal producing areas to make incorrect decisions from the point of view of the efficient allocation of resources. Similarly, in some areas, crop rotations include years when the land lies fallow in order to conserve soil moisture as insurance against lack of rain the following year. The incentive for this practice is reduced by disaster payments. In general, the program can be characterized as an anticonservation policy.[49]

USDA policy during the 1970s encouraged farmers to expand their operations, to take out loans to buy more land, machinery, plant more crops, raise more livestock. The idea was that land values would continue to increase indefinitely, and that export markets were going to be something of a universal panacea. The quasi-governmental Production Credit Association (PCA) and the FmHA followed loan policies which encouraged farmers to go deeply into debt to finance expansion, then when the crunch came, often withdrew support, leaving some farmers no option but to sell. One farmer blamed the easy-money policies for his financial collapse: "They made a feather bed for me to

lie on, and then it burned right out from under me. You know, I could basically sit down at my kitchen table and write out a loan. It was just too simple."[50]

Describing the beginning of agriculture's economic crunch in the last decade, one commentator wrote:

To pay expenses (as prices dropped and expenses rose), the farmer went to his lending institution. Because inflation had caused the value of his land to increase, the lending institution loaned him more money -- at interest rates higher than the year before, again because of inflation.

The loaned money was used to pay the costs of operation that were higher again that year, because of inflation.

In the meantime, with few exceptions, the price of farm products decrease.

The cycle became vicious as the farmer attempted to borrow himself out of trouble.

Every year bigger loans were obtained to plant a more worthless crop. For some, the loans were not paid off after harvest. The next year another loan was obtained to pay off the first loan and its interest -- as well as the cost to plant that year's crop.

The inevitable happened.

The economy became stagnant, land values leveled off and began dropping, and the farmer was caught with huge debts, huge crop surpluses, huge payments due and even lower prices for his products.

Interest payments became the farmer's biggest cost. Replacing a tractor meant an expense of at least \$80,000, a combine would cost at least \$100,000. And all the while interest on land payments continued to eat him alive

Costs increased for the fertilizer needed for the even bigger yields needed to meet expenses -- and surpluses increased again.

Now farmers are scowling at ledger books with dismal bottom lines. Determined to stay in business, they have written off 1982, and many are prepared to write off 1983.[51]

Some Side Effects of Agricultural Policy

If these policies have been hard on farmers, the environment also stands to be severely damaged over the next several decades as a result. The effect of government subsidies to expand grain production are now being recognized as a major cause of serious environmental degradation. The semiarid climate, periodic drought, and high winds of the Great Plains render the land vulnerable to potentially devastating losses of topsoil whenever the prairie grasses are plowed under. These grasses evolved with the capacity to survive drought, and the tightly packed web of roots anchors the dry soil against the high winds which sweep the prairies.

Government policy has effectively subsidized the "plow-down" of these prairie grasses on millions of acres of rangeland. Dryland cropland is worth about twice what that land would be worth if left as rangeland, even though the land is sometimes so marginal it won't support a crop year after year. Several factors encourage conversion, including favorable tax breaks and a desire for higher land equity as loan collateral.[52] Crop price supports play a significant role in encouraging dryland plowdown by increasing the financial attractiveness of grain farming as opposed to ranching. Once newly-plowed land has grown two crops, it becomes eligible for enrollment in commodity programs. Policy incentives lead to rangeland destruction by plowdown, then the government pays farmers to let the land lie fallow, exposed to erosion. The newly plowed grainland is used to farm the government programs, but may not have much long-term value for growing crops. According to one source:

If the new land is broken up and suffers through a dry cycle, all the owner has to do is 'run a combine over it during two years, and those kernels retrieved amount to two crops.' The nouveau-farmer can use the county-wide average as a basis for payment on those 'lost' bushels going into the paid diversion program.

However, if there's adequate rainfall during the initial years of the new project, the new land is likely to outyield the neighbors'.

When the sod is first turned over, the earth is rich. 'The humus, the organic matter, is high.' The yield can be substantial for the first two or three years.

But the bounty can decline rapidly over several crop years as the fertility build up over eons is depleted. If the land is plowed for resale, its first few years in production may be the best time to sell. No fertilizer need be applied and the new fields (if they get rain) are impressive to the eye.

Often the intake rate of the soil is low and when it rains, it just washes off. Or it has a high pH (alkalinity) and in a few years it can't raise any kind of crop.[53]

Besides the deficiency programs and PIK, farm subsidies that increase plowdown include subsidized crop insurance, advance deficiency payments, and the farmer-held reserve programs in which the government pays up to 26 1/2 cents per bushel per year for three years of storage. Also, the farmer can mortgage his crop to the government at above-market levels at an interest rate of 12 percent, and the government will lend money at 9 percent interest to build additional storage bins to house the surplus.[54]

As past Montana Director of Agriculture Gordan McOmber argued, "If they're breaking up [range] ground, they shouldn't be entitled to any federal benefits. When I drive down the road, I see a lot of sod being broken up. I'm going to keep seeing it if the feds don't stop subsidizing it."[55]

A group of ranchers meeting in Miles City, Montana claimed that "sodbusters sometimes use poor conservation practices, and rely on government programs to pull them through when drought shrivels their wheat yield below certain 'disaster' levels."[56] Sand Springs, Montana rancher Bill Brown, Jr., "who has land next to a large wheat farm broken in the early 1970s, said that about five years later his fences were covered by blowing dirt. He built a second fence on top of the first about three years ago. That fence is now half covered with wind-blown topsoil, he said."[57]

In addition to encouraging environmental destruction, federal farm commodity subsidies promote concentration of land and agricultural production in the hands of a relatively small number of large corporate farms. One observer summed up the problem:

According to the USDA, 30 percent of all U.S. farm and ranch land is owned by just 1 percent of the land holders. In the pacific states, 5 percent of the owners control 70 percent of such land.... What has given agribusiness the edge, others point out, is the tax benefits, marketing mechanisms [heavily regulated by government], and subsidies.... Cheap water in California (subsidized by taxpayers) can increase land values \$1000 an acre and mean millions of dollars a year to individual corporations.[58]

One percent of the nation's farmers generated two-thirds of all farm profits in 1981. These farms have sales in excess of \$500,000 each. The 25,000 farms in this category had average profits of \$518,635. In 1980, this one percent made 52.7 percent of the profits, and in 1979, 42.1 percent of the profits.[59]

Instead of encouraging family farms...United States Government policy has encouraged big operations. Large farms receive the lion's share of farm program benefits, which are proportionate to acreage or production. Even the progressive tax structure favors large farms, because a dollar of deductible costs will shelter more income at the margin for larger operators who pay the higher tax rates.[60]

Federal farm programs funnel the greatest benefits to the largest producers. In 1978, three percent of the producers soaked up 46 percent of all subsidies handed out by the federal government, according to one USDA report. The report noted that these programs "accelerate the trend toward ever larger farming operations" and "encourage economic cannibalism within agriculture."[61] According to the GAO, perhaps 50 percent of all U.S. farmland is owned by off-farm operators and investors, reflecting increased absentee ownership of farmland.[62] The 1978 Census of Agriculture, however, puts the figure at 12.3 percent. Gardner points out that in 1974 there were 28,442 corporate farms, but that most of these were "family or other small, closely held corporations" and that there were only 947

farms owned by publicly owned corporations, which were not necessarily large. These 947 corporations accounted for "5.7 million acres, \$2.5 billion in value of land and buildings, and \$2.7 billion in products sold, which amounts to percentages of all U.S. agriculture for these items of 0.5, 0.8, and 2.9, respectively." [64]

In 1978, there were 2,476,340 total farms in the U.S.; 1,598,865 of these had sales in excess of \$2,500. There were 51,270 corporate farms, of which 45,418 were family-held and 5,852 were "other than family held," or 0.2 percent. The average non-corporate family (or partnership) farm had 393 acres, with an average value of land and buildings of \$259,133. Corporate farms average 2,292 acres if family-held, with an average value of \$1,038,086 per farm. Non-family corporate farms averaged 2,755 acres and \$1,570,565 total value.

Nevertheless, corporations have special advantages over other farms when it comes to federal tax law, and this may increase the tendency toward concentration. Thus:

Any corporation whose farm income represents less than 10 percent of total earnings does not have to report that income separately. So profit and losses may be shifted around within the corporation, depreciation accelerated, and great advantage taken of other tax provisions allowed to farms as well. [66]

Efficiency and innovation seem not to be correlated with large-scale corporate ownership, but rather with medium-sized family farms large enough to use mechanized technology, but not so large as to require substantial non-family hired labor. "The biggest farms don't try anything unless it's been proven somewhere else." [67] What is needed for efficiency and innovation is not huge economies of scale, but the "shadow of the farmer on his land," a personal involvement with the day-to-day decisions critical to successful farming. [68]

A GLIMMER OF UNDERSTANDING

Secretary Block has sometimes resisted expansion of the government's role in agriculture, but without notable success, at least partly because the administration has traded votes to gain what it wants elsewhere. Block resisted projected increases in commodity price supports for 1984 and 1985: "Yielding to such temptation [to raise supports] fails to recognize the realities of agriculture today and will only encourage farmers to produce more at a time when the market is strongly signalling for less." [69]

Block also opposed legislation enacting a moratorium on repayment of government loans. A good part of the problem seems to lie with Congress, where the incentives favor organized special interests at the expense of taxpayers in general. As economist D. Gale Johnson explained, "Apparently the urge to tinker with price supports before the elections is irresistible.... The effect of this generosity has been to encourage dairy farmers and the growers of wheat, which now as in the past has caused the biggest surplus problem to produce even more." [70]

Another apt observation came from Michigan Congressman David Stockman in 1979: "It is about time the Department (of Agriculture) stops playing nursemaid to the proliferating array of cry-baby commodity groups...let them start assuming the obligations of commercial businessmen." [71] An October 7, 1981, editorial in the Wall Street Journal offered some insights into the political games being played by the administration of which Mr. Stockman is now a part:

Way back last Winter, the Reaganauts said they were going to get the government out of farming and restore market discipline to agriculture. They prepared to do battle with the farm lobbies. They announced a program to accomplish their goals. Then, however, the going got rough on their spending and tax programs; so, over the summer, they traded votes and favors. They dropped their opposition to sugar and peanut subsidies and backed off on their goal of ending grain and cotton target prices....

Thus with little administration opposition, the Senate fashioned a new four-year farm bill. Sure, the dairy lobby was beaten back a bit: Support prices were pegged at 70 percent of parity, down from 80 percent. That'll cost the government about \$1 billion as opposed to \$2 billion...But the support systems for grains and cotton remain, some prices at lower levels, some at higher. [72]

Where Do We Go from Here?

Farmers as a group are having trouble with relatively low prices for their products and many are facing economic difficulties, particularly smaller farmers not adept at taking advantage of government programs. Any time a commodity is overproduced relative to market demand, prices will tend to drop, decreasing the incentive to produce that commodity. If, however, the government undertakes to artificially raise the price paid to producers, the effect will be to encourage overproduction and the accumulation of surpluses, which will tend to depress the market price still further. Similarly, if the government subsidizes the economic survival of marginal producers, it will lead to overproduction and thus damage the economic viability of all producers, including the more efficient ones. The same effect is seen when the government encourages the introduction of new land into the cropland base, as it does when it promotes plowdown of rangeland and when it subsidizes new irrigation projects in the West.

We should face a rather grim conclusion: There seem to be too many producers of a class of products for which there is too little demand, and government policy seems primarily responsible. It is time to stop destroying the economic viability of efficient family farms through economic intervention and let the market sort out the inefficient producers, including those who are best at sowing and reaping political benefits.

Farmers are businessmen, and like other businessmen, compete to offer a product or service to consumers. In the process, if the market is allowed to operate, the price mechanism transmits relevant information concerning supply relative to consumer demand. Information is transmitted rapidly, and businessmen have clear incentives to act on that information and move resources to their highest-valued uses. Resources tend not to be sequestered by inefficient producers, but rather move to where they can best be used as marginal producers go out of business. Free markets offer no automatic guarantees of profits or success. In this way consumers are best served; and in the long run, the economy benefits. Price controls and regulation subvert this process.

Government officials do not reap the economic benefits or suffer the consequences if their decisions damage the economy or the environment. Rather, their bottom line considerations are political. They prosper if they please the special interest groups or satisfy the Congress and the granting agencies who control their purse strings. The growth and development of the American West has been strongly, and probably adversely, affected by government policy. Powerful special interests have routinely captured government policymaking institutions and encouraged development that subsidized particular business activities. Current farm price supports are one clear example. Commodity programs strongly affect the economics of farming and ranching nationwide, and particularly in the West. These programs encourage new farm development on marginal lands, which can lead to severe erosion and depressed commodity prices for established farmers.

The government has long intervened to force Western development through subsidized irrigation dams, canals, and rural electrification. Is it any wonder that we are seeing large farm surpluses and widespread economic hardship?

Centrally planned economies have a fatal flaw. There is no way they can assemble or utilize the pertinent information flow required to sustain a healthy, growing economy. The economic life of a society depends on that network of information generated and transmitted by the free market price mechanism.

The distortions and dislocations of current agriculture policy stem directly from ill-advised attempts to manipulate markets and subsidize the economic life of a group of businessmen. Most farmers and ranchers have been harmed, not helped, by these policies.

It is time to end all agricultural programs and get the government out of farming. The long-term economic health of farmers and ranchers, as well as the quality of the environment, hangs in the balance.

FOOTNOTES

[1] Bruce L. Gardner, *The Governing of Agriculture*, (Lawrence: The Regents Press of Kansas, 1981). Gardner's work provides an excellent overview of the complexities of agricultural policy.

[2] *Ibid.*, p. 2.

[3] *Ibid.*, p. 3.

[4] See, for example, James D. Gwartney and Richard Stroup, *Economics, Private and Public Choices*, 2d ed. (New York: Academic Press, 1980), pp. 675-676.

[5] William Robbins, "Some Farmers Thriving as Others Go Under," *New York Times*, February 19, 1983, p.1.

[6] *Ibid.*

[7] Keith Haugland, "Crisis: largest harvest, smallest profits. What happened?," *Great Falls (Montana) Tribune*, November 28, 1982, p. C1.

[8] Don Kendall, "Farm outlook: 1983 is bound to be improved," *Great Falls Tribune*, December 19, 1982, p. A16.

[9] Robbins.

[10] Sue Schellanberger, "A special background report on trends in industry and finance," *Wall Street Journal*, July 29, 1982, p. 1; Kendall.

[11] Robbins.

[12] Gardner, p. 5.

[13] *Ibid.*, p. 7.

[14] Robbins.

[15] Gardner, p. 9.

[16] Robbins.

[17] *Ibid.*

[18] *Ibid.*

[19] Jonathan Harsch, "Out in Nebraska, ranchers have a complaint: 'farming of Washington'," *Christian Science Monitor*, September 16, 1980, p. 8.

[20] Schellanberger.

[21] Harsch.

[22] Anecdote provided by Thad Box, Utah State University.

[23] Gardner, p. 17.

[24] Seth S. King, "Farm Price Props Expected to Rise Above '82 Record." *New York Times*, January 23, 1983, p. 1.

[25] *Ibid.* [26] "Block recommends reducing wheat, corn price supports, *Great Falls Tribune*, February 1, 1983, p. C7; King; USDA July, 1983 update.

[27] Gardner, p. 22.

[28] A good example is the dairy price support program. See Michael McMenamin, "Dairy Price Supports: Still Milking the Public," *Cato Institute Policy Analysis*, August 19, 1982.

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[30] Ibid., p. 25.

[31] T. J. Gilles, "Disappearing topsoil forming grim clouds," Great Falls Tribune, December 26, 1982, p. D1.

[32] Gardner, p. 25.

[33] Ibid., p. 26.

[34] "Omnibus Farm Bill Cleared," Congressional Quarterly 39 (December 19, 1981):2481.

[35] Gardner, p. 28.

[36] Don Kendall, "Reagan's farm programs recycled from the '30s," Great Falls Tribune, December 12, 1982, p. E2.

[37] Seth S. King, "Sending the Surpluses Back Home." New York Times, December 12, 1982, p. E4.

[38] Ibid.

[39] Ibid.

[40] Ibid.

[41] Ibid.

[42] "Wheat shortage threatens PIK," Great Falls Tribune, March 19, 1983, p. 13.

[43] Ibid.

[44] Don Kendall, "PIK may endanger farmer's livelihood," Great Falls Tribune, January 2, 1983, p. D2.

[45] Ward Sinclair, "New Estimates Find Farm Surplus Plan Could Cost Millions," Washington Post, May 2, 1983, p. A1.

[46] Schellanberger. [47] Gardner, p. 29.

[48] Ibid, p. 30.

[50] Mark Peterson, "Go-go banking, farming bring hangovers." Minneapolis Tribune, January 2, 1983, p. 10.

[51] Haugland.

[52] Gilles.

[53] Ibid.

[54] Ibid.

[55] Ibid.

[56] "Breaking up of grazing land worries conservation officials," Great Falls Tribune, April 5, 1983, p. 6A.

[57] Ibid.

[58] Brad Knickerbocker, "Corporate giant on the land poses some big questions," Christian Science Monitor, July 28, 1980, p. 18. The data from the 1978 U. S. Census of Agriculture (vol. 1, part 51) put the figures more precisely at 0.8 percent of the farms owning 33 percent of the agricultural land.

[59] Robbins.

[60] Ann Crittenden, "Smaller Is Better and Private Best for Farming," New York Times, November 29, 1981, p. 136.

[61] David Kline, "The Embattled Independent Farmers," New York Times, November 29, 1981, p. 136.

[62] Ibid.

[63] 1978 U.S. Census of Agriculture, Table 30, Summary by Type o Organization.

[64] Gardner, p. 98.

[65] Census, Table 4, Operators -- Tenure, Type of Organization, and Characteristics; Table 5, Operators by Type of Organization for Farms with sales of \$2,500 or more.

[66] Kline. [67] Bob Bergland, quoted in Ann Crittenden, "The New Critics of big farming," New York Times, October 19, 1980, p. F1.

[68] Knickerbocker.

[69] Tribune, February 1, 1983.

[70] "Surplus: Time finds no solution to abundance on farms," Great Falls Tribune, August 17, 1982, p. 11B.

[71] "Uncle Sugar Pays Off," editorial, New York Times, July 2, 1981, p. A18.

[72] "Farm Foolishness," editorial, Wall Street Journal, October 7, 1981, p. 26.