TARNISHED GOLD: FIFTY YEARS OF NEW DEAL FARM PROGRAMS

Don Paarlberg
Professor Emeritus
Purdue University

Conference on the Legacy of the New Deal
Center for Constructive Alternatives
Hillsdale, Michigan
March 10, 1987

The essence of the New Deal farm programs was the effort to raise the incomes of farmers by reducing supplies and thereby increasing prices. Markets had failed, it was charged, and the remedy was for government to establish prices and control acreage. There were other New Deal initiatives, but the price-fixing and supply-control efforts of the Agricultural Adjustment Administration were central.

I feel qualified to discuss the past half-century or more of the New Deal farm programs; they parallel my adult life. Part of the time I was a farmer operating under their rules. Much of the time I was in the University, teaching and doing economic research on these programs. For 16 of these years I was in Washington, helping administer them. For the last 10 years I

have been in retirement, observing them with as much detachment as one can acquire after long involvement.

The Great Depression laid the basis for the New Deal farm programs. Only the older people can recall it. A few figures will help calibrate the disaster. From 1929 to 1932 the index of prices received by U.S. farmers fell 56 percent. I was farming then in Northwestern Indiana with my father and brother and keeping farm records in collaboration with Purdue University. The return to labor and management on our farm in 1932, a year of good crops, was a negative $1,203.

Farmers, needing help, undertook a number of desperate acts. In a dramatic protest against foreclosures, they threatened to hang a federal judge. They overturned milk trucks, picketed packing plants, and boycotted farm sales. The mood was ominous. There was anger, frustration, and insistence on action. The Great Depression was worldwide. In Italy and Germany, representative governments were replaced by dictatorships. The American political and economic systems were threatened.

What was the cause of the agricultural disaster? Among farm economists there were two leading schools of thought. One, led by George F. Warren of Cornell University, assessed the problem as general, resulting from the collapse of money and credit. The remedy, said this group, lay in a changed monetary policy. With this diagnosis and prescription I agree.

The other school, led by John D. Black of Harvard, diagnosed the farm problem as arising within agriculture itself, the result of surplus production. The remedy, according to this group, consisted of reducing supplies so as to increase prices.

Belief that the problem was a phenomenon of money and credit had much to support it. The stock of money in the United States fell by one-third. Similar declines in the stock of money occurred in other countries. Prices fell for virtually all commodities, farm and non-farm, whether they were abundant or in short supply. They fell in every country for which statistical information is available. But neither farmers nor farm

politicians understood the complexities of money, credit, or central banking.

The contention that the problem was overproduction was, to farm people, quite persuasive. They knew that excessive production meant low prices and reasoned that with prices low, production must be excessive. But this superficial diagnosis rested on a poor foundation. Total agricultural production during the five first and worst years of the Great Depression was actually 2 percent below the production of the five preceding years.

Something had to be done. It was felt that with the low prices of internationally traded farm products, American agriculture could not compete in world markets. The proposal was that we should establish a domestic price structure basically higher than in the rest of the world and cut production approximately to what could be sold domestically, selling abroad such driblets as would be taken at our higher prices. Intervention in the market system on this scale could not be accomplished by individual

farmer decisions; it had to be done by government. Consensus formed around this idea. The Agricultural Adjustment Act, based on this principle, was passed by the Congress on May 12, 1933.

Those who bore responsibility for our money and credit system were happy with the surplus diagnosis for low farm prices; it reflected acceptance of a micro diagnosis for what was in fact a macro problem. It helped place the onus for the farm disaster on the impersonal forces of overproduction rather than on their own inept monetary management.

It would have been better had our monetary and credit system been so managed that the Great Depression would have been averted. Granting the fact of the Great Depression and its disastrous effect on agriculture, it would have been better to put a government check in each farmer's mailbox and avoid tampering with the market. Accepting the existence of the Depression and the fact of government price-fixing and production control, it would have been better to terminate the programs with the outbreak of World War II, when the Depression disappeared.

We missed all of these better options and continued the programs for more than 50 years.

Passage of the New Deal farm program was a major change in the farm-policy agenda. For 70 years, after passage of the Morrill Act which set up the Land Grant Colleges, the farm-policy agenda had been agricultural development; the components of that policy were research, classroom teaching, on-farm education, and improvement of agricultural resources. Professor Earl Heady of Iowa State University has called this "the best, the most logical, and the most successful program of agricultural development anywhere in the world."

This historic agenda, based on increased production, individual farmer decision, and competitive markets, was not compatible with the ideas underlying the New Deal farm program. Very quickly the historic farm-policy agenda was nudged aside.

The key words for the new farm-policy agenda were "Relief," "Recovery," and "Reform." Relief was to come from a number of sources, including the Federal Emergency Relief Administration.

Recovery was to be accomplished by the transfer of decision-making from the market to the government, specifically price support and production control. Reform was to come from modifications of the competitive system that would reduce the likelihood of another debacle. Reform consisted not only of price supports but also of new institutions of farm credit, new tenure arrangements, federal crop insurance, and special help for the disadvantaged sectors of agriculture.

I recall well the revival of hope on the farm front that accompanied passage of these New Deal farm programs. Farmers were given a role in working out their own chosen solutions to their problems. They were put on committees by the thousands. They elected officers, attended meetings, and spoke their minds. Government checks began to flow. The hemorrhage of farm foreclosures began to abate. On every hand was evidence that the government cared. The Great Depression dragged on but the mood changed for the better on American farms. The New Deal farm

programs were, in the early years, accompanied by better morale and some improvement in economic conditions on American farms.

But now the early years are far behind. What has been the long-term experience with these programs? What of the New Deal farm-policy agenda of Relief, Recovery, and Reform?

Relief came with the Federal Emergency Relief Administration, the flow of government checks, and innovative lending on the part of the new credit agencies. On that score the New Deal must be given high marks.

Recovery was only partial until the outbreak of World War II, seven years after the passage of the New Deal legislation. Agricultural recovery from the Great Depression must be credited more to the stimulus of war than to management of supply and price.

What of Reform? It was, for the greater part, aborted. The agricultural elite, generally the large landowners, managed to retain most of the program benefits themselves rather than share them with tenants or employees. The Resettlement Administration

and its successor, the Farm Security Administration, both intended to lift the status of agriculture's disadvantaged, were closed out. Today's incarnation of these two agencies, the Farmers' Home Administration, has been co-opted by the agricultural establishment. The New Deal farm programs, intended to lift average farm income, actually widened the income gap between top and bottom.

Relief was achieved, Recovery occurred for other reasons, and Reform miscarried.

With the passage of time a new and unadvertised agenda emerged. The programs became <u>preferential</u>, <u>profligate</u>, and <u>perennial</u>.

They were preferential to start with; they began by designating six "basic crops" -- cotton, corn, wheat, rice, peanuts, and tobacco. Dairy products soon joined the group. Left out of the program were more than 100 other crops and all the livestock products. More was left out than was included. The politically

powerful basic crops produced only about 20 percent of agriculture's income but received 75 percent of the program benefits. The omitted crops not only were left out, they also had to bear the burden of the increased output that occurred on acres diverted out of the basic crops. Producers of cattle, hogs, and poultry had to accept the higher feed cost that resulted from reducing corn acreage.

The programs were preferential in a flagrant fashion. The top one percent of the farmers got 21 percent of the benefits. In yet another way the programs were preferential. They raised the retail price of food. The average food consumer had less net income than the big farmers who got most of the program benefits. So the program transferred income from those who were poorer to those who were more wealthy. Despite the New Deal rhetoric about helping the Forgotten Man, the farm program was and is regressive. Not only are the average incomes of the chief program beneficiaries above those of the average food consumer but also the average equity of farm families is higher than the average of

the nation's families -- almost four times greater, as reported recently by Mary Ahearn of the Economic Research Service of the U.S. Department of Agriculture.

The programs not only became preferential, they also became profligate. Estimated calendar year 1986 governmental outlays to the farm sector, including about 12 billion dollars of direct payments and approximately an equal sum in commodity loans, were approximately $25 billion. This was almost as large as net farm income.

The programs not only are preferential and profligate, they also have become perennial. They have continued for more than 50 years. They continued after relief had been supplied, recovery achieved, and reform forgotten.

There are other indictments of these programs. By pricing ourselves out of foreign markets and reducing crop production, we have conceded market growth to rival exporters: the Canadians, the Argentinians, and the European Economic Community. We have held the umbrella for the cotton growers of Brazil, the wheat

growers of Australia, the corn growers of Western Europe, and the tobacco growers of Africa.

The independent spirit of American farmers has been undermined by these programs. The programs have grown to such size that producers of wheat, corn, cotton, and rice are now reliant on government for the bulk of their net incomes. The programs are "voluntary," but the penalties for nonparticipation are now so great that a farmer who wishes to be self-reliant is nevertheless virtually forced to sign up. This subversion of formerly independent farmers is one of the worst attributes of the programs.

Another adverse aspect of the programs is the lax manner in which they are run and the consequent erosion of respect for law. The programs are administered at the local level by farmer committee members who are reluctant to impose penalties on their neighbors. So farmers, with no restraint, rent their poorer acres to the government and pour the fertilizer on their better acres. The government pays for a 20 percent reduction in acreage

and gets less than a 10 percent reduction in output. There is a $50,000 limitation on payments, so big farmers divide the farm -- on paper -- among wife, children, and tenants, collecting $50,000 on each bogus farm, again without restraint. Farmers talk frankly with equal parts of cynicism, humor, and guilt about farming the government.

It was claimed for these programs that they would bolster farm income, keep farmers from going broke, and thus keep the people on the land and preserve the family farm. What are the facts? When the program began, we had 6 million farms. Now we have about 2 million.

With the advance of farm technology and the consequent increase in farm size, agriculture is becoming industrialized, a trend that no farm program can be expected to avert. In grandfather's day it was common for the farm operator and his family to supply all the factors of production -- land, labor, capital, and management. This was in fact the underlying concept

of the family farm. But with the industrialization of agriculture, farms have grown to such size and capital needs have become so great that the ordinary farm family cannot supply all these factors. Land, labor, capital, and management are now being split up and supplied by different entities, much as is the case in factory production. The only way the family farm can be preserved is to redefine it. A modern definition is this: A family farm is one on which the operator and his family supply the majority of the labor and management. This leaves unspecified the suppliers of land and capital. With this modern definition most of the dwindling number of farms are still family farms.

Some of the antics of the commodity programs are so ludicrous as to be almost unbelievable. The dairy programs are perhaps most fantastic. We supported the prices of dairy products with the intention of increasing the incomes of dairy farmers. But, as would be known by every student who has taken a beginning course in economics, the result was to stimulate

production, reduce consumption, and pile up surplus. The surplus of butter, cheese, and dried milk was then donated to welfare people. This proved to be an inadequate outlet so these products were donated overseas. The surplus was still growing so we bought and slaughtered whole herds of dairy cattle. Thereupon the beef cattle producers, who are self-reliant and have neither price support nor production control, complained of this subsidized competition with their product and the government responded by purchasing beef for donation to the school lunch program. This did not adequately alleviate the complaints of the beef producers so the government exported beef from the slaughtered dairy cattle, a strange action since we have a deficit for beef and import substantial amounts. Our forced exports of dairy beef disturbed other beef exporters, making an additional problem for the multinational trade negotiations in Geneva. All of these strange actions were undertaken because we would not take the simple and effective step of lowering the official price.

Meanwhile, those dairymen who stayed in business anticipate a reduced supply of milk and a better market. They are increasing their herds and laying the basis for a larger supply of milk. Like the sorcerer's apprentice, they have heard the signal for delivering more water (milk) and have heard no credible signal for stopping.

The commodity programs create surplus. They make a burden of what should be a blessing -- our capability to produce food.

It is not as if we lacked precedents for commodity programs and so had to learn the principles of price competition by pioneering experience. In the 1920s the Stevenson Plan reduced the supply and raised the price of rubber in the Malay States and so stimulated rubber production in a rival country, Java. Some years later the Brazilians restricted the supply and raised the price of coffee, putting a competitor, Africa, in the coffee business.

The United States is not alone in these antics. The Europeans, with their Common Agricultural Policy, are on a course

similar to ours. Canada, Australia, and Argentina tailgate on us. For 50 years we have almost unilaterally adjusted production, supported the price, carried the stocks, and paid the bill. Other exporters moved in to take the markets from which we withdrew.

There were agricultural economists who warned about these programs from the beginning, among them G.F. Warren and F.A. Pearson of Cornell and T.W. Schultz of the University of Chicago. As the years have gone by, other agricultural economists have opposed them: D. Gale Johnson, G.E. Schuh, Varden Fuller, Bruce Gardner, and now recently Willard Cochrane, who has courageously reversed his earlier position. The political scientist Charles M. Hardin has given these programs scholarly and unfavorable examination. Every Secretary of Agriculture since World War II has spoken out strongly against them: Benson, Freeman, Bergland, Hardin, Butz, Knebel, Block, and Lyng. Every president, Democrat and Republican, beginning with Eisenhower, has tried to scale them back. But these voices have been overwhelmed by the tide of

political advocacy, aided by the funds of political action committees.

Why have the programs continued so long, despite their obvious failure? There are some politically powerful farmers who, in the short run, gain by them. The public thinks well of farmers and is under the illusion that with these programs we protect the family farm. We are riding a tiger and fear to dismount lest we get clawed up. There appears to be more political advantage in continuing the programs than there would be in taking the tough steps necessary to correct them.

These can no longer be correctly called New Deal programs; they have been adopted by most of the Republican farm politicians. As an observer, I can no longer find credible differences in the Congress between the farm politicians of the two major parties.

These programs, at their beginning, were innovative, addressed to the severe problems of an unfortunate minority, and were intent on coping with a truly disastrous situation -- all

attributes of what has come to be considered the liberal movement. They had the support of well-meaning politicians who sought to rectify a terrible problem. But during the past half century, the programs have been co-opted by the agricultural elite and are now programs of the privileged. Farm lobbyists, knowing that farmers have the good will of the public, have estimated the value of that good will at so many billion dollars and are selling it off at so much a year. They need to know that they can't sell off an asset and still continue to possess it.

Presently there is authentic economic distress in agriculture. In my judgment, a major cause is ill-advised macroeconomic behavior. During the seventies expansionary credit and monetary policy caused inflation. Farm operators judged that this pattern would continue and borrowed heavily, hoping to repay with cheaper dollars. The unexpected inflation did not occur. We were racing down the highway, exceeding the speed limit. Then the monetary authorities put on the brakes, throwing farmers -- and others -- against the windshield. To this macro-problem is

added a micro-problem -- excess agricultural production, resulting in part from the stimulus of artificially high price supports here and abroad. As was the case 50 years earlier, farm politicians and farm lobbyists are trying to correct agricultural distress with commodity programs -- which in some measure caused them, were unable to prevent them, and cannot cure them. Less than one-third of the government payments presently go to farmers who are experiencing financial stress. Efforts to target the programs to those in real difficulty have been ignored. Presently the greatest difficulties are with the protected products -- corn, wheat, cotton, rice, dairy. The unprotected products which have been selling in competitive markets -- hogs, cattle, poultry, and most fruits and vegetables -- are doing fairly well. One would think that this obvious fact would cool the ardor for the big commodity programs but this has not been so.

The liberal myth is that competitive markets are selfish and are contrary to the public interest. Government programs, think

the liberals, take economic activity out of the competitive environment and transfer it to the public sector where every person has a vote, assuring that the public interest will be uppermost. The chief lesson to be learned from this review is that for the farm programs this myth is not true.

* * *

These programs have been built into land values, mortgaged indebtedness, living levels, community services, political careers, government jobs, and farmer expectations. Have we passed the point of no return? Is our reliance on these programs now so great that escaping from them would entail pains greater than we would be willing to bear?

There have been attempts to scale back our dependence on these programs, to buy our way out, to lay down a plan for a gradual withdrawal. Up to now these have failed.

The Food Security Act of 1985 as conceived by the Reagan Administration is a plan for withdrawal. Boldly and wisely, it lowers the level of prices for the supported crops. It attempts

to scale back our excess agricultural capacity with a conservation reserve to convert 50 million acres of unneeded cropland to trees and grass.

But contrary to the Administration's wish, the Act holds target prices at a high level, making it by far the most expensive farm program in history. The Act is considered by the farm lobby as a model for free-spending farm programs indefinitely into the future. The farm lobby doesn't want to be escalated out of these programs any more than a typical drug addict wants to undergo detoxification.

The proper course, in the opinion of this observer, is to:

1. Adopt fiscal and monetary behavior that avoids the roller-coaster rides of the past.
2. Stay the course set by the Food Security Act of 1985 insofar as it lowered loan levels.
3. Reduce direct payments to farmers.
4. Use the savings thus achieved to:
    a. Cut the deficit.
    b. Assist deeply-indebted farmers by stretching out and renegotiating their loans, using the Farm Credit System in that undertaking.

It may be that at some point the public will become concerned about the cost of these prorgrams, will come to see that they are preferential and profligate, and will rebel at their perennial nature. But cost is not the constraint it once was, since we no longer cover the cost with taxes but increasingly finance them with deficits.

If the programs are to be cut back and re-formed, the effort will have to be applied from outside the farm sector; the farm lobby will never discipline itself. One hopes that if reform occurs, the programs would be so changed as to reduce the instability, a legitimate objective. The purpose should be to cut down the amplitude of price fluctations around the equilibrium level rather than attempt to raise the level itself.

But maybe this is too much to hope. Some 30 years ago President Eisenhower learned that there was a Tea-Tasting unit in the Department of Commerce, placed there in the early days of the Republic to assure that the tea merchants of China and India did not sell us low-quality tea or stretch out the product with some

adulterant. The President, intent on economy, thought this was an agency that could be abolished, and so intended. But the grocery chains rose in protest; their quality control and pricing schedules had become institutionalized around this governmental unit. Rather than use his political capital on this small issue, the President receded.

I leave you with the question: Have the New Deal farm programs become equally institutionalized so that, despite their obvious failure, they cannot be basically changed?