

Are Current U.S. Farm Commodity Programs Outdated? Arguments in the Affirmative

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Farm commodity programs devised over one-half century ago have outlived their usefulness. The structure of agriculture is different today than in 1933. Comparatively little excess labor remains in farming. The industry is capable of adjusting to changes likely to develop over the next decade or so. Current problems in agriculture are the result of macroeconomic policies and commodity programs. The paper presents elements of a transition program to lower the government's role in supporting farm prices and incomes.

The thesis of this paper is that current commodity programs are outdated. To evaluate that thesis, the paper first contrasts the economic setting and structure of agriculture in 1933 and today. After listing major farm problems and ability or inability of commodity programs to address them, the paper presents elements of a transition program to lower the government profile in supporting farm prices and incomes.

The political-economic system **ideally** provides abundant, high quality food and fiber to consumers at low and stable prices; provides reasonably stable and adequate returns to producers free to make their own production and marketing decisions; and minimizes government costs and administrative burdens. These objectives often conflict. It is possible to increase farm income at the expense of consumers and taxpayers or to reduce food costs at the

expense of farmers. Tradeoffs are inevitable.

Optimal tradeoffs recognize that the overall objective of the political-economic system is to improve the well-being of society. That is the point of departure of this paper. Current farm commodity programs do not serve that objective. After contrasting the economic environment of the early 1930s for which programs were designed with that of today, I list changes in current programs that would be more nearly consistent with meeting economic needs of producers, consumers, taxpayers, and, most importantly, society at large.

The Economic Setting for Commodity Programs

The Early 1930s

The Hawley-Smoot tariff and the recovery of agriculture in Europe after the devastation of World War I had almost eliminated foreign markets for our farm commodities in the early 1930s. The domestic market demand was diminished by falling domestic consumer income working through a relatively high income elasticity of demand. Low demand and supply elasticities with respect to price made agricultural prices highly unstable.

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Farmers were at the mercy of drouths and business cycles, the latter seemingly beyond the control of business or government.

The difficult farm economic circumstances in the 1920s only worsened in the early 1930s with the onset of the Great Depression. Economic conditions in 1933 had reached proportions motivating strong government intervention in farm markets. Income per capita of farmers averaged approximately one-third that of nonfarmers. Income was low among almost all farmers; perhaps two-thirds of farmers were in poverty. Foreclosures were widespread and farmers depended on farm income in a depression economy that offered little chance for off-farm employment and income. Most farmers were ill-equipped by schooling, experience, or skills to earn much in nonfarm jobs even if they had been available. People were returning to farms because 25 percent unemployment and inadequate social welfare programs left the unemployed with few alternatives.

Two-thirds of farm inputs were "farm produced" land and labor. High fixed costs and low variable costs made output unresponsive to prices. Farmers continued to produce for a weak market because they covered low variable costs even at depressed commodity prices. Mechanical innovations (mainly the tractor and its complements) potentially substituting improved capital for large amounts of land and labor awaited introduction as economic conditions permitted. Also improved biological inputs from science awaited introduction with the potential to create low resource returns for decades.

In short, agriculture not only was currently distressed but faced long-term disequilibrium. The economic structure of agriculture was to be characterized by substitution of capital for labor and increased productivity relative to demand in the face of limited opportunity for adjustments. This caused chronic low in-

come and returns relative to the nonfarm sector which would not be eased for many years.

The 1980s

Changes in demand, supply, and institutions made for a very different environment in the 1980s than in the 1930s. Chronic disequilibrium in resources, primarily excess farm labor, had been dissipated by the late 1970s. Farm population, 33 million in 1933, had fallen to less than six million persons in 1984. Farm population was nearly stable in the early 1980s [Council of Economic Advisors, p. 340].

From 1965 to 1980, rates of return on farm resources averaged well above returns on alternative major investments [U.S. Department of Agriculture 1981, p. 51].¹ Farm income no longer chronically lagged nonfarm income after adjusting the former for tax advantages, for the valued farm way of life, and for cost of living. Two-thirds of farm inputs were purchased inputs which could be adjusted in response to changing incentives. The farm population received two-thirds of its income from off-farm sources, hence was diversified in economic sustenance. The small share of farmers in total population and employment enhanced opportunities

¹ At issue is whether returns would have been favorable in the absence of commodity programs. Simulations of the farming economy with and without commodity programs tend to be consistent in showing that commodity programs have reduced variation in farm prices and raised farm prices and incomes in the short run. For gauging long-term impacts, simulation results are elusive, erratic, and inconsistent. Many studies (most with suspiciously low long-run supply and demand elasticities) show lower farm prices, incomes, and rates of return for extended periods with open markets. On the other hand, Nelson and Cochrane [1976] estimated that, in the absence of commodity programs after 1953, net farm income would have been 58 percent above the actual level in 1971! Later in the text, I make a case that commodity programs do not raise net farm income or rates of return in a "long run" of approximately five years or more.

for farm people to find employment niches in the nonfarm economy.

In contrast to the 1930s, farmers now depend on exports for a significant proportion, approximately one-fourth, of demand. Foreign demand is sensitive to price. Long-term export demand appears to be sufficiently elastic to make combined domestic and export demand for farm output elastic [Tweeten 1983]. Thus, sustained commodity programs which restrict supply and arbitrarily hold prices above market clearing levels reduce farm receipts in the long-run.

Future Food Balance

If, as seems likely, future domestic population will grow 0.9 percent per year, if real per capita income will grow two percent per year, if the domestic income elasticity of demand is 0.1, and if exports are 25 percent of demand and will grow three percent per year, then future total demand for farm output will grow 1.6 percent per year. This projected growth rate just happens to equal the productivity growth rate from 1960 to 1984 and from 1965 to 1982 but is slightly higher than the 1.5 percent annual productivity growth rate from 1964 to 1984. These estimates suggest that demand is likely to increase at about the same rate as supply due to productivity growth in the next decade.

Rapid and widespread adoption of vaccines, hormones, and other products of modern biology could quicken the pace of overall productivity gains. But no technology is on the horizon with anything approaching the capacity of the tractor and its complements to displace labor from agriculture. Other estimates [O'Brien; Resources for the Future] project slightly faster gains in supply than demand for farm output and hence project falling real farm prices. Any estimate is crude but I conclude that whether expansion in supply will outrun that in demand (and bring lower real farm prices) or demand will

outrun supply is too close to call. The best guess is that real farm prices will tend to follow the inverse productivity trend just as in the past. No strong upward or downward trend in real farm prices is anticipated. This suggests two conclusions:

(1) Because the elasticities of demand and supply with respect to price have increased, and the structure of farms has changed from previous decades, the farming industry is capable of adjusting to long-term trends in real farm prices within the relatively narrow range expected to occur. That is, rates of return on resources in commercial farming will adjust to parity with returns elsewhere in the absence of commodity programs.

(2) Shocks to the farming economy will continue from year to year. In part because of dependence on export markets in a world of market interventions which exacerbate shocks, short-term demand for our farm output may be even more unstable than in the past. Cycles also will continue, with a few years of favorable farm prices but short world food supplies alternating with longer periods of low farm prices and excessive food supplies.

Reviewing Farm Problems

It is apparent that the nature of farm supply, demand, and prospects for future supply-demand balance have changed. Closer examination of alleged and real farm problems is necessary to more fully judge the place for farm commodity programs in today's economy.

Apologists for commodity programs contend that farm returns will be chronically below returns elsewhere in the absence of farm commodity programs. It is said that farmers persistently will earn low returns because they are price takers, not price makers; the farming industry is an island of atomistic competition in a sea of imperfect competition. It is also alleged that farming is the **only** remaining com-

petitive sector—all other sectors have administered or negotiated prices.

Small business in general is highly competitive and failure rates are higher than in farming on the average. Industries characterized by fewer firms and administered prices can also be highly competitive. Farm machinery, banking, and steel firms—all supposedly in protected industries—have had large economic losses and high failure rates in recent years. Most of agriculture has gotten along without commodity programs. Some sectors such as the livestock sector not covered by commodity programs may fare better without current programs which raise feed costs.

Biological processes of nature create lags between application of inputs and realization of output. This gives rise to unfulfilled expectations, to commodity cycles, and to general uncertainty disconcerting to farmers. Farmers call for government interventions to eliminate such uncertainties and guarantee prices. The presence of economic problems does not constitute a *prima facie* case for government intervention, however. Costs of intervention may exceed benefits. It is essential to separate legitimate needs (which can be met by government at a net social gain) from special pleadings, exploitation by special interests of an affluent public's fear of food shortfalls, and flexing of political muscle.

An Illusion of Low Returns in Equilibrium

The structure of agriculture will create an illusion of low real rates of return in agriculture even when returns are not low. Analysis of all resource costs relative to returns for 1960, 1965, 1970, 1975, 1981, and 1982 [see Tweeten 1984, p. 106 for 1982 estimate] indicates that receipts covered all resource costs on adequate-sized, well-managed farms most years and that the parity price ratio required to cover all costs tended to move down as productiv-

ity moved up.² In 1982 and 1983, for example, gross farm income covered all resource costs on the five percent of all farms that accounted for half of all farm output. Other farms did not cover all costs, and small farms required \$2 or more of resource costs to produce \$1 of output. It follows that if adequate-size farms are breaking even on the average and other farms are losing money, then an average of all farms will be earning returns below equilibrium opportunity cost levels. But small farms are in equilibrium because tax advantages and rural amenities compensate for low or negative before-tax returns. Thus average low returns in farming masks the fact that in a normal year comparatively few (many of them mid-sized) farms are earning low returns not compensated by other factors. Relatively little labor disequilibrium remains except among mid-sized farms. On the whole, at least five percent of farm production resources is not needed but the excess is land and capital as well as labor.

A second reason why farm returns chronically will appear to be low even when not is because of heavy dependence of agriculture on farmland as an asset. It can be shown that in a well-functioning market the current return on farmland, R_t/P_t , is $b - i'$ where R_t is current earnings or rent in year t , P_t is land price, b is desired or equilibrium market-determined real rate of return on farmland investment, and i' is expected real growth in land earnings. Capital gain on farmland is $i + i'$ where i is the general inflation rate and i' is real rate of growth in land earnings R and in land price P . Thus the total rate of return on farmland is current earnings $b - i'$ plus capital gains $i + i'$ or

$$(b - i') + (i + i') = b + i.$$

The farm mortgage interest rate is normally a real rate of interest plus an infla-

² Commodity programs may have played a role—see footnote 1.

tion premium. If the real rate of interest is equal to b , it follows that all costs of mortgage interest equal all returns in equilibrium. But if inflation i or real land earnings growth i' is high, current earnings rates will be low relative to nominal (market) interest rates on farm mortgages.

For example if i' is expected to be .02 or two percent, a conservative value based on 1960s and 1970s experience, if the inflation rate is expected to be ten percent and if, as historically has been the case, farmland investors are satisfied with a current real return on farmland of .05 or five percent, then the current rate of return on farmland is expected to be $b - i' = .05 - .02 = .03$ or three percent. If the real interest rate is five percent, the market mortgage interest rate normally is $5 + i$ or 15 percent. The current return on farmland of three percent and mortgage interest rate of 15 percent means that earnings from five acres are required to pay the interest on one acre! But the 15 percent total return to farmland (three percent current return plus two percent real capital gain plus ten percent nominal capital gain) covers the entire 15 percent mortgage interest rate.

The cash-flow problem is severe for a land owner receiving a three percent current return and paying 15 percent interest although his real rate of return is five percent. The liquidity problem intensifies with higher inflation rates and higher expected real growth rates in land earnings. Inflation raises immediate costs for mortgages but defers returns because a higher proportion of earnings come as capital gain.

In conclusion, inflation and real growth in land earnings create low current returns relative to market interest rates. This generates very real cash-flow problems and the illusion of low real returns on farming assets. The family farm is not well equipped to cope with cash-flow problems. Nonfarm investors and publicly-held corporations with access to diversified debt

and equity capital may cope with less hardship. In fact, they may prefer to receive returns as capital gain taxed at a lower rate than ordinary income. Also, small farms with plentiful off-farm income can cope with cash-flow problems. Mid-sized farms dependent on farm income face the greatest difficulty. Farm commodity programs can reduce cash-flow problems temporarily. However, raising farm price supports to alleviate cash-flow shortfalls raises land values and intensifies cash-flow problems for would-be or expanding farm owner-operators.

Farm Problems and Farm Size

Agriculture is a more heterogeneous industry in the 1980s than it was in the 1930s. The industry defies easy classification, but three farm types stand out.

One is large farms with sales of over \$200,000 per year. Farms with sales of \$200,000 to \$500,000 had \$76,844 of income from all resources in 1983, net worth of \$1,247,458 on January 1, 1984, and a current rate of return of six percent on farm assets; farms with sales of over \$500,000 had much higher incomes, net worth, and rate of return on assets [U.S. Department of Agriculture, 1984, pp. 53, 131]. It is difficult indeed to make a case for income transfers to such farms, which are much wealthier than the average taxpayer and account for nearly half of all farm output and five percent of all farms.

A second notable type is small farms with commodity sales less than \$40,000 per year. These farms averaged approximately \$20,000 income from off-farm sources in 1983; their net farm income was negligible. Current rates of return on their resources have been negative for several years. The stable or increasing number of such farms indicates they are not in economic disequilibrium. As noted earlier, most of these farms accept farm losses because they are compensated by tax write-offs against off-farm income and by rural

amenities. They accounted for 72 percent of all farms but for only 13 percent of farms output in 1983. They are not directly helped much by commodity programs because they have little to sell. They may be hurt indirectly because commodity programs provide more capital and security to larger farms. Larger farms then use that advantage to compete effectively with smaller farms for markets and resources. The full-time small farm has almost vanished. It is difficult to make a case for current commodity programs to help preserve small farms.

Mid-sized farms with sales of \$40,000 to \$200,000 numbered 113,000 and accounted for 24 percent of all farms and 39 percent of farm output in 1983 [U.S. Department of Agriculture, 1984, pp. 80, 85]. On these farms in 1983, rates of current return to assets averaged approximately three percent; 24 to 36 percent of them experienced substantial debt stress [Tweeten, 1985]. Because they have higher debt-asset ratios and rely more on income from the farm than do small farms and because they are less efficient and have less potential markets than large farms, mid-sized farms depend heavily on commodity programs for survival. Mid-sized farms receive approximately 40 percent of their receipts from output covered by commodity programs. This contrasts with farms with sales of over \$500,000 which receive only 15 percent of their receipts from products covered by commodity programs. Commodity programs normally costing \$15 billion per year seem a high price to cover 16 percent of farm output—40 percent of the output on the farms accounting for 39 percent of all farm output. If \$15 billion were divided equally among the mid-sized farms, payments would be \$133,000 per farm.

Evaluation of Farm Problems

The foregoing discussion and other sources highlight at least five farm prob-

lems: (1) instability; (2) low income, low wealth, and poverty; (3) demise of the family farm; (4) environmental degradation, especially soil erosion; and (5) cash-flow shortfalls. But as indicated earlier, presence of farm problems is not a *prima facie* case for government to alleviate those problems. Some problems are dealt with better by the market or modified government programs than by extant programs. How commodity programs relate to each of the above problems is discussed below.

Economic Instability

The impact on agriculture of instability from unforeseeable shocks of man or nature is exacerbated by low short-run demand and supply elasticities. Commodity programs can dampen instability by stabilizing supplies and prices through supply controls, price supports, stock reserves, and other measures.

Uncertainty has characterized farming since its very origins. It is difficult to believe that any operator would enter that "kitchen" unaware of or unprepared to "stand the heat." Some persons prefer risk and seek it. Instability and uncertainty are not confined to agriculture. The gambler in Las Vegas confronts instability and uncertainty each day. The government taxes rather than subsidizes that activity. Speculators in the futures market also face large risks and most lose money. Again the government provides no direct subsidy to losers, although it does allow tax writeoff of some losses.

Instability unchecked can exact massive social cost. The private market and government are the two basic institutions to deal with instability. If marginal private and social costs (benefits) coincide, private markets will act in the public interest to reduce instability to socially optimal levels. It may be contended that these conditions are not met because the private storage trade has higher discount rates than the public and because the private trade will

not store enough to cope with large shocks such as wars, international famine, or export embargoes. However, it is not enough to show that gains are **potentially** large from government versus private efforts to stabilize farm and food prices. Government failure with interventions may create larger net social costs than private market failure the interventions were supposed to correct. Based on his own considerable research as well as that of others, Gardner [1984] concluded that studies "... do not provide support for optimism about governmental action to remedy instability problems" [p. 59].

If it is advisable to supplement private markets, simpler and less costly government programs to reduce variation in farm and food markets seem feasible. Alternatives include farm revenue insurance, federal assistance to increase use of forward contracting including hedging and put options, and/or a subsidy of, say, 30 cents per bushel to producers for holding buffer stocks. The latter would have no specified acquisition or release price but might be supplemented by modest-sized government-held emergency grain reserves somewhat insulated from markets.

Low Income and Wealth

Because of huge capital and managerial requirements, commercial farmers cannot survive long with chronic low income, low wealth, or poverty. Chronic poverty is rarely found on commercial farms. The low-wealth-income problem is confined mostly to small farms.

Commercial farmers have higher income and wealth than do nonfarmers on the average. So wealth transfers to commercial farmers do not seem warranted. Many commercial farmers have temporarily low or negative income. But it is difficult to build a case for transfers to a producer with a \$100,000 farm loss but who has \$1 million of net worth to draw upon. Commodity programs are not a cost-

effective way to alleviate poverty—only one in ten dollars of commodity program payments go to the poor. An income maintenance program targeting the poor makes more sense than commodity programs—if the objective is to alleviate poverty.

Supply controls and other price support instruments to raise farm income lose their effectiveness in the long run not only because they provide incentives to expand production and to reduce consumption but also because benefits are capitalized into the fixed instrument of control—land in most cases. Hired workers benefit little if at all from programs, renters lose their gains to landlords, and new owners lose their benefits to former owners. Thus over time the income benefits of farm commodity programs are lost to intended beneficiaries.

Demise of Family Farms

Excluding large farms (nonfamily corporations and operations hiring more than 1.5 person-years of labor) and part-time farms which derive more than half of their income from off-farm sources, the remaining "family farms" account for a declining share of farm numbers and output. Debate rages over whether commodity programs help preserve such farms. Perhaps most agricultural economists claim commodity programs have resulted in fewer family farms. However, my conclusion after examining considerable data and logic is that commodity programs have been neutral [Tweeten, 1984, pp. 31–33]. They have neither helped nor hurt the family farm in its struggle to survive over the long run.

If preserving the family farm is deemed to be important, program benefits would need to be targeted to such farms. That would require emphasizing direct payments and foregoing supply control. It is impossible to exclude nonfamily farms

from price enhancement of supply control. And it is difficult to control supply without including large farms accounting for over half of farm output. Giving up supply control means giving up price supports above market-clearing levels because the only realistic way to eliminate large surpluses without supply control is to sell them at a market-clearing price.

A program of direct payments focused on family farms and without supply control or price supports would help make the U.S. competitive in world markets. Treasury costs could be held below current levels if payments were restricted to the 16 percent of total U.S. farm output now covered on mid-sized farms. Producers who object to sales in export market below full production costs would have the option to not produce. A costly bureaucracy required to control supply would be freed for more productive employment elsewhere.

An alternative is to terminate all commodity programs including targeted assistance to family farms. The result would be both lower food costs and Treasury outlays. Family farms would fade away very slowly with some unfavorable consequences for rural communities. Local farm production would continue, however. Korsching [1984] found little difference in the degree to which farmers operating farms of various structural characteristics (size of farm, degree of ownership, gross farm income, credit usage, or complexity of business operation) purchased goods or services from either local communities or larger, more distant communities. Many rural communities no longer depend on agriculture for an economic base and would continue to prosper. For the most part, the nation has not maintained industries just to preserve communities. Mining ghost towns are evidence. Net social costs probably are less for programs of training, counseling, and moving assistance than for subsidies to maintain declining local industry.

Environmental Degradation, Especially Soil Erosion

Chemical residues in the soil and groundwater supplies and on farm products constitute a social problem but commodity programs have little impact. Soil erosion is the most serious environmental problem in agriculture but again commodity programs have not helped to alleviate the problem [Batie; Reichelderfer]. By encouraging "sod-busting," commodity programs may have contributed to conversion of grassland to cropland and hence to soil erosion.

Current commodity programs do not protect the environment but they could be changed to better serve that objective. One approach would be to designate the 30 million cropland acres with the highest ratios of soil loss to tolerance (T) value as ineligible for commodity programs but eligible for a 20-year easement for cropping rights. In return for a payment, the landowners could be required to follow a conservation plan and could graze or hay the land but could not crop it for 20 years. If a food crisis arose, the easement could be declared void by government for the duration of the crisis.

Cash-Flow

Liquidity problems arising from inflation and life-cycle problems of refinancing family farms each generation can be severe even if real rates of return on farm resources are favorable. Price supports and supply controls may only worsen cash-flow and farm-entry problems by driving up farm asset values relative to real earning capabilities.

Commodity programs do not address the basic causes of cash-flow problems. By adding to federal outlays, commodity programs can aggravate unsound macroeconomic policies which have been a major source of farm and nonfarm economic ills. The proper solution to cash-flow problems is sound macroeconomic policies.

Other Problems

The financial stress problem in the 1980s is unprecedented and does not fall neatly into the five categories of problems listed above. It behaves much like the cash-flow problem caused by high nominal interest rates. But unlike the cash-flow problem (with capital gains providing deferred compensation for high interest to bring favorable real returns), high real interest rates cause low real returns relative to interest costs. Financial stress is felt most acutely by indebted farmers but real wealth losses accrue to all real-asset owners.

High real interest and exchange rates will not persist. Hence financial stress is most properly classified as a continuing manifestation of the instability problem. The best solution to financial stress is not more generous price supports but sound macroeconomic policies and targeted credit assistance.

Thus far, I have examined farm commodity programs and the problems they address individually. It is possible to recognize tradeoffs among consumers, taxpayers, and producers to arrive at overall net social costs of commodity programs. Net social cost, defined as the value of goods and services foregone and hence of national income sacrificed by commodity programs, ranges up to 5 percent of gross value of output for some commodities [Gardner, 1981, p. 73; Tweeten, 1979, p. 485]. Adding resources for program administration and for lobbying to influence political outcomes further raises losses in national income from commodity programs. It is doubtful that intangible program benefits not included in the analysis would compensate for the loss in national income.

Formulating a Transition Program to a Market-Centered Agriculture

An animal capable of thriving in the wild can lose that capability in captivity.

If the animal is not properly prepared, returning the animal to its natural environment can be fatal. So it is with agriculture. A transition program is essential to ease return to a market-centered economy. Several elements of such a program are listed below.

(1) The most important component of a transition program is to provide agriculture "a level playing field." Many of farmers' economic hardships were imposed by poorly conceived macroeconomic and trade policies. Pursuit of sound monetary-fiscal policy that does not create aberrations such as unusually high real interest and exchange rates would make living without commodity programs more tolerable to farmers. The appropriate fiscal policy is budget deficits during recession and budget surpluses or a balanced budget in a full-employment economy. Money supply could increase perhaps six percent per year with more rapid increases during recession. International trade policy needs to work towards removal of trade barriers, foregoing of export embargoes, and firm commitment to our reputation as a reliable supplier. Selective export subsidies could be used to countervail and roll back subsidies of competing exporters. The overall objective, however, is to use willingness to end our own import barriers, price supports, and export subsidies as a bargaining chip to end such policies in other countries.

Income tax features such as investment tax credits, depreciation in excess of market rates, and writeoff of capital outlays as current expenses encourage investment in an industry already burdened by excess capacity. Subsidized credit programs do the same. Phase-out of public programs encouraging substitution of capital for labor would contribute to the "level playing field" needed by farmers to prosper in a market-centered agriculture.

(2) U.S. agriculture in 1983 had five percent excess capacity defined as output with normal weather in excess of what the

market will absorb at current prices and now removed from markets by government programs [Tweeten, 1984, p. 96]. That excess capacity had grown to perhaps six percent by 1985. Also, stocks of some commodities are excessive. Wheat stocks are projected to exceed normal levels by one-half by June 1986. If producers are to be given a fair chance to survive in the market alone, they should not be expected to bear the burden of dissipating excessive stocks accumulated under past government support programs. Low prices for an extended period would be necessary to eliminate the stock overhang before farmers would have a chance for prices to cover production costs. A transition program could remove excessive stocks by a payment-in-kind supply-control program or other means.

(3) Stocks and excess production capacity have accumulated because supports have priced U.S. commodities out of world markets and have encouraged excessive production. Wheat is a stark example. The wheat allotment base increased from 53 million acres in 1975 to 93 million acres in 1985. Program incentives combined with slippage over the years probably caused output to be larger in 1985 with a 30 percent diversion program than would have occurred in the absence of commodity programs since 1975.

If voluntary diversion programs no longer control production at a tolerable Treasury cost, lower market prices may be necessary. Loan rates could be reduced to market-clearing levels or, better yet, eliminated. For this to occur without bankrupting farmers, direct payments are needed. Payments would not be conditioned on present or future acreage or yield but would feature limitations per producer to reduce Treasury cost. Payments would ensure maintaining net farm income during a transition period before a market corn price of, say, \$2.00 per bushel and market wheat price of \$2.50 per bushel reduced output and expanded

sales to clear markets. Payments might be phased out in five to ten years.

It appears hypocritical simultaneously to call for federal fiscal responsibility and for a costly transition program featuring direct payment of \$15 billion per year—at least initially. Fiscal policy in effect taxes farm exports 40 percent and subsidizes imports 40 percent. Adjusting to a market-centered agriculture can be free neither of trauma to farmers nor of costs to government. The government bears a major share of blame for farmers' current financial distress; this is no time to abandon farmers to their own devices without aiding them with a transition program. Sizable direct payments in a transition program buy time to reduce real interest and exchange rates. High Treasury outlays in the short run will be offset by lower food costs. The net long-run cost of a market-centered agriculture will be less than with continuation of current programs.

A common assertion is that a market-centered agriculture would cause (a) swift demise of the family farm, (b) takeover of farm production by a few large corporate industrial conglomerates, and (c) high food prices made possible by bargaining power of the conglomerates. Each part of this assertion is without substance or support. If broiler industry history is a guide, in the unlikely event that farm production would be concentrated in a few firms the result would be increased efficiency and lower food prices.

Summary and Conclusions

Farm commodity programs devised over one-half century ago and continued in essentially the same form today have outlived their usefulness. The structure of agriculture as apparent in supply, demand, farm income, disequilibrium, and income and asset distribution is very different today than in 1933. Comparatively little excess labor remains in farming. The industry is resilient and capable of adjust-

ing to supply-demand disequilibrium likely to develop over the next decade or two.

Commodity programs have caused some of the current problems of agriculture. But macroeconomic policies especially have distorted markets, hurting the farming industry by raising real interest and exchange rates. The farming industry is hurt more than other industries because it is capital intensive (and interest is a major cost of capital), is a major net debtor (creditors gain from high real interest rates), and depends more than other industries on export markets. Farmers deserve a "level playing field" in macroeconomic and trade policies if they are to take on the rigors of the market.

The farming industry has been too abused by macroeconomic policy and too dependent on commodity programs to be ready for the rigors of an unrestricted market "overnight." Excess capacity is at least five percent and stocks of some commodities are excessive. A temporary payment-in-kind program to reduce excess stocks, a reduction of loan rates, and sizable direct payments are suggested components of a transition program to exit government from farming.

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