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NEOPOPULISM AND THE NEW AGRICULTURE

C. Ford Runge



**Department of Agricultural and Applied Economics**

University of Minnesota  
Institute of Agriculture, Forestry and Home Economics  
St. Paul, Minnesota 55108

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C. Ford Runge  
Department of Agricultural and Applied Economics  
Hubert H. Humphrey Institute of Public Affairs  
University of Minnesota

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## Neopopulism and the New Agriculture

Just prior to the November elections, an organization called the "New Populist Forum" announced itself under the banner of "Saving the Heartland." What was unusual about the group, in the preelection season, was not that it sought to politicize the farm issue. What was unusual, given its populist identity and avowed purpose, was that the New Populist Forum arose from the traditional spittoon of populist rhetoric: Washington itself. One of its founders, Senator Tom Harkin of Iowa, (together with Congressman Lane Evans and Texas agriculture commissioner Jim Hightower) has for several years promoted a plan in Congress to raise the level of farm price supports and to impose mandatory controls on production. The "Harkin Plan," as it has become known, is the major Neopopulist alternative to current farm policy.

Without irony, the September, 1986 announcement declared itself "a Washington - based organization dedicated to tipping the balance of power toward average citizens, changing the government policies in favor of common sense and common men and women, and securing economic opportunities for all." It went on to say that it was "rooted in the economic ideas of 100 years ago," and "works with the Congressional Populist Caucus," as well as "local progressive populist officeholders," "grass roots activists," and "organizers around the country whose vision it shares."

Because my own roots are in the Progressive Party of Wisconsin - a close cousin to Populism - I began to reflect on the meaning of Neopopulism for the future of American agriculture. What relevance do populist ideas have for today's farmer? How is the farmer's situation similar to that of 100 years ago, and how is it different? Because my

research as an agricultural economist is on renewing American agricultural competitiveness in an international context, I wondered: what does Neopopulism say to the New Agriculture?

### Populism and Neopopulism

Populism is a mutable concept. From the agrarian populism of late 19th century America to the narodniki of revolutionary Russia, no single unifying set of ideas can be found. Contradictions abound. In her 1981 Populism, Margaret Canovan writes that "intellectuals, peasants of various types, and commercial farmers characteristically have produced different kinds of populism, intelligibly related to their social and economic situations but not reducible to a common core."

An illustration of one contradiction in American agricultural populism is ambivalence toward government, captured in the tension between a "Washington based" New Populist Forum dedicated to "grass roots interests." This ambivalence also characterizes the Harkin Plan, which calls on farmers to hold referenda on mandatory production controls for their commodities. A wheat farmer would vote on the issue for wheat, and a corn farmer for corn. If a majority vote yes, then production would be controlled at a level sufficient to force prices to 70 percent of parity, about twice current world market levels. Like raising a column of water, prices would be driven to these target levels by narrowing the base of the column. On the one hand, direct democracy is preserved by referendum; on the other hand, mandatory controls become a form of Orwellian dictat, what one liberal critic (writing in the New Republic) called the "wheat police."

An additional tension is that populist programs in agriculture invariably call for extensive government intervention in the economy on behalf of people who already own large amounts of property. As Canovan writes,

In terms of ordinary Right-Left distinctions this seems confusing, for it has often been assumed that the natural allies of state intervention will be those who possess no property and have nothing to lose. Commercial farmers, however, insofar as they are dependent upon market forces over which they have no more control than they have over the weather, tend to welcome a good deal of government protection, in spite of their determination to remain autonomous on their own land. The situation of the modern European small farmer, protected from the risks of agricultural production by the umbrella of the European Community's Common Agricultural Policy, is typical of this development (p.104).

Despite these and other political contradictions, American farm populism can be largely explained in terms of three key social and economic forces. These are (1) instability arising from international markets; (2) deflationary price movements; and (3) financial stress. In this respect, strong parallels unite the populism of yesterday and today.

#### Instability in International Markets

In its current form Neopopulism is closely tied to the larger debate over protectionism and America's slipping export position in international markets. The Harkin Bill, like the European Common Agricultural Policy, is essentially an inward-looking program for agriculture, in which the primary objective of mandatory controls is to force up agricultural prices for domestic consumption while insulating domestic production from international competition. Requiring over 135 million acres, at current estimates, to be retired from production, it would attempt to seal off American farm prices from the vagaries of world markets. This insulation is in reaction to increases in farm price instability resulting from the

agricultural trading system. The U.S. benefited enormously from this system in the 1970's as its export markets grew, but it has suffered from the abrupt reversal in exports since 1980-81. This decline is largely attributable to previously high U.S. price supports and the strong dollar.

This inward-looking view of American agriculture is consistent with earlier forms of populism, which historians have characterized as isolationist and at times even xenophobic. In the last part of the 19th century, American farmers were utterly dependent on railroads that shipped grain from newly opened lands to market. Often financed by outside capital, the railroads became natural targets of those who feared that "foreign interests" sought to manipulate and control the farmer. In a sectional sense, the Midwest and South found in a populism a true difference with the outward-looking, trade-dependent Eastern Seaboard. To the East dwelled, as one populist phrase had it, "the plutocrats, the aristocrats and all the other rats." This isolationist attitude, which the historian Richard Hofstadter has called the "paranoid style" in American politics, contains a strong flavor of "America-first". In agriculture, it is fed today by the gnawing suspicion that America is no longer first, and is slipping further behind in the international competitive race.

#### Deflationary Price Movements

Today's farm economy is experiencing severe declines in crop, land and farm equipment prices. Current world grain supplies are so huge, and so far in excess of demand, that chronic deflationary pressures are projected by many analysts to continue into the indefinite future. In reaction, the Harkin Plan calls for commodity price - fixing to hold crop prices well

above world levels. Since administered prices at these levels will encourage additional production and yield increases both at home and abroad, it is likely that more and more acreage will need to be retired over time if domestic prices are to be supported.

In the face of deflationary commodities price movements, many have argued that more inflation would be a good thing. Inflation is the friend of the debt and land holder, and American farmers hold plenty of both. This view also has its roots in the populism of 100 years ago. Then, the debate revolved around silver coinage, immortalized in William Jennings Bryant's famous "Cross of Gold" speech. From 1792 to 1873 the United States was on a bimetallic standard, with both gold and silver dollars legal tender. In 1873, with silver scarce and the majority of nations adopting a gold standard, silver was demonetized at the behest of trade-oriented interests, mostly in the East. Silverites, joined by advocates of paper currency (Greenbackers) decried the "Crime of 73" as a conspiracy hatched by a cabal of English, Jewish and Wall Street bankers. "Free silver" was the cry of the indebted, based on the view that agriculture was especially victimized by a currency fixed only to gold.

This line of argument proved especially popular in the silver mining states of the West. But its real appeal lay in the agrarian sector, where falling crop and land prices made an inflationary monetary policy highly attractive. William Harvey's 1894 pamphlet, Coin's Financial School, employed young "Professor Coin" as the imaginary protagonist of a united silverite policy. Silver, according to the professor, "was so much handled by the people and preferred by them, that it was called the people's money. Gold was considered the money of the rich."

Interestingly, monetary recovery ultimately came not from increased silver coinage, but from increased gold production in the last years of the 19th and first years of the 20th century.

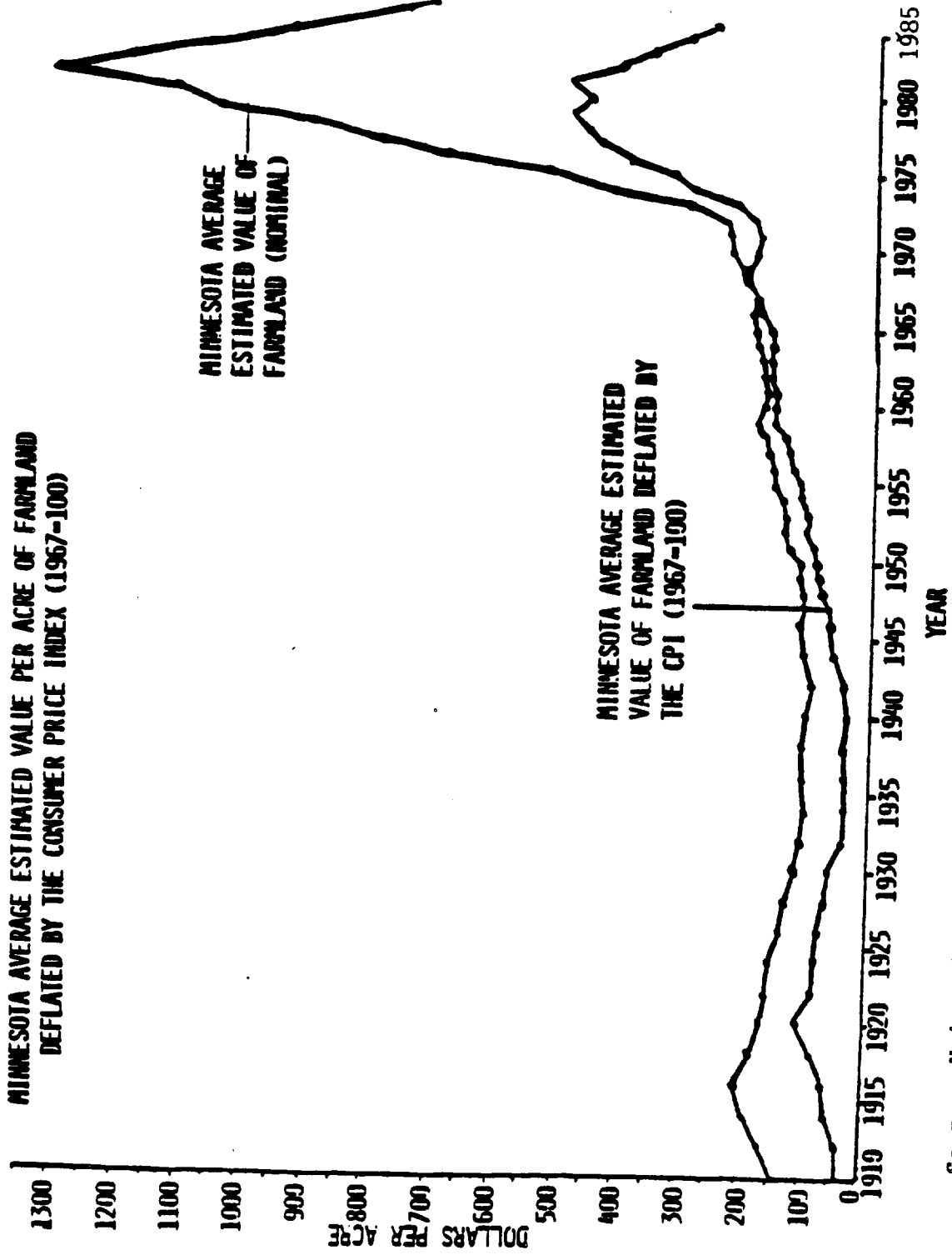
Today's Neopopulism retains an implicit bias in favor of monetary expansion and inflation, though without its bimetallic edge. Its appeal is the same. In October, 1986, an index of Minnesota corn prices fell to its lowest level in over a decade. Land price declines have been even more dramatic, as the accompanying chart shows. Perhaps as significant as the nominal decline shown in the chart is the real, inflation - adjusted drop, suggesting that even after accounting for inflation, recent downward price adjustments are historically unprecedented.

#### Financial Stress in Agriculture

International market forces together with deflationary commodities prices are joined by a third force explaining financial stress in agriculture. To falling exports and crop and land prices must be added the fact that real interest costs on farm debt escalated with dizzying speed from 1980 to 1985, and have moderated only slightly since. The reason these costs rose in real terms was primarily deflation.

Monetary policies to control inflation proved successful enough to switch farm borrowing from a paying proposition for many in the 1970's to a financial disaster in the 1980's. In 1979, borrowing costs were actually negative after accounting for inflation, and American farmers took on ever larger amounts of debt. But as inflation fell (along with crop and land prices) many farmers who had borrowed to expand their operation to meet export demand that never materialized were left hanging. Although interest rates have declined in the economy as a whole, the





Source: University of Minnesota, Department of Agricultural and Applied Economics.

riskiness of the farm sector has kept real farm borrowing costs 2-3 points above those in the non-farm sector. The height of this spread in rates coincided, in 1985, with the most strident calls for a moratorium on farm foreclosures as a way of "stopping the clock" together with general attacks on bankers and lending institutions.

In this sense, international markets, deflation, and financial stress are three dimensions of a vice which has squeezed value, capital, and people out of an overheated agriculture. Farm foreclosures, resulting calls for debt moratoria, and anti-banker sentiment are the visible effects of these complex forces.

In the late 19th century, agriculture did not overheat due to a short-lived export bonanza. Rather, a domestic land boom, stimulated by Western settlement, proved the culprit. Then, as today, settlers on homesteads in the West needed capital for machinery, fencing and seed, and they mortgaged their land to get it. This was encouraged by banks and railroads. In Beatrice, Nebraska, a real estate firm's slogan read:

Beatrice is not dead or dying,  
Real estate is simply flying,  
He who buys today is wise,  
For Beatrice dirt is on the rise.

When the crash in land values came, large numbers of farmers (including my own ancestors, who had left Wisconsin to homestead in the Dakotas) walked away from mortgaged land poorer but wiser. To farmers in such financial stress, the silverite argument as well as calls for debt moratoria and the notion of a "bankers' conspiracy" took on added appeal. Return to the gold standard appealed because farm debt became worth more to creditors

with each passing year. Moratoria were argued then, as now, as a way to stop the clock and to "punish" banking interests.

These historical parallels help explain the current appeal of Neopopulism in American agriculture, which is indeed rooted in ideas of 100 years ago. As a reaction to economic and social forces, Neopopulism is understandable. But is it a realistic basis for policy, or will it sink, like its precursor a century ago, in a sea of political and economic contradictions?

### The New Agriculture

America today is a trading nation. When trade surpluses become trade deficits, jobs are lost and Americans (and their elected representatives) react. Yet in the last 25 years, America's overall trade balance has been supported by hefty surpluses in agriculture, stimulated by productivity increases greater than in any other sector of the American economy of comparable size. On balance, agriculture has gained far more from trade than it has lost. Its defining feature, as economist Vernon Ruttan notes, is that "it is one of our largest remaining world class industries."

Although America is a trading nation, and agriculture has been one of our major trade success stories, it is not an agricultural nation in the sense that it was a century ago. While statistics on the small number of farmers in relation to the population (44% in 1880, 2.7% in 1980) are often cited, less obvious is the fact that the standard of living enjoyed by American farmers results largely from purchased products from outside of agriculture, and the ability to sell crops into a complex set of marketing channels which move this produce around the world. It is the integration of the U.S. agricultural system with international markets,

and with products and processing channels beyond the farm gate, that makes American farmers competitive in the international marketplace.

In addition to this international and off-farm integration, American farmers are increasingly linked to the financial sector. Financial and commodities market linkages put individual farmers in a symbiotic (if uneasy) relationship with their lenders as never before. On a more global scale, the capacity of Third World countries (the largest growth market for U.S. farm exports) to repay financial obligations to international lenders makes farm exports and hence farm prices a direct function of the international cost of borrowing.

Trade, marketing, and financial integration are all features of what might be called the "New Agriculture" of the late 20th Century. Unfortunately, it does not appear that the plan offered by the Neopopulists fits well into this world. It is, rather, a reactionary attempt to turn back the clock. Its lack of fit, curiously, occurs in each category that gives it impetus.

First, and most obvious, is the conflict between increasingly open international trade in agriculture and the inward-looking agenda represented by the Harkin Plan. The gains from trade for agriculture and the American economy as a whole have been large, and have supported an agricultural sector which would be much smaller in the absence of these export markets. Despite large declines in U.S. farm exports over the last five years, more than half of the corn, wheat and soybeans produced in the Upper Midwest continue to flow into the international market. To shut down production in order to keep domestic prices high is, in effect, to surrender these markets to American competition in Argentina, Brazil, and

the European Community. Profit-maximizing processors and purchasers of grains both here and abroad would rapidly turn to these other sources. For this reason, the Harkin Plan is accompanied by provisions for export subsidies which would make up the difference between domestic and world prices. These subsidies, besides triggering retaliation, would be very expensive on a volume basis unless the amount exported was small. Moreover, it is doubtful that the Harkin Plan could succeed over the long run in raising domestic prices through production controls, which will be frustrated by yield-improving technology.

In recent research, I have studied the important statistical linkages from farm exports to farm income, and from farm income to land values. Over the years 1949 to 1984, the most important factors affecting farm income have been interest costs, government payments, and farm exports. When the sources of land value decline were analyzed statistically, farm income was the most important predictor of these declines, while government payments were much less important. I interpret these results to mean that international trade is a key element supporting farm income, and that increased government payments alone are incapable of supporting this income or (indirectly) land prices. If policies are implemented that reduce U.S. agricultural exports, we can expect continued increases in our overall trade deficit, and continuing downward pressure on farmland values.

A second conflict between Neopopulism and the New Agriculture arises from an inflationary agenda in a deflationary period. In response, domestic price-fixing by the government or renewed inflation are simply inadequate. While problems of farm debt, driven by continued interest

cost burdens, make understandable a desire for renewed inflation, there are better ways to deal with the farm credit crisis than an attempt to float all boats on an inflationary froth. As noted above, farmers are increasingly dependent on purchased inputs of seed, fertilizer, equipment and consumer goods. Combined with massive crop surpluses and large quantities of land in excess supply, inflation will not have an equal effect on prices paid and prices received by farmers. Many farm costs (including interest costs) are likely to rise with inflation before crop prices or land values do, placing additional burdens on the farm economy at an especially inopportune time.

Just as higher prices purchased through production controls are unlikely to provide a long term substitute for growth in world demand, so inflation is unlikely to stimulate recovery without real underlying growth in farm productivity and programs targeted specifically at reductions in financial stress.

The third and final malady afflicting the Neopopulist program is its hostility to the financial sector on which agriculture increasingly depends. It took the financial acumen of Felix Rohatyn to save New York from fiscal involvency. A similar level of financial sophistication will be necessary to deal with the farm financial crisis, which has both domestic and international dimensions. Attempts to stop the clock through farm (or international) debt moratoria will punish the bankers, all right, who will in turn punish farm and other borrowers by rationing and raising the cost of credit. This form of self-abuse, ironically, provides a short-run organizing base for populist claims, since it would unquestionably make financial conditions in agriculture worse.

In both domestic and international credit markets, debt rescheduling is urgently called for. This rescheduling will require cooperation between farmers, farm lenders, and the financial community. In Minnesota and other states, programs have helped reduce farm interest burdens in return for bank commitments to share the costs. Similar programs are possible at the national and even the international level, if the mutual interests of the parties can overcome recrimination and blame-laying.

In the final analysis, Neopopulism lacks the coherence necessary to provide a meaningful policy alternative. Perhaps, as Oxford's Isaiah Berlin put it, populism has a "Cinderella complex." In his own attempt to define it, Berlin wrote that "there exists a shoe - the word populism - for which somewhere there exists a foot." But Berlin was not so sure. "There are all kinds of feet which it nearly fits, but we must not be trapped by these nearly fitting feet." If Neopopulism is indeed the old shoe I have described, then it fits the feet of the modern farmer and modern American political life uncomfortably, if at all.