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Raising Less Corn and More Hell

When politician Mary Lease stumped the Kansas countryside in 1890, she urged the farmers to raise "less corn and more hell," and that is just what they have been doing ever since.

The two decades before World War I witnessed unparalleled agricultural prosperity in the United States. This "golden age of American farming" continued through the war, as food prices soared. The end of the war, combined with a sharp depression in 1920, brought the golden age to a painful halt. Even the long economic recovery from 1921 to 1929—the Roaring Twenties—did little to help American farmers. European countries were redirecting their resources into agricultural production, and new American **tariffs** on foreign goods severely disrupted international trade. Because food exports had been an important source of farmers' incomes, the decline in world trade reduced the demand for American agricultural products and cut deeply into food prices and farm income.

The sharply falling food prices of the 1920s led farmers to view their problem as one of relative overproduction. Numerous cooperative efforts were made, therefore, to *restrict* production, but virtually all of these efforts failed. Most crops were produced under highly competitive conditions, with large numbers of buyers and sellers dealing in products that were largely undifferentiated: One farmer's corn, for example, was the same as any other farmer's corn. Thus, producers were unable to enforce collective output restrictions and price hikes on a voluntary basis. But what farmers failed to do by voluntary means in the 1920s, they accomplished

via government directives in the 1930s. An effective farm **price-support program** was instituted in 1933, marking the beginning of a policy of so-called farm subsidies in the United States that continues even today.

We can best understand the results of price supports and other government farm programs by first examining the market for agricultural commodities in the absence of government intervention. In that competitive market, a large number of farmers supply amounts of each commodity, such as corn. The sum of the quantities that individual farmers supply at various prices generates the **market supply schedule** of a commodity. Each farmer supplies only a small part of the market total. No one farmer, therefore, can influence the price of the product. If one farmer were to raise the price, anyone wishing to purchase corn could easily buy from someone else at the **market-clearing,** or **equilibrium, price.** And no farmers would sell below the market-clearing price. Thus, every unit of output sold by farmers goes for the same price. The price received for the last (or *marginal*) unit sold is exactly the same as that received for all the rest. The farmer will produce corn up to the point that, if one more unit were produced, its production cost would be greater than the price received. Notice that at higher prices, farmers can incur higher costs for additional units produced and still make a profit. Because all farmers face the same basic production decision, all farmers together will produce more at higher prices. Indeed, no farmer will stop producing until he or she stops making a profit on additional units. That is, each farmer will end up selling corn at the market-clearing price, which will equal his costs of production plus a normal profit.[1]

Now, how has the usual price-support program worked? The government has decided what constitutes a "fair price," often called the **target price.** The key to this vital determination is the ratio between the prices farmers historically paid for what they bought and the prices they received during "good" years, such as during agriculture's golden age. Except for the years of World War II, the "fair" price decreed by the government (called the **parity**

[1] For society as a whole, this is actually a cost of production, because it is required to keep the farmer growing corn instead of changing to an alternative occupation.

price) generally has been well above the market equilibrium price that would have prevailed in the absence of price supports. This has encouraged farmers to produce more, which ordinarily would simply push price right back down.

How has the government made the parity price "stick"? There have been two methods. For the first several decades of farm programs, it agreed to buy the crops, such as corn, at a price, called the **support price,** that was at or near the parity price. As a practical matter, these purchases have been disguised as "loans" from a government agency called the Commodity Credit Corporation (CCC), loans that never need be repaid. The government then either stored the crops it purchased, sold them on the world market (as opposed to the domestic market) at prices well below the U. S. support price, or simply gave them away to foreign nations under the Food for Peace program. In each instance, the result was substantial costs for taxpayers—and substantial gains for farmers. Under the support-price system, the American taxpayers routinely spent more than $10 billion e*ach year* for the benefit of corn farmers alone. Smaller but still quite substantial subsidies were garnered by the producers of wheat, peanuts, soybeans, sorghum, rice, and cotton, to name but a few.

In an effort to keep the size of the surpluses down, the government has often restricted the number of acres that farmers may cultivate. Under these various **acreage-restriction programs,** farmers wishing to participate in certain government subsidy programs were required to keep a certain amount of land out of production. About 80 million acres, an area the size of New Mexico, have at one time or another been covered by the agreements. Enticed by high support prices, farmers always have been ingenious in finding ways to evade acreage restrictions. For example, soybeans and sorghum are both excellent substitutes for corn as a source of livestock feed. So farmers agreed to cut their corn acreage, then planted soybeans or sorghum on the same land. This action aggravated the corn surplus and forced the government to extend acreage restrictions and price supports to soybeans and sorghum. Similarly, faced with limitations on the amount of land they could cultivate, farmers responded by cultivating the smaller remaining land far more intensively. They used more fertilizers and pesticides, introduced more sophisticated methods of planting and

irrigation, and applied technological advances in farm machinery at every opportunity. As a result, agricultural output per man-hour is now *12 times* what it was 60 years ago.

There were a couple of problems with the support-price system. First, because it kept crop prices high, it kept consumers food bills high as well. People were spending an extra $5 to $10 billion on food each year. Another problem with the price-support system was the fact that the surplus crops piled up year after year in government warehouses. Storing the surpluses was not merely expensive, it also eventually became politically embarrassing. For example, at one point the federal government had enough wheat in its storage bins to make seven loaves of bread for every man, woman, and child in the *world*.

In the hopes of cutting costs and reducing its political liability, the federal government thus switched to a system in which it set a target price that was guaranteed to farmers, but let the price paid by consumers adjust to whatever lower level it took to get consumers to buy all of the crops. Then the government simply sent a check to farmers for the difference between the target price and the market price. This brought consumers' food bills down and eliminated government storage of surplus crops, but it also meant that the cost to taxpayers—up to $25 billion per year—was painfully clear in the huge checks being written to farmers.

The original price-support program hid its subsidies by making it appear as though the resulting crop surpluses were the result of American farmers simply being "too productive" for their own good. With the direct cash payments made under the target-price system, however, it became apparent that the government was taking money out of taxpayers' pockets with one hand and giving it to farmers with the other hand. Moreover, the target-price system, like our other agricultural programs, geared the size of the subsidies to the amount of output produced by the recipients. Thus, small farmers received trivial amounts, while giant farms—agribusinesses—collected giant subsidies. The owners of many huge cotton farms and rice farms, for example, received payments totaling more than $1 million apiece.

Faced with the prospect of a taxpayer revolt, Congress tried to fix things up with the Farm Security Act of 1985—and once again missed the mark. This legislation initially replaced cash payments

to farmers with the payment-in-kind (PIK) program. Instead of writing checks to farmers, the PIK scheme authorized the U. S. Department of Agriculture to give farmers surplus commodities that were left over in storage from price supports. Farmers could use the commodities as livestock feed or simply sell them at the going market price. The PIK program got rid of leftover surpluses and encouraged exports initially, but only at great cost—roughly $30 billion a year. Moreover, the law locked many farmers into growing the same crop year after year, regardless of market conditions. If farmers didn't plant a specified percentage of their "crop base" each year, their subsidy payments were subsequently reduced. The result was huge crop costs for the government in the lucrative (for the farmers) corn and wheat programs.

The Farm Security Act of 1985 also tinkered with target prices for many crops—which brings us to oats instead of corn. The law created a 96-cents-a-bushel difference in subsidies for barley over oats. Not surprisingly, farmers in droves abandoned oats, just as consumer demand for oatmeal and other oat-based products was picking up. The farmers were happy growing barley, but cereal producers, in contrast, were, well, oatless. Indeed, when asked what he thought about the then current U.S. farm policy, the chief of procurement for General Mills remarked, "That's the silliest thing I've ever heard of." Can you blame him?

Throughout all of this, it is important to understand who actually benefits from federal farm programs. Although these programs traditionally have been promoted as a way to guarantee decent earnings for low-income farmers, most of the benefits have in fact gone to the owners of very large farms. Traditionally, the larger the farm, the bigger the benefit is from agricultural price supports. In addition, *all* of the benefits from price supports ultimately accrue to *landowners* on whose land price-supported crops can grow.

In the mid 1990s, the Republican-controlled Congress made what turned out to be a futile attempt to reduce agricultural subsidies. On April 5, 1996, *The New York Times* headline read "Clinton Signs Farm Bill Ending Subsidies," reflecting the fact that Congress had enacted and Clinton signed the seven-year Freedom to Farm act. The 1996 reforms were supposed to increase farmer flexibility and remove market distortions by moving away from

price-support payments for wheat, corn, and cotton. In their place, farmers would instead receive "transition payments." The taxpayer was supposed to save billions of dollars.

Such was not to be. Beginning in 1998, Congress passed large farm "supplemental bills" each year, each costing billions of dollars per year—in money that goes directly from your paycheck to the bank accounts of the largest agribusiness corporations in America. Then, in 2002, Congress passed the most expensive farm bill in the history of the United States, with an advertised price tag of over $191 billion for a 10-year period. (The actual price tag likely will be even higher.) President Bush said, when he signed the bill, "This nation has got to eat." He further said, "Our farmers and ranchers are the most efficient producers in the world . . . we are really good at it." We are also really good at subsidizing farmers, and most of them are not very poor. Millionaires such as Ted Turner and David Rockefeller receive hundreds of thousands of dollars a year in taxpayer-financed agricultural subsidies. When you add to the $191 billion of direct subsidies the almost $300 billion of higher food prices that will be result over the 10 years of the program, you will see that the average American household will pay almost $4400 in higher food prices and higher taxes. As always, two-thirds of all farm subsidies will go to the highest 10 percent of farms, most which earn over $250,000 annually. In other words, large agribusinesses continue to be the chief beneficiaries of our generous agricultural policy.

In spite of all of this taxpayer money handed out to our farmers, American corn farmers still are not satisfied with their share of taxpayer subsidies. So they have lobbied for and obtained federal legislation that promotes and subsidizes ethanol, which is a corn-based fuel alcohol that can be added to regular gasoline. In fact, under the guise of "environmental protection," the U.S. Environmental Protection Agency mandates that either ethanol or MTBE (which is known to contaminate groundwater) be added to gasoline. Not only does the ethanol not result in cleaner air, it is also an uneconomic fuel. States that border on the two coasts, such as New York and California, have to ship it in from the farm belt. That transportation is not cheap. Producing ethanol also turns out to consume a lot of energy. Indeed, there is some evidence that ethanol production uses more in energy than the resulting

ethanol produces when burned! But because corn farmers benefit from mandated ethanol usage, we'll end up using ethanol, even though it raises gas prices, fails to protect the environment, and wastes energy.

Perhaps we should not complain too much about farm programs in the United States, for at least we don't have *Japanese* farm programs. There a combination of subsidies for domestic farmers and tariffs on imported food have pushed farm incomes to a level roughly *double* the average income in the country as a whole. They also have driven up the price of an ordinary melon to $100 (yes, one hundred dollars).

Politicians from the farming states argue that we cannot abandon our farmers, because the United States would end up with too many bankrupt farms and not enough food. But there is evidence from at least one country that such a scenario is simply not correct. In 1984, New Zealand's Labor government ended all farm subsidies of every kind, going completely "cold turkey" without any sort of transition to the new era of free markets for food. Agricultural subsidies in New Zealand had accounted for more than 30 percent of the value of agricultural production, even higher than what has been observed in the United States. The elimination of subsidies in New Zealand occurred rapidly, and there were no extended phase-outs for any crops. Despite this, there was no outbreak of farm bankruptcies. Indeed, only 1 percent of farms have gone out of business in New Zealand since 1984. Instead, the farmers responded by improving their techniques, cutting costs, and aggressively marketing their products in export markets.

The results have been dramatic. The value of farm output in New Zealand has increased over 40 percent (in constant-dollar terms) since the subsidy phase-out. The share of New Zealand's total annual output attributed to farming has increased from 14 percent to 17 percent. Land productivity has increased on an annual basis of a little over 6 percent. Indeed, according to the Federated Farmers of New Zealand, their country's experience thoroughly debunked the myth that the farming sector cannot prosper without government subsidies.

Are any members of the U. S. Congress listening?

DISCUSSION QUESTIONS

1. American corn farmers receive at a minimum $10 billion in taxpayer subsidies per year. These subsidies allow them to sell their grain at prices below what it costs to produce them, particularly for export markets. How do corn subsidies hurt Mexican farmers?
2. If it is so obvious that farm subsidies hurt consumers, why do such subsidies continue to be voted in by Congress?
3. What groups would be the major beneficiaries of the elimination of farm subsidies in America?