23. Agriculture

It is difficult to find a more costly, inconsistent, and economically damaging combination of federal regulations and handouts than America's agriculture policies. House Majority Leader Dick Armey in an aptly tilled article, "Moscow on the Mississippi," wrote,

> Through subsidies, price supports, import barriers, and countless regulations, the Department of Agriculture continues to try to manage half of U.S. farming, with the predictable result of staggering waste and inefficiency of almost Soviet proportions. If we have reached the end of history with the vindication of the free economy, the USDA has not yet heard the word.

With the farm bill up for renewal this year, Congress has the opportunity to restore the free market for farm products. To do that, it should

- **immediately remove all controls on and subsidies for prices and production of agricultural products and allow farmers to produce anything they wish, on any land they own, in any quantity they want and sell their products for whatever price they can obtain in the market;**
- **review and repeal regulations that do not directly protect public health and safety;**
- **use some of the savings for direct transition assistance for individual farmers and their families.**

Government Agricultural Policy

Government mismanagement of farm policy began early in this century. In the 1920s the federal government tried to promote American farm exports while maintaining high barriers to imports, which made it difficult for potential foreign customers to earn dollars for purchases. The federal government thus fostered huge loans to foreign customers. The extension of credit to counter the effects of other bad government policies contributed to the stock market collapse in October 1929. The crash in turn meant that cash-strapped banks called in outstanding loans and stopped making new ones. That cut credit to overseas customers and essentially eliminated American farm exports. Instead of learning from its failure, the federal government embarked on decades of wasteful price supports, planting limits, and subsidies.

American agricultural policy now governs prices and imports and exports of crops such as wheat, corn, soybeans, and sugar cane; dairy products such as milk and butter; and livestock such as cattle and hogs.

The programs of the U.S. Department of Agriculture reflect policies that are at war with one another. The principal goal of those policies is to keep prices high for farm products. That is done most directly through the Commodity Credit Corporation. Farmers can borrow federal funds based on a target price calculated with a formula that dates back to the World War I era. If the market price of the harvested crop is below the value of the loan, the farmer essentially defaults, turning the crop over to the federal government. Another part of the program allows farmers to be paid the difference between the floor price and the actual price of their crops.

The program, not surprisingly, encourages farmers to produce greater quantities of crops to cash in on the guaranteed government bonanza. The resultant overproduction, of course, normally would lower prices for crops, requiring even larger government payments. Thus, to mitigate the effects of its price support programs, the federal government, through acreage reductions or set-aside programs and the Conservation Reserve Program, pays farmers to leave fields unplanted. Over 60 million acres—the equivalent of Ohio, Indiana, and half of Illinois—are idle.

Domestic U.S. demand for food products is limited by the size of the population, which makes foreign markets necessary if American farmers are to expand sales. However, prices kept high and output kept low by federal programs mean that American products are expensive and scarce on the world market. Thus, to mitigate the effects of its price support and acreage reduction programs, the federal government's Export Enhancement Program provides subsidies to help American farmers sell their products overseas at low prices.

High-Fructose Corn Circus

The economic irrationality of America's farm policy is well illustrated by sugar policies. The federal government keeps the price of sugar extracted from cane and beets high through price guarantees and, especially, through severe restrictions on imports. At various times during the past decade, American sugar prices have been on average twice as high as and as much as 700 percent higher than world market prices. A 1993 General Accounting Office study estimates that, conservatively, the sugar program costs consumers $1.4 billion annually. In 1991 some 42 percent of the benefits to sugar growers, concentrated in Honda and Louisiana, went to 1 percent of all farmers. Based on the GAO methodology, one family in Florida, the Fanjuls of Palm Beach, received $64 million in higher profits and handouts thanks to the federal sugar program. Beneficiaries of high prices for beet sugar are spread over a greater number of states and farms.

The high prices and limited supply of sugar from cane make it profitable for farmers to extract high-fructose syrup from corn to use as a sugar substitute. Four large firms account for 87 percent of production of sugar from corn. Thus, corn farmers, often on the federal dole, find an artificial market for their produce thanks to trade restrictions and price floors for sugar.

Miscellaneous Madness

The USDA is a notoriously overstaffed department with about one bureaucrat for every six full-time farmers. Even though the portion of the U.S. population that farms has dropped, the bureaucrats have remained, finding new activities, paid for by the taxpayer, to justify their existence. In addition to its principal functions of regulating prices, limiting planting, keeping out imports, and subsidizing exports, the USDA harbors other questionable programs.

- Under the Food Security Act of 1985, as amended by the Food, Agriculture, Conservation, and Trade Act of 1990, the USDA pays farmers to convert their farmland into swamps.
- The USDA runs the federal food stamp program, which was established in 1964. That program was not meant at first to help the poor but rather to help give away excess government food purchased from farmers. Ironically, higher consumer food prices caused by USDA programs make it more difficult for the poor to purchase their own food.
- The USDA runs a Mushroom Promotion and Research Program, with its own council appointed by the agriculture secretary.
- The Farm Home Administration, called the Farm Security Administration when established in 1937, was intended to help tenant farmers and sharecroppers purchase farms. Later the program was extended

to allow individuals to purchase houses. Today it supports loans for, among other things, fish farms.

Costs to Taxpayers and Consumers

Government handouts to farmers are among the most costly subsidies in the federal budget. Further, supporters of those programs inevitably underestimate their costs. The five-year cost of the 1990 farm bill has been around $58 billion thus far, compared to a predicted cost of $41 billion. Large harvests forced the government to hand out more money to farmers to make up for lower prices.

Between 1985 and 1990 the federal farm program cost over $100 billion, compared to the $52 billion estimated cost. And the total four-year cost of the 1981 farm bill was $60 billion, not the $12 billion that was predicted.

Inevitably, when farm bills are up for renewal, policymakers attempt to reduce some of the adverse effects of one policy only to exacerbate those of another. Sometimes the costs of one part of the program, for example price supports, will be reduced, only to increase payments for farmers not to farm. The 1985 farm bill paid dairy farmers to slaughter more than a million cows. Several billion oranges and lemons have been dumped by order of the agriculture regulators.

American agricultural programs have a double cost. Citizens pay for them through higher taxes and through higher food prices—by one estimate $10 billion annually.

Higher costs for food harm the poor disproportionately. It is ironic that the federal food stamp program and cheese giveaways were created, not principally to help the poor, but to find some way to dispose of surplus government food.

Exports

World food consumption is growing. Unfortunately, America's food exports have been erratic, rising and falling and making no net gains in market share. Some farm program supporters argue that agricultural subsidies are needed to counter unfair production and export subsidies by the European Union, which doles out between $35 billion and $40 billion annually for its programs.

But it is America's own farm policies that allow the EU programs to continue. In the late 1980s the EU faced a budget crisis that threatened its existence. If the United States had decoupled agricultural subsidies from price and production decisions at that time, production would have increased dramatically and prices would have plunged for American farm products. Inexpensive American goods would have flooded world markets. To pay the increased export subsidies, the EU would have been forced to enact massive tax hikes, which would have seriously damaged European economies, or to begin to dismantle its own subsidy programs. But thanks to American policies, the EU weathered its budget storm and continues to match and even surpass the American government in handing out wasteful subsidies.

Freeing Farming

The best way to back the government out of the agricultural sector would be to adopt be a three-step approach.

- **Immediately remove all controls on and subsidies for prices and production of agricultural products.** Farmers should be allowed to plant and harvest any crops and produce any dairy products or other farm commodities they want, on any land they own, in any quantities they want. They will be allowed to sell their products for whatever price they receive in the market. They will receive no subsidies or handouts of any kind from the federal government. This policy should encompass all crops, including wheat, corn, and soybeans, as well as dairy products. The result should be a sharp drop in commodity prices, which will immediately benefit consumers.

  Some people may fear that price fluctuations, currently not a problem with government-guaranteed prices, would be a particular inconvenience for farmers after regulations and subsidies are removed. But in fact a private-sector mechanism does exist to mitigate such problems. Futures contracts allow risk-averse farmers to guarantee future prices for their products, which allows them to make better production decisions.

- **Review and repeal regulations that do not directly protect public health and safety.** Many federal regulations needlessly place fanners at a competitive disadvantage. Regulations protecting what the government defines as endangered species have been a growing burden on the agriculture sector. Wetlands policy has banned planting, harvesting, and development of land that had been farmed for generations. If subsidies are removed, so should such regulations be.

- **Use some of the funds that would have gone to price supports as temporary direct transition assistance for individual farmers and their families.** A large proportion of farm subsidies goes to large agribusiness concerns. Small farmers also receive some government largesse, though farmers as a group have higher incomes than the average American. Without subsidies, some farmers will probably survive and prosper while others will not. Because the government, in effect, has addicted many farmers to subsidies, and because of political pressures, transition assistance probably would be appropriate.

  A formula could be developed based on the amount of previous handouts to the individual farmer and the size of his immediate family. That welfare program should be phased out over a period of two years. During that time some farmers Would make the transition and prosper as charity-free businessmen. Some would have to move into other lines of work, selling their farms to more efficient owners. Others might combine their farms with others to form more efficient enterprises in which they owned shares.

  The funding needed for such a transition program will be far less than is now needed for farm handouts, and the program will be temporary, set to end on a given date.

Conclusion

Federal agricultural policy is one of the most wasteful and costly concoctions of government regulation of prices and production and handouts of subsidies. Every four or five years Congress attempts to reform the program but merely substitutes one form of waste and inefficiency for another. If the new Congress is serious about deregulating the economy and cutting spending, it should make this year's farm bill the last, as it abandons failed agro-socialist policies.

Suggested Readings

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Luttrell, Clifton B. *The High Cost of Farm Welfare.* Washington: Cato Institute, 1989.

—Prepared by Edward L. Hudgins